

**NEW SOUTH WALES
MINI-BUDGET 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 per cent 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 per cent of the nation's population. We contribute 37 per cent of the nation's GST revenue. Yet we get back only 28 per cent.

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 per cent for deep underground mines, 6 per cent for underground mines, and 7 per cent 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 per cent 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 per cent.

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

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 per cent compared with the current tax.

For larger businesses the cut is in the order of 18 per cent.

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

Our new top marginal rate of 1.4 per cent compares with 5 per cent in Victoria, 3.3 per cent in Queensland, 2.5 per cent in Western Australia, 3.7 per cent in South Australia and 2.5 per cent 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 per cent 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 per cent of their original purchase price, with the exemption phasing out between 12 per cent and 15 per cent.

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 per cent 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 per cent of properties in the State.

This arrangement will now be abolished and in future, the Premium Property Tax will be imposed as a 7 per cent 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 per cent 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 per cent 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 per cent 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.