

Mini Budget Speech
Given by the Treasurer Eric Roozendaal
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Legislative Assembly
Parliament of New South Wales

Mr Speaker, Parliamentary Colleagues,

Today I put forward the Government's plans to keep our financial position strong in the most uncertain times since the Depression of the 1930s.

I will outline the decisions we have made in defence of our State's AAA credit rating and the protection of front line services.

I will explain what the resolution of the ten year electricity debate means for New South Wales.

Mr Speaker,

We are witnessing international events as alarming as they are unprecedented.

The American sub prime crisis has infected much of the international banking and credit system.

A lack of trust and confidence has stalled traditional lending and investment.

Many financial institutions, including some of the oldest in the world, have required extreme Government support from multi billion dollar 'bail outs' to effective 'nationalisation' – a policy long thought consigned to history.

Stock market movements have been more volatile than any time in living memory.

We are yet to feel the full impact on the 'real' economy - on wages, on building, construction, investment and economic growth and, Mr Speaker, most important of indicators – employment.

The Prime Minister has warned all Australians of the tough times ahead.

And now the Commonwealth Treasurer advises there is a \$40 billion drop in his Federal budget.

And so the financial crisis affects us all.

Mr Speaker, with Canberra revising down GST revenue, New South Wales can expect to receive \$450 million less in general purpose grants this year and \$272 million less next financial year.

That's \$722 million less GST revenue in our budget.

The June 2008 budget assumed a decline in transfer duties of around \$300 million, or 7.3 per cent, from the previous financial year.

But, given the prevailing climate this is revised down by a further \$710 million, a 25 per cent decline.

In dollar terms, Mr Speaker, this represents a one billion drop in transfer duty revenues from last year's projections.

We've also seen continued growth of the Health budget, reflecting the ageing population and rising health costs.

These are the reasons why the \$268 million surplus previously forecast has been revised to an expected deficit of \$917 million this financial year.

This is not the desired outcome but we can withstand a deficit for one year in the present climate.

The decisions I announce are designed to return the budget to surplus in the years that follow. Today I announce:

- Savings totalling \$3.3 billion over the next four years;
- And measures to raise \$3.6 billion.
- I confirm the business tax cuts of \$1.9 billion remain; and
- I announce targeted expenditure of \$850 million.

With these measures we expect the budget to return to a surplus of \$138 million next year rising to a surplus of \$573 million in 2010-11 and \$900 million in 2011-12.

And Mr Speaker, with these decisions, New South Wales remains strong.

We remain strong and with prudent financial management our future remains bright.

Our economy is the largest in the nation, larger even than Singapore or Hong Kong, with a gross state product of \$374 billion.

We are the financial capital of South East Asia and the southern hemisphere.

Our economy is not resource-intensive but a services economy.

This means we are the first to feel the effects of the international crisis, but we can also be the first to recover. Mr Speaker, our response to the international crisis must be decisive, measured and anchored in economic responsibility.

That's why under the instruction of the Premier we have placed our State's finances under prudent and rigorous analysis.

It leads to this conclusion:

With the strength to make difficult decisions and the resolve to follow through our budget and financial future are protected.

Mr Speaker, I assure the people of New South Wales we will meet this challenge.

The Premier has emptied the too-hard basket and the difficult decisions are being made.

We have crafted a tough, decisive and detailed mini budget demanded by the times in which we live.

Mr Speaker to this end, we have targeted bureaucracy to remove it.

We have hunted for waste to shred it.

And we have reassessed projects that threaten our credit rating.

But Mr Speaker, we have also quarantined front line services.

We have reaffirmed \$56.8 billion worth of infrastructure projects over the next four years.

We have invested in a public transport partnership to get more cars off our roads and improve public transport.

And we will give young families an even better chance to realise the dream of home ownership.

And, as already confirmed, we've secured reductions in payroll tax injecting \$1.9 billion into our economy over the next four years to help NSW businesses weather the storm.

Our discipline allows us to keep this commitment to the business sector.

Mr Speaker, under the Premier's leadership we have four key goals:

First, that we do all in our power to preserve the New South Wales AAA credit rating.

This is of genuine and immediate importance.

There has been much debate in the public arena on this point. Some have suggested this goal should be abandoned and high levels of debt accumulated.

Mr Speaker, this suggestion is wrong and simply misguided.

An AAA credit rating says to the rest of the world we have the safest and strongest of balance sheets.

That New South Wales is a sound investment.

That's why our State's best defence against the international tide of uncertainty is an AAA credit rating.

At a time when securing credit is becoming a challenge a credit rating downgrade would also increase the cost of borrowings.

If we do not act now to protect the AAA rating the cost of Government borrowing could rise by 20 to 25 basis points. That's \$100 million in extra interest per annum by the end of 2012.

\$100 million Mr Speaker – that's the equivalent of 200 buses, 1000 additional classroom teachers, or 30 new air-conditioned train carriages.

Mr Speaker, the Mini budget will steer a prudent and responsible course towards preserving our AAA credit rating.

Our second goal is to secure the state's future power needs.

I can report to the House our plan, brokered by the Premier includes:

- The continued public ownership of generators;
- The continued public ownership of transmission and distribution networks, that is the poles and wires;
- The sale of generation development sites;
- The sale of the retail businesses;
- A transfer of energy trading functions to the private sector.

Our actions will encourage private sector investment in generation and reduce the need for future capital expenditure by Government.

Finally, we have ensured price protection for our community and job protection for our workers.

Our third goal has been to quarantine front line workers.

Mr Speaker, I offer this assurance:

Our target has been bureaucratic waste and inefficiency.

We have chosen bus drivers over bureaucrats, teachers over technocrats, and front line jobs over junkets.

The Premier has made it clear: apart from the front line, all levels of Government, including the Cabinet, must shoulder their fair share.

Our fourth goal has been to maintain job-creating infrastructure investment and to do so in a financially responsible way.

The lesson of economic history is that investment is the shield against unemployment and that Governments must lead the way.

That's why this year we are investing \$13.8 billion in job creating infrastructure.

Next year we will invest \$14.7 billion.

In 2010 we will invest \$14.4 billion, and in 2011 we will invest a further \$13.7 billion.

This is the largest infrastructure program of any Government in Australia over the next 4 years.

Mr Speaker, the projects we are building include:

- the \$757 million Port Botany Expansion
- the \$156 million Victoria Road upgrade, including the duplication of Iron Cove Bridge
- \$246 million for 19 new school projects and 12 new TAFE projects
- The \$96 million Port Kembla Inner Harbour Development

- And the \$1.9 billion Sydney desalination plant, to be completed by the end of next year.

Mr Speaker, we have also submitted our funding bids to Infrastructure Australia for other projects.

Mr Speaker, financial responsibility means some projects have been reassessed.

There has been much debate about the North West Metro.

But the fact is to proceed with it now would be economically irresponsible.

The state must only build what it can afford to build, and it is the right decision to defer this project.

Mr Speaker, I now turn to the features of the mini budget.

Mini Budget Features

Mr Speaker, as I have outlined, we have:

- Identified savings totalling \$3.3 billion over the next four years; and
- measures to raise \$3.6 billion;

I also announce additional expenditure of \$850 million.

Mr Speaker, an extra \$3000 will be available for first home buyers who build a new home or buy a newly-constructed home over the next 12 months.

This grant is effective from today and means grants of up to \$24,000 are available for first home buyers.

Further, Mr Speaker, we will preserve stamp duty exemptions for first home buyers under \$500,000.

This means a first home buyer of a new property valued at \$475 thousand will save over \$40,000.

To further stimulate housing construction I have asked Treasury to urgently review the infrastructure levies that apply to the development of greenfield housing sites, infill development and employment lands.

This will include a review of section 94 levies.

These levies need to be consistent with our plans to boost housing supply and affordability.

We will consult with local government and industry stakeholders, and announce changes to this policy in the first half of next year.

Mr Speaker, I spoke of the need to quarantine the front line, none more important than Health.

I can advise the Parliament that the NSW Health budget of \$13.2 billion has been maintained in the mini-budget.

And capital works investment of \$2.7 billion over the next four years has been preserved. This includes:

- The \$950 million redevelopment of Royal North Shore Hospital;
- The \$390 million expansion of Liverpool Hospital;
- The \$212 million Newcastle Mater redevelopment;
- The \$145 million redevelopment of Auburn Hospital;

- The \$250 million redevelopment of Orange Hospital, including radiotherapy services;
- And the \$27 million Lismore Cancer Centre.

Mr Speaker, the Education portfolio's capital works program also benefits from the prudent decisions we have made.

We will provide our schools with a \$150 million boost to school maintenance and minor capital works programs.

We will invest a further \$209 million into DOCS.

Mr Speaker, the mini budget has also focused on improving public transport.

In a change from the past the RTA and transport agencies are working together to achieve this common goal:

Better public transport and fewer cars on our roads.

And we need a different approach to managing finite road space while at the same time improving public transport capacity.

Mr Speaker, the Sydney Metro system is the spine of a new public transport network for Sydney.

At its northern end it will connect with a bus-metro interchange at Rozelle, taking pressure off the Anzac Bridge and George Street.

At its southern end it will interchange at Central Station, connecting with a re-engineered western line and providing extra train paths and more frequent services to the city's west.

The Sydney Metro System will be critical in servicing the new growth precinct at Barangaroo.

Mr Speaker, I can also announce we have budgeted \$370 million to provide new outer suburban rail carriages.

These are in addition to the 121 carriages already purchased.

We will also be making immediate improvements to our bus network.

We have allocated \$170 million to buy an extra 300 new buses and brought forward the purchase of 150 new bendy buses worth \$115 million.

The people of the North West will receive the first allocation of 100 new buses.

These new buses will be directly funded by new tolling arrangements on the Sydney Harbour crossings.

The Sydney Harbour Bridge and the Sydney Harbour Tunnel will become the first motorways in Australia to switch to time-of-day tolling.

This means motorists who come into the city outside the peaks will pay less than peak users.

After full electronic tolling comes into effect on the Harbour Bridge in January 2009 we will introduce 'time of day tolling'.

The toll on these roads will be a 'peak' toll of \$4, a 'shoulder' peak toll of \$3 and an off peak toll of \$2.50.

This is the first change to the Harbour crossing tolls in six years.

Mr Speaker, every cent of the extra revenue raised will go to buying new buses.

This is a new policy to meet the challenge of congestion in Australia's only global city.

Parking space levies will be increased to discourage congestion.

This will generate \$58 million to fund more new buses and new commuter car parks in greater Sydney, on the Central Coast, in the Blue Mountains and in the Illawarra.

Mr Speaker, this Mini budget delivers more buses, more trains and more commuter car parks.

But it does so in an economically responsible way.

To improve efficiencies we will benchmark the performance of Rail Corp maintenance and Sydney Ferries.

If there are not substantial improvements these functions will be out-sourced.

Change must start at the top.

The Government must tighten its belt, both politicians and public servants.

That's why the Government will reduce the size of the Senior Executive Service by 20 per cent, saving \$120 million over four years.

Today I also announce a staff freeze on all non-frontline public servants until the end of June next year.

That is a staff freeze for all non-frontline positions, unless there are exceptional circumstances.

We are cutting the bureaucracy.

And a staff freeze ensures it shall not grow by stealth.

I also confirm the Government's wages policy to require public sector wage increases over 2.5 per cent be met through productivity improvements that deliver cost savings.

This will produce a smaller, leaner but more efficient public sector.

I can also confirm a 25 per cent cut to government advertising, saving \$31 million a year.

I also announce the abolition of overseas ministerial state tours and the enforcement of an air-travel policy requiring the cheapest available fares be taken by members of parliament and public servants.

Members of Parliament will no longer be entitled to free public transport passes.

Our community pays for public transport and so should we.

We are all in this together – it is only the front line that is immune.

I also flag today that the government shall soon announce substantial changes to certain public sector agencies and departments.

At a minimum there will be mergers of back office functions of some Area Health Services, a restructure of the Department of Juvenile Justice and a rationalisation of some agencies.

Mr Speaker, I move on to asset and business sales and leases.

Under consideration for possible sale or lease include NSW Lotteries, WSN Environmental Solutions, the Superannuation Administration Corporation, the RTA's personalised number plate business, and there will be others.

These assets have the potential to unlock billions in capital for reinvestment in frontline services.

We are also reviewing the Government's property portfolio, including government office buildings, surplus agency land and commercial real estate in precincts such as Australian Technology Park and Darling Harbour.

Mr Speaker, given there are constraints on capital we have made a decision to put the money where it is needed in frontline services, not running commercial car parks and souvenir shops.

Given the current economic climate, the Government will be patient where necessary and wait for the right circumstances to prevail to ensure the best value.

We have also identified efficiency savings in many agencies across Government, including the departments of Planning, Housing, Commerce, the RTA and others. The details are in the Mini-Budget papers.

The size of the fiscal challenge means savings alone are not enough. Increased revenues are needed.

That's why a 2 per cent land tax on the unimproved value of land over \$2.25 million will be introduced.

This will not affect principal place of residence, or rural land.

I repeat, this does not include the principal place of residence or rural land.

This measure will impact on the top 6 per cent of investors who pay land tax and is expected to raise \$680 million over the next four years.

Mr Speaker, the Government will also extend environmental levies for non-recycled waste and increase coal royalties, raising an additional \$1.3 billion over the next four years.

However, in recognition of the importance of the mining industry as an employer in our regional areas, the Government will maintain a tier structure for mineral royalties and will not introduce a super royalty on coal as has been done in other states.

We will abolish the petrol subsidy in northern New South Wales and this will be timed to coincide with the Queensland Government's intention to restrict their subsidy scheme to Queensland residents only.

Mr Speaker, previous budgets have brought forward dates for the abolition of Intergovernmental Agreement taxes. With the current fiscal position the abolition of these taxes will be deferred, increasing revenue by \$932 million in the forward estimates.

The Government will further reform the Greenslip scheme to provide hospital and ambulance coverage for at-fault drivers.

This extra coverage will add around \$10 to the cost of the average green slip.

But it is expected to produce savings in the public health system of \$100 million over the next four years.

Mr Speaker, I can confirm the Government has discontinued the back to school allowance.

Savings will be put towards 80 new special needs teachers who will work one on one with the most needy school students in our state.

These teachers will work across 265 schools and help kids with autism, dyslexia and mental health problems.

Mr Speaker, the Government will reform the \$470 million school student travel scheme.

We'll introduce an annual co-payment of \$45 for primary school students and \$90 for high school students. There will be a cost cap of \$180 per family with hardship provisions included.

I acknowledge these measures will be painful for some.

But these are reforms that have been left in the too hard basket for too long and we can no longer afford to ignore them.

The Budget

The Mini Budget projects growth in expenses over the forward estimates period to be around 5 per cent per annum. This is equal to the long term average growth in revenues.

General Government Net Debt will increase from \$4.9 billion in June 2008 to \$8.1 billion in June 2012.

Total State Net Debt will increase to 9.3 per cent of Gross State Product by June 2012 from 7.4 per cent in June 2009.

Mr Speaker, like most super schemes, government super investments have been affected by recent market turbulence.

This has resulted in an increase in unfunded super liabilities, however the government remains on target to fully meet super liabilities by 2030 as outlined in the Fiscal Responsibility Act.

Mr Speaker, the current volatility makes economic forecasting difficult.

But what we can be certain about is the measures outlined in this mini-budget are real and they will improve the state's bottom line.

Keeping our AAA credit rating is dependent on our ability to deliver the changes I have outlined today.

There is another major influence affecting our financial position that needs to be addressed for the long term good of the state.

Consider these facts:

Canberra collects more than 80 per cent of total tax revenue in Australia.

By contrast, New South Wales taxes represent less than 40 per cent of our total revenue, with Commonwealth grants making up 42 per cent of the total.

This year, at a time when we are running a deficit, NSW will subsidise South Australia, Tasmania and the Territories by \$2 billion.

In other words, every man, woman and child in New South Wales will hand over around \$290 to fund other states.

NSW raises around \$15 billion in GST revenue, but only gets around \$13 billion back.

Mr Speaker, the ongoing cost shift in Health from Canberra to state governments is the other major issue that must be addressed.

In 1971 health expenditure represented 14.6 per cent of the total NSW budget but by last year this had increased to around 28 per cent.

This reflects increased demand driven by an ageing population, advancing technology and rising health costs.

Mr Speaker, this is aggravated by the fact that the original health funding agreement between the States and Canberra established a 50-50 split for government funding of public hospitals.

Right now, Canberra's contribution to NSW public hospitals is around 40 per cent. NSW is forced to make up the difference.

This is a double blow.

We subsidise other states and territories.

And we endure a cost shift from Canberra in the largest component of our Budget – the Health portfolio.

This is the stark reality:

- A fiscal imbalance in the Federation in which NSW is the worst affected State; and
- An urgent need for COAG to restructure the State/Commonwealth funding model, inherited by the Rudd Government.

On this point, I agree with this dire warning from the independent New South Wales Auditor General, and I quote:

“At this rate, funding for health will consume the entire State budget by 2033.”

Mr Speaker, that is one generation away.

It doesn't get more serious than this.

We need new health care models and we need a new funding agreement. We are determined to resolve this imbalance in cooperation with the Commonwealth.

Conclusion

Mr Speaker, before commending this mini budget for consideration by the House I offer these concluding remarks.

We have made difficult decisions and tough choices.

But in the times in which we live, difficult decisions need to be made.

The most irresponsible thing we could do is to do nothing.

With the decisions announced today we are confident in the state of our finances and the strength of our economy.

This Mini budget is tough, it is decisive and it represents a change from the past.

It is the Mini budget the times have demanded.

And that is why I commend the Mini budget to the Parliament.