NEW SOUTH WALES

BUDGET SPEECH

1990–91

DELIVERED BY

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1. INTRODUCTION

It is with great satisfaction that I present this – my third Budget.

It demonstrates that the Government is fully on line to achieve the five year Budget strategy outlined in 1988.

It confirms to the people of New South Wales that their State leads the nation as a model of good government, financial responsibility and managerial competence.

As a result, this and future generations will be spared the pain of financial mismanagement so evident elsewhere and can face the future with considerable confidence in the stability and progress of their economy and society.

For the first time in living memory, the State's finances are in a stable and secure position – the fruits of 30 months of the most significant financial reform ever by any Australian State.

Our key objectives –

- freezing the size of Government, and redirecting resources to priority areas,
- infrastructure renewal,
- containing debt, and
- tax reform

are all being met or addressed despite the destructive impact of Federal Government policy on economic activity in general and State revenues in particular.

However, I recognise full well that while many of the major, difficult decisions are behind us, much remains to be done.

The Government is absolutely committed to maintaining its direction, its purpose and its vision. The second half of the Budget strategy and the full implementation of our program of microeconomic reforms will be pursued in the knowledge that the people understand their importance if we are to finish this century with higher living standards and a fairer and more productive society.

There will be no Victorias, Western Australias, or Tasmanias here. Our aim is to be the best State Government anywhere. The Budget proves we are on line but acknowledges the size of the continuing task.

As confirmed by the well–respected international credit rating agency, Moody's, the actions of the Coalition Government have ensured that this is a triple–A credit State on its own merits, not as a result of implicit Commonwealth guarantees.

Moody's unquestionably confirms New South Wales as the best credit risk of all the States.

Moody's is ringing in its praise of the New South Wales Government's financial management policies when it states:

> "Featherbedding and low productivity in the public sector are being attacked more openly and vigorously in NSW than in any other State.
>
> "More so than other states, the finances of NSW have been opened to public scrutiny, and areas of wasteful spending have been identified."
>
> "The annual rate of growth of this debt has averaged 7.8% since 1984, the slowest of the states."
>
> "On virtually all measures of debt service, NSW ranks at or near the top......"

The achievements of New South Wales are despite external pressures, particularly from Commonwealth Government policies.

The Commonwealth has again cut its payments to New South Wales, with a real cut in financial assistance grants of $150 million in 1990–91 producing a cumulative real cut of $685 million over the last three years. This is the fifth consecutive year that Commonwealth payments to the States have fallen in real terms. For New South Wales this means a real decline of $1,370 million in Commonwealth payments from the past peak level.

Moreover, the Commonwealth's high interest rate policy has undermined real estate activity. This has depressed State revenues from stamp duties and asset sales and leases.

Property and equity market based taxes, namely stamp duty on contracts and conveyances and share duty have declined $818 million in real terms over the last two years.

With the Reserve Bank keeping a tight clamp on monetary growth and the Federal Government determined to restrain the rest of the economy, the outlook for State revenue growth is bleak.

In total, the direct and indirect effects of Commonwealth policies have reduced the State's revenue base by over $1,250 million in real terms relative to 1988–89.

In addition to the revenue slump, New South Wales has experienced major external pressures on the expenditure side. The increased teacher salaries will cost around $250 million.

Over the last three years, the State has been ravaged by a series of major natural disasters. Events during the last twelve months in particular have dealt a major blow to the State's finances. Commitments relating to last financial year's earthquake, floods, bushfires and hail storms amounted to $145 million. The State is still repairing damage from disasters which occurred in the previous two years and all–up expenditure in 1989–90 on natural disaster relief and restoration exceeded $64 million, and will exceed $90 million in 1990–91. In the roads area, natural disasters over the past two and a half years will cost $173 million.

On top of this, the New South Wales Government inherited a financial mess and public sector neglect from the previous Government.

Federal Treasurer Keating's description of Australia as a country which "had a runaway public sector brought into disrepute by overspending and abuse" is highly relevant to the New South Wales we inherited.

The previous Government left behind a huge debt and interest bill. As well, it left rundown and out–of–date public sector services and social and economic infrastructure. Finally, it left behind the waste of surplus and underutilised assets.

It would have been easy to simply dwell on the past using the mess we inherited as an excuse for not getting on with the job.

Instead we chose to follow John F Kennedy's edict who said all those years ago:

> "Our task now is not to fix the blame for the past, but to fix the course for the future."

That is exactly what we are about – fixing the future not just for New South Wales, but for all Australian States.

2. BUDGET OVERVIEW

The overall Budget result for 1990–91 is a surplus of $34 million – the second genuine surplus ever for this State.

This achievement in the prevailing economic gloom, in face of huge cuts in Commonwealth grants and with many of the Budget benefits of microeconomic reform still emerging – indicates a very healthy situation for the future, as long as discipline and direction are maintained.

In simple terms, after adjusting for once–off inter–year factors, the Budget maintains recurrent and capital expenditure in real terms at last year's levels.

Moreover, this has been achieved at the same time as continued improvement in our debt ratios, real reductions in average charges and a package of tax concessions which I will outline later.

Consolidated recurrent spending for 1990–91 will total $14,445 million, which is 0.6 per cent higher than 1989–90 in real terms. This growth is largely due to a number of special factors including:

- the substantial savings on the 1989–90 Budget, due largely to the delay in the national wage case, which produced a 1.0 per cent carry–forward effect in 1990-91,

- the transfer forward of $50 million in savings by agencies under the new, flexible Budget rule, which added 0.4 per cent to growth.

When these factors are excluded, the Government's commitment on zero real growth in recurrent expenditure is more than met.

Even if these factors are not excluded, taking the first three years of the Government, total recurrent spending will decline by 1.4 per cent in real terms.

What is more, the forward estimates project no real growth in the period to 1992–93.

We will thus honour our election pledge and be the first Government ever to complete its first term with the real size of its operations no larger than when it began.

At the same time, we continue to fund growth in the priority areas of health, education and law enforcement by reallocating resources and efficiency savings. A number of important initiatives to assist the disadvantaged have also been possible.

To fund these enhancements, the programs of productivity dividends, portfolio savings, and global budgeting, to allow priorities to be met, have continued. In total, these areas will free up an additional $322 million in 1990–91. Ultimate savings, when current strategies are fully implemented, will total $1,237 million per annum.

In 1989–90, we increased the Capital Program to over $5 billion, a real growth of 5.7 per cent, to overcome the unbelievable rundown of our infrastructure especially in roads, health and the environment under the previous Government.

In 1990–91, the Capital Program will total $5,560 million, a real increase of 3.4 per cent. This, however, overstates the real growth as bad weather and other factors caused $205 million of capital works to be carried forward from last year, so the true result is basically maintenance of the previous year's record level.

Borrowings are projected to account for only 19 percent of funding, a slight increase from 1989–90, but a fall from about 66 per cent at their peak in 1982–83.

Our achievements in debt management are without precedent.

As a proportion of Gross State Product, gross debt has fallen from 27.9 per cent in June 1985 and 24.3 per cent in June 1988, to 20.2 per cent in June 1990. It is projected to fall further to 19.5 per cent by June 1991. This reduction fulfils our target of a fall of five percentage points two years ahead of target.

The containment of debt means that the growth in Budget debt charges has been pared back from an increase of almost 20 per cent per annum under the previous Government to a fall of 3.4 per cent in 1990–91.

From the beginning, the Government had a four–year $1,000 million program of asset renewals. In its first two years in office, and despite the subdued property market, the Government's total asset sales and leases amounted to $1,552 million.

For 1990–91, asset sales and leases are projected at $881 million, of which $613 million supports the capital program. Asset disposal proceeds have allowed the Government to reduce borrowings by 42 per cent since 1987–88.

All Australian States and the Commonwealth are now following New South Wales in pursuing asset disposals to fund capital works and pay off debt.

Indeed, the Victorians, in addition to a normal asset program of $459 million in their latest Budget, are selling the State Bank of Victoria for $1.6 billion and are actively involved in privatisation.

Revenue

In July, after consultation with other States, and consistent with the Tax Task Force Report, changes were announced to payroll tax and financial institutions duty. This was necessary to address the remaining structural deficit resulting from the collapse of State revenues due to Federal Government policies. It also provided an opportunity to more closely harmonise inter–State tax rates. As announced, these changes will apply from 1 October.

Taking workers' compensation and payroll tax together, small and medium businesses will be significantly better off, and larger businesses' total on–costs will be unchanged. It is expected that further reductions in workers' compensation premiums, and benefit improvements, will be possible in 1991.

The Commission of Audit report found that tax rates in New South Wales were on average 6 per cent higher than in the other States. Latest Grants Commission figures show that this margin has been reduced to only 3 per cent.

After the current round of State Budgets, New South Wales will lose its long standing reputation for being the State with the highest tax rates. Except for one of the six categories of State taxation, New South Wales will be at the lower rather than the upper end of the tax scales.

It is also relevant to mention that at a time when other States are increasing Government charges, New South Wales is projecting a significant real fall in 1990–91.

We expect an average increase in State charges of 4.2 per cent, well below the forecast increase in the Sydney CPI for 1990–91 of 7 per cent, and the largest real reduction in many years. This is the result of the Government's policy to restrict increases in charges affecting families to a maximum of the Sydney CPI for a period of two years. It is also the result of the Government's resolve to remove anomalies in past pricing structures in favour of a system which more closely matches prices to the cost of providing each service. At the same time, these costs are being reduced through an active program of microeconomic reform.

In the three years to 1990–91 NSW Government charges, as measured by the Treasury Index, will have fallen in real terms by 3.1 per cent. In the medium term, increased efficiencies, together with more appropriate pricing structures, will continue to reduce average real charges.

Land tax has long been recognised as an undesirable tax in principle but an essential part of State revenues. However, the land valuation system introduced by the previous Government, combined with the unprecedented volatility of land prices, has dramatised problems and anomalies with the present structure.

As soon as these became apparent the Government:

- increased the land tax threshold by 18.5 per cent to $160,000, and

- cut the marginal land tax rate by 25 per cent from 2 per cent to 1.5 per cent.

These initiatives cost an estimated $250 million per annum.

In April, the Government established a Review of Land Tax. The Government's Treasury Advisory Committee, chaired by Mr Jim Longley, MP, has now completed this Review. Following consideration of its recommendations, we have decided to introduce a number of initiatives.

The first group of reforms are designed to achieve a more equitable land tax system. These measures include:

- land tax exemptions for registered retirement villages and commercial nursing homes;

- a doubling of the exemption threshold to $320,000 for residential land which exceeds the size threshold;

- an extension of the time period of the lodgement of objections to 60 days;

- reform of the tax treatment of residential strata title units and residential company title units to ensure tax is assessed on the same basis as applies to other property owners; and

- extension of the existing stamp duty concession applying to the transfer of property from family companies and trusts to include companies established after 31 December 1975 and trusts established after 1 January 1987.

Also, in 1992 we will introduce an interest–free instalment system for land tax payments similar to that offered by the Water Board and Local Government. This will ease the cash–flow impact of land tax payments.

In addition to these measures, I foreshadow a review of all aspects of the taxation of heritage properties with a view to ensuring that relevant heritage values are adequately taken into account in assessing land tax liabilities.

The reforms are also designed to improve the efficiency of the land tax system. There will be a strengthening of anti–avoidance measures including the extension of the primary production "business test" which currently applies to public companies to all taxpayers. This measure brings New South Wales into line with the other States.

The net revenue impact of these improvements is a cost of $10 million in 1990–91 and $13 million in a full year.

The Government will also, over time, extend land tax to all Government Trading Enterprises as they become "fully commercial" (that is, become profit making or break even). Currently, land tax is paid by the State Bank, the GIO, Graincorp and the Darling Harbour Authority.

Even with the new initiatives, the Government is still concerned about the impact which past increases in land values will have on land tax liability at a time when land values are stagnant or actually falling. Under the current valuation system these falling land values will not be reflected in land tax assessments until 1992, because of the one and a half to two year lag between valuations and the issue of tax assessments.

Accordingly, the Government has decided to bring forward part of the benefits of falling land values from the 1992 land tax year into the 1991 land tax year.

Instead of the State–wide changes in land values (as issued by the Valuer–General) of between –15 per cent and +85 per cent in 1991, the Government has decided to calculate land tax liability on the basis of the application of a uniform increase in the land value equalisation factor of 17 per cent. This will cost $23 million in 1990–91. It will give a great deal of relief to the majority of land holders and their tenants particularly as some tenants were faced with substantial rent hikes arising from almost a doubling of land values.

As a result of this scheme, land values for land tax purposes in 1992 will be held constant (that is, the equalisation factor will remain unchanged). This means that, over the two years to 1992, land values will have increased by little more than the CPI.

During the period in which the uniform increase in equalisation factors apply, Treasury will review the land tax valuation system.

The aim is to come up with a system that results in less volatile tax assessments than present arrangements. By 1993, it is the Government's intention to introduce a new system of Land Tax Assessment or to replace the tax with one generally related to the ability of property to earn income rather than simply based on land values.

The First Home Buyers' Scheme which involves the deferment of contracts and conveyancing stamp duty is to be amended to target assistance to those most in need.

This will be achieved by adding an income test of $48,000 combined household income to the property value test.

At the same time, the property value test will be amended by increasing the maximum house value from $125,000 to $155,000 for the Sydney metropolitan area and $145,000 for the Country.

The concession will also now apply to vacant land which is intended for building a first home. Maximum land value to apply is $80,000 for the Sydney Metropolitan area and $70,000 for the Country.

In addition, for new first home buyers a discount of 30 per cent is to be offered for the duty to be paid up front. A sliding discount (starting from 25 per cent at the end of the first year and reducing to 10 per cent by the end of the fourth year) will be available for those who pay the balance of the account before the due date.

A number of changes are to be introduced in the stamp duties area. They include:

- relief to lessees of low rent accommodation through:

  * abolishing of hiring arrangement duty for on–site caravans used for accommodation, and

  * exempting from stamp duty leases of aged and disabled people living in hostels and nursing homes and who are required to sign company leases,

- relief for the cost of borrowing by small businesses and individuals borrowing small amounts through:

* changing the rate of duty payable on loan security documents from $5 for the first $15,000 to $5 for the first $16,000, and

* exempting from loan security duty additional advances of up to $10,000 in any 12 month period.

- encouragement to the superannuation industry through:

    * reducing from $200 to $20 the concessional rate of duty on instruments amending superannuation schemes and approved deposit funds which qualify for concessional tax treatment and extending the concession to complying pooled superannuation funds,

    * reducing from $200 to $20 the duty on instruments establishing concessionally taxed superannuation schemes, approved deposit funds and pooled superannuation funds, and

    * allowing the $20 duty on instruments establishing and amending the above trusts to be affixed by way of adhesive stamp.

- assistance to business in general through:

    * exempting from stamp duty share dealings which mask land transfers, where levying the duty would not be just and reasonable,

    * abolishing the duty payable on Contract Notes for the sale of marketable securities, and

    * exempting the transfer of a convertible note in a unit trust.

The total cost of these concessions is $5 million in a full year.

Outlays

Recurrent expenditure will grow by 0.6 per cent in real terms. This slight increase results from the carry–forward effects of delayed national wage increases from 1989–90 and the new policy allowing a limited carry–forward of savings, so as to avoid the end of year spending spree and encourage efficiency.

Despite the third year of restraint, many targeted spending initiatives have been achieved. Overall, enhancements totalling $155 million have been allowed for in the Budget, $87 million of which are funded from the Consolidated Fund.

Health

Health will receive growth funding of $70 million, made up of $30 million in Budget funds and $40 million in retained productivity savings. The third successive record hospital budget will enable continuation of the growth in patient services in 1990–91, with further growth in admissions in excess of 2 per cent expected. Hospital waiting lists continue to fall and productivity is growing strongly.

I am hopeful that the current Federal–State review of Medicare will create a situation in which the private sector will be able to help reduce the nationwide pressure on public hospitals in a fair and effective way.

Education

Education spending overall is up 10.8 per cent including the new teachers award, a real rise of 3.6 per cent. In the last three years, education spending has grown by 5 per cent in real terms, a far cry from some malicious propaganda. Indeed, education is now the largest policy area in the Budget.

The Government is proceeding on schedule with implementation of the Scott Report.

This year, $13.5 million will be spent to implement Schools Renewal initiatives designed to produce a more school centred education system responsive to community needs.

In addition, $12 million is provided in 1990–91 to continue the restructuring of TAFE.

Also in 1990–91, in response to the Carrick Report, a Parents as Teachers pilot program will be trialled with the objective of teaching parents how to use everyday experiences to stimulate the development of language, cognitive, social and motor skills in their children before they go to school.

Welfare

The Government has received the Review of Concessional Expenditures which makes far reaching recommendations including the introduction of new allowances for pensioners and families with school age children.

The Report is being considered by a Committee chaired by the Minister Assisting the Premier and Treasurer and a discussion paper will be produced to enable widespread public consultation.

In the meantime, a specific recommendation to provide War Widows with the same concessions available to aged pensioners, subject to a means test, is being implemented. This long overdue initiative to bring fairness to this group will cost $1 million per annum.

In the Developmental Disabilities area 24 units providing respite care, permanent care and day activities will be funded to assist parents in their support of developmentally disabled children. The increase in funding for these units will be $2.6 million in 1990–91 and $3.1 million in a full year.

Recognising the pressures on families under the current economic and social stresses a $1 million two year Family and Community Development Strategy is to be introduced. It will facilitate an integrated approach to the delivery of services by community funded organisations to families in New South Wales.

Other important initiatives in the welfare area include:

- expansion of children's foster and alternate care services including an increase in subsidies and allowances at a cost of $2.4 million per annum,

- an additional 500 pre–school places, at a cost of $1.3 million per annum,

- the provision of improved health services for juvenile detainees with particular emphasis on drug and alcohol counselling, at a cost of $1.1 million per annum,

- a major enhancement of school therapy services at a cost of $1.7 million per annum,

- the development of innovative strategies for homeless youth, in conjunction with the Commonwealth and resulting from the Burdekin Report, with an allocation of $4.6 million in 1990–91 and an annual cost of $3.1 million.

Housing

The Housing Department's general programs of home purchase assistance will provide a record of $1.5 billion in housing loans in 1990–91, targeted to low to moderate income earners. Assistance is also being directed to those on the public housing waiting list. This, together with other initiatives aimed at public housing tenants, has freed up public housing stock and has also resulted in a reduction in the public housing waiting list by some 10,500 since 1988.

The $1.5 billion in HomeFund loans will finance 16,900 homebuyers. It contrasts with only $253 million worth of loans made in the last year of the previous Government. No other Government in Australia has as substantial a program for helping new homebuyers as New South Wales. In fact, New South Wales funding alone equals that of all other States and Territories combined. HomeFund loans in New South Wales are raised by FANMAC, a largely privately owned mortgage securitisation company.

This year two special caring initiatives will commence:

- a $10 million special allocation from the State's capital program for accommodation for homeless youth. The program will be undertaken in co–operation with major voluntary welfare agencies,

- a Housing and Care Program with a capital advance of $5 million directed at providing retirement housing for the aged who need care. In co–operation with the Federal Government and voluntary care organisations, this is expected to boost the availability of hostel accommodation by several hundred units.

Law and Order

Special funding of $5 million is again being provided to continue with our program of reducing court delays.

The Downing Centre is coming on–stream in 1990–91, with a full year cost of $8.6 million.

Our commitment to additional effective police numbers will be substantially achieved in 1990–91. A new police pay award with significant pay rises offset by new flexible work practices is expected to be introduced shortly.

In addition, electronic recording of police interviews will be introduced in 1990–91, producing both greater efficiency and greater integrity in the system.

Environment

The Government believes that improving the quality of the environment is of utmost importance.

Accordingly, in 1990–91 $223.5 million, including $83 million from the Environmental Protection Levy, will be spent on beach protection, upgrading the ocean outfall sewage treatment plants and for Blue Mountains sewage treatment.

Water Purity

Other key initiatives include improvements in water quality and system reliability and safety.

A special allocation of almost $1 million will boost water quality monitoring and management of inland rivers.

This is to be used as seed money to encourage water users to play a part in improving rural water quality. Already, Namoi cotton growers have promised $300,000 for sampling and analysis to monitor pesticide run–off.

Roads

The Government will continue its strong program of road improvement with an increase in funding of 10.8 per cent over the previous year. The funding will increase from last year's expenditure of $1,269 million to $1,406 million in 1990–91. However, the cumulative impact of floods and rain mentioned earlier continues to place the program under pressure.

Transport

The efficiency improvements in the transport authorities means that they are now placing a smaller burden on the Budget.

For example, the cash operating expenditure of State Rail in 1990–91 is $372 million lower in real terms relative to 1987–88.

Further productivity improvements will mean that its freight operations will pay dividends to the Government, in the not too distant future, while substantially increasing its share of the total freight market. Capital expenditure of $502 million will be invested in safety, comfort, efficiency and strategic improvements to the rail system.

State Transit, for the first time in history, will have no operating loss this year. Further improvements will see a significant fall in the net cost to Government of its non–commercial services.

3. MICROECONOMIC AND PUBLIC SECTOR REFORMS

It is generally recognised that the New South Wales Government has undertaken the most ambitious program of microeconomic and public sector management reforms of any Government in Australia.

We have a systematic program of economic, financial and management reforms with the objective of better serving the people of New South Wales.

My Government has started to overhaul Government businesses to make them cost efficient and customer responsive. This has meant:

- more rational pricing, so that charges more accurately reflect costs;
- elimination of overstaffing and restrictive work practices, and
- increased exposure to private sector competition.

The seven largest Government trading enterprises have reduced their staff numbers by 18 per cent in the first two years of the Coalition Government and are expecting a 31 per cent decrease by the end of 1992–93.

The employment reductions have been achieved with an increase in output in the majority of cases.

The resulting gains in productivity, in terms of physical output per employee, are substantial. For example, the Electricity Commission has recorded a 58 per cent increase in productivity over the past two years, and is projecting a 78 per cent increase over the 5 year period to the end of 1992–93. Equivalent figures for the Electricity Councils are 21 and 61 per cent, and for the Water Board 13 and 19 per cent.

Overall, productivity is up 25 per cent for our seven largest GTE's and will increase by 65 per cent by 1992–93.

Such massive reductions in employment without sacrificing output indicate that the authorities had a lot of featherbedding and restrictive work practices before they were overhauled by the present Government.

On the financial side, the available evidence shows improved profitability and some impressive reductions in internal debt. A number of agencies will be paying commercial dividends from this year. Total dividends this year amount to $489 million compared with $294 million last year. These dividends are being used to assist the funding of schools, hospitals, courts and other social infrastructure and services.

Also noteworthy is that after two years of structural adjustment of our major Government trading enterprises, New South Wales has had the second highest fall of any State in its unemployment rate over the period March 1988 to July 1990. Now for the first time in almost a decade New South Wales has the lowest unemployment rate of any State in Australia. Clearly striving for efficiency in the public sector helps employment overall, rather than detracting from it. This is the real message of microeconomic reform.

While the results of the last two years have been pleasing, and often spectacular, a great deal remains to be done.

The long–term programs for capital investment and renewal, coupled with further increases in labour productivity must be carried through to completion in transport, energy and water over the next five years.

While real prices for many public services will fall further, reform of pricing structures is essential if resources are to be properly allocated and social and economic goals achieved.

In future years, more organisations will pay commercial dividends to the Budget and the operating losses in other areas, notably transport, will be reduced and ultimately eliminated.

Through this process and only through it, will significant and sustainable State tax reform and targeted expenditure increases be possible.

Structural reform of Elcom is proceeding and the scope for further reform of the Public Works Department, State Transit Authority, Fish Marketing Authority, Hunter Water Board and Forestry Commission is being examined.

Privatisation of appropriate Elcom mines this year, combined with recent privatisation of all New South Wales coal loaders will remove all counterproductive Government involvement in the coal industry.

The sale of the State Bank and the GIO is both inevitable and desirable in the interests of taxpayers and of the organisations themselves.

Contracting out of services in areas like printing, warehousing and cleaning is providing significant savings and releasing valuable surplus assets. This process will continue wherever appropriate.

I place on record my thanks to the Ministers, Government MPs, executives at many levels and the public sector unions and their leaders for the mature and farsighted way in which these changes have been addressed.

A number of financial management initiatives will consolidate New South Wales as a leader in public finance, not only in Australia, but internationally. These developments by Treasury include:

- the phased implementation of accrual accounting and accrual budgeting, commencing this year, and

- adoption from 1991–92 of net appropriation budgeting whereby commercial user charges activities will go off–Budget,

- the introduction of a formalised performance monitoring system for all major Government Trading Enterprises. The publication of the booklet "Performance of NSW Government Businesses" is the first outcome of this initiative.

New South Wales also stands ready to co-operate with the Commonwealth in genuine reform of Commonwealth–State Financial Relations, as part of the overall microeconomic reform agenda. Meaningful reforms in this area must include:

- taxation powers for the States, commensurate with expenditure responsibilities with a corresponding reduction in dependence on Commonwealth payments,

- restructuring of State taxation to replace the host of inefficient, distorting and inequitable taxes,

- clearer division of responsibilities between the levels of Government, and

- moving to untied payments to the States and broad–banding and simplification of specific purpose payments.

4. CONCLUSION

In conclusion, events of recent weeks and especially the announcements by other States of tax increases and service cuts speak volumes and fully vindicate the New South Wales Government's policies. The New South Wales approach is belatedly and hastily being followed by all other State Governments.

We have not been driven by some ideologically blinkered notion of the future. Instead we have been motivated by a commitment to improve the efficiency and effectiveness of the public sector, so that it gives real value for money for the taxpayer and meets its social obligations to the disadvantaged. After all, that is the essence of conservatism. As the American philosopher R B Bennett has said:

> "The very word conservative means that we conserve all that is good, that we reject all that is bad, and we must use our intelligence, our intellect, our training for the purpose of determining what we shall reject and what we shall conserve and retain."

Accordingly, we have refused to play short term political games which other States have chosen.

Instead we have chosen a courageous and visionary path.

Although we understood the political risks of this approach, we know that the people of New South Wales now recognise that the Government has their interests and those of their children at heart. And they realise there is no better way.

The people see New South Wales as a safe and solid State in an unstable world – a State which is in an excellent position to reap huge benefits as the economy improves.

I leave you with one final guarantee.

As the results of the better management of all Government resources particularly trading enterprises and of the reduction in debt ratios flow through to the Budget, there will be scope for further tax reform and targeted expenditure increases while maintaining a genuinely balanced or surplus Budget.

The benefits of this approach will be realised not only by this generation but also the next generation of people of New South Wales.

Mr Speaker,

I commend this Budget to the House.