



NEW SOUTH WALES

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BUDGET SPEECH

1989-90

DELIVERED BY

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PREMIER AND TREASURER

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Mr Speaker,

I present the Recurrent Budget and Capital Program for 1989-90.

1. INTRODUCTION

Mr Speaker,

This Budget represents a significant investment in the future of the people of New South Wales. It represents a further demonstration of putting people first by managing better.

While every other State is slashing capital programs to enable continued growth in consumption expenditure, our Government is doing the opposite.

While every other State is wallowing in debt, we are doing all we can to bring debt down.

For we recognise that only by continuing control of the debt burden and recurrent expenditure growth will we be able to deliver real benefits to the people in the form of responsible tax reform and improved services in future years.

But the challenges in achieving those goals are great – they are of the past, the present and the future.

Gone are the supposed carefree days when easy options were the rule of the day.

The chickens of those easy options have finally come home to roost.

Accordingly, we face the challenge of correcting the financial mess and public sector neglect we inherited from our predecessors.

The inheritance of a huge debt and interest bill together with rundown and out-of-date public sector services and social and economic infrastructure and the waste of surplus and underutilised assets, would be challenge enough.

But the challenge does not end there.

1989-90 is expected to be one of the most financially difficult years in our recent history.

For a start, the Commonwealth Government has significantly cut its funding to New South Wales. What is more, we are facing a deteriorating economic environment, with resultant impact on the State's own source revenue.

At the same time, the Government is facing great expenditure pressures.

Community demands in the Government's high priority areas of health and law, order and public safety, our commitment to maintain education funding, together with spending required for the restructuring of the public sector, are placing great pressures on the limited available funds.

Mr Speaker,

These challenges call for tough economic prescriptions and priority setting.

The task becomes even more difficult when one considers that Budget payments for the Government's three priority areas in aggregate account for 66 per cent of Consolidated Fund recurrent expenditure. Government commitments in these areas, combined with the impact of high interest rates on debt costs, mean that expenditure restraint has to fall primarily on the remaining 34 per cent of Budget expenditures. And therein lies a further challenge.

These pressures could have led to a loss of nerve by our Government. They could have encouraged us to turn to the easy options.

The easiest option would be to resort to further borrowings and in this way avoid taking the tough economic decisions.

This easiest of options would also be the most irresponsible. The resultant increase in debt and interest payments would be an unwelcome legacy for our children.

Mr Speaker,

I refuse to take this path. You have my assurance that this Government has made and will continue to make the most significant reforms in financial management in the history of the State. This is done not in pursuit of any ideological or any management theory, but because this is the only path which will protect the truly disadvantaged in our society and deliver the best and most efficient services to the people of New South Wales.

Mr Speaker,

In the 1988-89 Budget I outlined a Medium Term Financial Strategy outlining my Government's goals on:

- containment of growth in recurrent payments,
- debt containment,
- rebuilding of economic and social infrastructure in an effective manner,
- taxation reform, and
- provision for funding of accruing liabilities.

Despite external pressures, the 1989-90 Budget and Capital Program are consistent with that Strategy.

We are on track in the key areas of recurrent expenditure restraint, and borrowings and debt containment.

What is more, the Government is addressing the huge backlog we inherited in the State's social and economic infrastructure, by announcing a record capital program.

We are also delivering dramatically on microeconomic reform.

My Financial Statement of 1 August reported on many of these matters. The release of that Statement was part of the Government's commitment to fully inform the people of New South Wales on the finances of the State. At the same time, I presented, for the first time, projections of Consolidated Fund recurrent expenditure, not only for the Budget year but also for the two years beyond.

2. BUDGET OUTCOME 1988-89

Mr Speaker,

The 1988-89 Budget estimated an \$8 million surplus.

However, both revenue and expenditure exceeded Budget estimates.

The result was an overall Budget surplus for the year of \$428 million.

In the case of revenue, there was a \$631 million improvement over Budget, largely due to buoyant property market conditions feeding into stamp duty and land tax revenue, and higher asset sales than projected.

The revenue improvement was partly offset by recurrent expenditure of \$248 million in excess of Budget. This was mainly due to external factors such as higher than expected national wage case decisions and increases in health sector awards. These higher than projected costs have meant that recurrent expenditure increased by 7.7 per cent or some 0.3 per cent in real terms.

3. ECONOMIC OUTLOOK

Mr Speaker,

The Budget has been framed within the context of an assumed downturn in economic activity, particularly in the interest sensitive areas of dwelling and business investment.

Despite the projected slowdown in economic activity, inflation, interest rates and the deficit on the balance of payments are projected to remain high.

This outlook suggests that Budget revenue and expenditure will vary significantly in several areas from the recent past.

A subdued property market will have a major impact on revenue particularly from contracts and conveyances duty and asset sales.

Finally, continuing high interest rates will impact directly on debt servicing costs. Despite the substantial reductions in the level of borrowings in 1989-90 and the overall containment of debt, debt costs are projected to increase in real terms in 1989-90.

4. BUDGET OVERVIEW

Mr Speaker,

I now turn to the specifics of the Budget and Capital Program for 1989-90.

The overall Budget result is expected to be a deficit of \$119 million, consisting of a recurrent surplus of \$1,217 million and a capital deficit of \$1,336 million.

The deficit is entirely due to projected voluntary redundancy payments which will rake in benefits for the Budget in future years. Without these payments, the Budget would again be significantly in surplus.

Despite the projected deficit, there will be no recourse to borrowings in the Budget.

The deficit will be fully funded from the 1988-89 surplus. This represents an inter year transfer of funds, utilising the Revenue Equalisation Account as it was intended. All previous Budget deficits have been funded by borrowings.

The Budget delivers on the Government's commitment of no real growth in recurrent expenditure.

The 1989-90 Budget has been framed against a backdrop of an expected contraction in revenue consisting of:

- a real decline of over \$500 million in contracts and conveyances stamp duty revenue,
- cutbacks in Commonwealth payments in real terms of \$246 million.

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 \$1,304 million in Commonwealth payments from their past peak level. The Hawke Government is achieving its surpluses on the backs of the States.

The fact is that the Commonwealth's own purpose spending this year is expected to increase by 6.5 per cent compared with an increase of 3.6 per cent in its payments to the States, Territories and Local Government. Over the five years to 1989-90, the increase in Commonwealth own purpose outlays is 40.5 per cent while the increase in payments to the States is only 22.8 per cent.

While there are partial offsets from other State revenue such as payroll tax, the overall position in 1989-90 (excluding the 3 cents per litre fuel levy devoted to roads) is a projected increase of only 5.4 per cent in total Consolidated Fund revenue, a real decline of \$322 million over the previous year.

Consolidated Fund recurrent spending for 1989-90 will total \$13,495 million, which is 7.0 per cent higher than 1988-89, a real decline of 0.5 per cent. Expressed as a proportion of Gross State Product, recurrent expenditure is projected to decline from 10.9 per cent in 1988-89 to 10.5 per cent in 1989-90. What is more, the forward estimates project a continued real decline in the years 1990-91 and 1991-92.

This real decline in recurrent Budget growth in 1989-90 contrasts sharply with the irresponsible expansiveness of our predecessors on the opposite side.

Despite the real reduction in expenditure, the 1989-90 Budget will address the Government's priority areas, by reallocation of resources and efficiency savings.

While total Consolidated Fund payments are projected to increase by 11 per cent in 1989-90, this reflects special factors such as redundancies and the roads program. When adjustment is made for these factors, the increase is expected to be 7 per cent.

The 1989-90 Budget incorporates a comprehensive program of expenditure reductions directed at:

- achieving recurrent expenditure restraint, and
- freeing up resources for reallocation to high priority areas.

Productivity savings will enable the provision of the same level of service at a lower cost by increased efficiency in their delivery and reduced overheads.

However, there are a number of areas where no or reduced productivity savings are required.

Health and Education, except for administration costs, are exempt from productivity savings in 1989-90. Both areas have instituted their own productivity savings programs for purposes of reallocating resources to higher priority areas. In welfare, productivity savings have been confined to an 1.5 per cent reduction in operating expenditure. Police salaries were exempted from productivity savings.

In addition to the productivity savings, portfolio savings involving the reduction or elimination of services have been effected across a wide range of portfolios. Teaching, health, police and welfare are exempt from these savings which amount to 3 per cent of recurrent expenditure. Welfare has reduced resources in certain areas and reallocated them to high priority areas, such as Home and Community Care and the Supported Accommodation Assistance Program.

In aggregate, savings are expected to amount to \$284 million in 1989-90. They consist of:

- \$65 million in productivity savings,
- a \$145 million real reduction in operating subsidies for the State Rail Authority and the State Transit Authority, and
- \$74 million in portfolio and other savings.

In addition, the reform of the Government cleaning service, while not providing significant savings in 1989-90, will produce savings of \$70 million per annum by 1991-92. Negotiations are at an advanced stage to achieve significant efficiency improvements in the "hotel services" of public hospitals. These savings will be retained within the hospital system.

The 1989-90 savings are in addition to the productivity savings achieved in 1988-89 of \$110 million.

A special feature of this budget is the huge increase in capital spending.

The 1989-90 Capital Program is a record \$5,161 million, an increase of 18.9 per cent or \$821 million over 1988-89. This includes capital spending of the Consolidated Fund and of the outer Budget sector authorities.

The major areas which will benefit from the increase in capital expenditure are roads with an increase of roundly \$250 million; and housing and homesite development, and water and sewerage and environmental protection works with an increase of \$114 million.

Despite the record Capital Program, borrowings are projected to account for only 16 per cent of funding, a fall from about 66 per cent at their peak in 1982-83.

This will assist in the Government's objective to reduce debt relative to the size of the State economy, as measured by Gross State Product.

A special dividend of \$75 million from the Sydney Cove Redevelopment Authority which will be fully applied in reducing the Darling Harbour Debt, will also assist in this regard.

Major progress has already been achieved with debt declining as a proportion of Gross State Product from a peak of 28 per cent in June 1985 and 26 per cent in June 1988 to 23 per cent in June 1989. Debt is projected to fall further to 21 per cent by June 1990. This reduction will be achieved two years ahead of target.

This Budget introduces revised financing arrangements for such areas as inner Budget sector computer development programs and capital grants for non-commercial activities of the State Rail Authority. The Public Authorities (Financial Arrangements) Amendment Bill 1989 will give effect to the change.

On coming to Office, the Government announced a four-year \$1,000 million program of asset sales. Yet in 1988-89 alone, total asset sales exceeded \$1,100 million, of which \$641 million supported the capital program. For 1989-90, asset sales supporting the capital program are projected at \$899 million. The increase in asset sales has allowed the Government to reduce borrowings by 54 per cent since 1987-88.

The only alternative to a proper asset utilisation program would be further indebtedness, which is clearly unacceptable.

5. BUDGET INITIATIVES

Mr Speaker,

This Budget provides a number of initiatives.

Revenue

Turning first to revenue.

As indicated, the Government remains well on target to provide responsible tax and expenditure reform. A number of relatively minor changes are announced tonight.

It has been decided to bring Financial Institutions Duty into line with Victoria. Accordingly, the threshold transaction level above which FID is payable at a flat rate will be increased from \$1 million to \$2 million as from 1 December 1989. This will generate an additional \$8 million in 1989-90 and \$16 million per annum.

In accordance with the Raine Report, land tax on metropolitan boarding houses is to be removed to help preserve low cost accommodation for pensioners and other disadvantaged groups at a cost of \$2 million in a full year.

Consistent with the Tax Task Force Report, reform of Stamp Duties is under way, with the abolition of 10 duties at a cost of \$2 million in a full year. Duties on the following items, which had deteriorated to the status of nuisance taxes, have been, or will be removed: Agreement or Memorandum of Agreement and not otherwise specifically charged with any duty; Award, whether under hand or seal; Bill of Lading; Charter Party; Companies (Memorandum and Articles of Association); Duplicate or counterpart of an agreement for the hire of a motion picture film; Guarantees; Lease or Promise of or Agreement for Lease or Hire; Letter of Allotment and Letter of Renunciation; and Letter of Power of Attorney.

A reform of the stamp duty on insurance policies is being implemented. A change in the method of levying tax is proposed which will see a switch from a sum insured basis to a premium basis. The change will be revenue neutral.

A more detailed statement on tax reform is provided in Budget Paper 2.

Expenditure

Despite the difficulties the Government is facing in budgeting for 1989-90, our priorities will receive due consideration.

Health is the Government's highest priority expenditure area. In 1988-89, public hospitals achieved a 4 per cent increase in admissions and a similar increase in demand is possible in 1989-90. Compounding the pressure on the health area are major cost increases in 1988-89 which will have significant flow through impacts in 1989-90.

Total recurrent expenditure on Health in 1989-90 will be around \$4,099 million, up 9.3 per cent on last year. The net increase above the level necessary for maintenance will be \$90 million.

1989-90 will be the first year of the accelerated Health Capital Program which will be funded by asset sales of existing health properties. This strategy will provide modern, efficient facilities in locations appropriate to the needs of the community.

For law, order and public safety, the Government is committed to increase policing and reduce court backlogs. Total recurrent payments will be \$1,679 million, a rise of 11.7 per cent. Capital spending will amount to \$171 million, an increase of 26.8 per cent. Initiatives include:

- an additional 400 police on the beat in 1989-90 at an annual cost of \$14.8 million, and
- a \$5 million per annum court backlog reduction program. Combined with major reforms in court procedures and legal processes, this will achieve a massive reduction in court delays.

The capital allocation for courts of \$52.1 million provides for the continuation of the major development of the Sydney District Court in the Downing Centre, the continuation of the Campbelltown Court House construction, and the commencement of new court houses, including those at Burwood and Wyong.

Welfare expenditure will increase strongly, notwithstanding savings in administration and funding for welfare groups.

Major expansions in welfare spending are:

- \$23.4 million in the Home and Community Care Program, and
- \$16.0 million in the Supported Accommodation Assistance Program.

Total recurrent payments for welfare services will be \$907.4 million, an increase of 17.6 per cent. The strong increase reflects in part a carry forward of some of the savings in 1988-89 for spending this year, and an increase in the availability of Federal Government funds. The capital program will amount to \$19.6 million, an increase of 47.4 per cent.

Education is in the process of significant consolidation as the major resource allocation initiatives of 1988-89, modified somewhat for Industrial Commission decisions, are implemented.

Total recurrent funding for education will total \$4,104 million, 8.4 per cent higher than 1988-89. Capital funding will total \$332 million, up 4.5 per cent on 1988-89.

The Government is committed to maintaining real funding levels for school based education as proposed in the Scott Report.

The Interest Subsidy Scheme to non-Government schools has grown from \$3.1 million in 1980-81 to \$17.5 million in 1988-89, an increase of over 460 per cent or 179 per cent in real terms. This level of growth can no longer be sustained in the current economic climate and the Scheme is to be modified with effect from 1 October 1989. The revised Scheme should reduce the future growth of the Scheme by roundly \$0.5 million in 1989-90 with more significant savings in later years.

All applicants approved under the existing Scheme will continue to receive assistance under the prevailing conditions.

The Government continues to honour its commitment to phase in an increase in the per capita grant to non-State school children from 20 per cent to 25 per cent of the cost of educating a child in a State school. The 1989-90 Budget provides for an increase to 22 per cent for the 1990 school year.

Achieving quality vocational training is a firm Government commitment. This Budget increases expenditure on Technical and Further Education by 4.2 per cent in real terms to meet the demand for new skills and assist industry in restructuring.

The services provided by the Department of Technical and Further Education will be closely examined in the context of the recommendations of the Scott Management Review just released.

The revitalised TAFE will ensure maximum industry participation.

The Government is taking every measure to ensure that the resources of TAFE are directed to quality training programs aimed at industry's priority training needs. TAFE's administrative charge will be increased from \$100 to \$120 and its higher education charge from \$263 to \$400. The additional funds will all be used to significantly expand services.

In addition, employment and training schemes have been fully reviewed and, as a result, the emphasis is to shift from job subsidies to training.

In the transport area, Government initiatives in 1989-90 include:

- a record roads program of \$1,524 million, boosted by revenue from the temporary 3 cents fuel levy. Expenditure on major tollways to be constructed by the private sector will further add to the roads program. In the 1989-90 to 1991-92 triennium, total road funding will be 46 per cent higher than for the three years to 1987-88, and
- continuation of the major restructuring of the transport authorities to modernise and bring operating performance up to world standards. In 1989-90 \$423 million will be provided to modernise and improve the safety and efficiency of the rail system. In addition, the identified operating inefficiencies of the SRA and the STA of roundly \$350 million, will be eliminated over 3 to 5 years.

The Government is committed to greater protection of the environment. Accordingly, this Budget provides for the establishment of a Ministry for the Environment to replace the Office of the Minister for the Environment. The Ministry will be responsible for a rigorous review of environmental protection legislation and expanding the Government's "pollution control" activities to form an "environmental protection" agency.

The Water Board will allocate \$58 million towards its Special Environmental Program in 1989-90. This program, which will involve expenditure of \$440 million over the next 5 years, will be funded by the \$80 per annum Special Environmental Program Levy.

The program has been established to help stem pollution of the beaches and waterways of Sydney and Wollongong, streams of the Blue Mountains and the environment generally.

The four main areas of expenditure are:

- beach protection,
- sewage overflows,
- Blue Mountains streams, and
- sludge utilisation.

Details will be announced shortly.

In addition, the Sydney and Hunter Water Boards will undertake a capital program in 1989-90 totalling \$371 million. This will continue the provision of sewerage services in urban areas, beach protection works, commencement of flood protection measures, acceleration of the sewer/stormwater separation program to reduce sewage overflows into Sydney Harbour and various other works.

The Government is honouring its pledge for restitution or fair compensation to holders of private coal rights. Due to Budget constraints, the major coal companies will be paid a lesser rate and all payments will be spread over five years commencing in 1990-91.

Other Government initiatives in 1989-90 include:

- an increase in funding for the Independent Commission Against Corruption of \$11 million for 1989-90 and \$6.3 million on an annual basis,
- an extra \$3.6 million to the Zoological Parks Board to support "public good" activities including research, education and conservation projects. This will free funds for major redevelopment of exhibits at both Taronga and Western Plains Zoos,
- increased funding for public libraries to be phased in over three years and to cost \$3.1 million in a full year,
- revised sharing of debt servicing costs with Local Government costing \$2.3 million per annum for the Sydney Region Development Fund, and
- introduction of a \$17 million Strategic Economic Development and Decentralisation Packages to assist New South Wales to compete aggressively for national and international business and industrial projects.

6. PUBLIC SECTOR REFORMS

Mr Speaker,

The Government believes that difficult economic and financial times call for a strong, lean and responsive public sector.

Accordingly, the Government has embarked on a major program of microeconomic and public sector management reforms.

Microeconomic Reforms

The Budget provides significant funding support to the Government's microeconomic reforms. New South Wales is the only Government in Australia which is seriously addressing microeconomic reform. Yet, unless every Government pursues this course, Australia's overseas deficit will grow worse and our living standards falter.

The first of our microeconomic reforms is the restructuring of the transport authorities, particularly the State Rail Authority. This involves major reductions in staff numbers in order to eliminate operating inefficiencies. The Budget allows for \$250 million in redundancy payments. The payback is a reduction in operating expenditure, which will more than pay for the up-front costs in 18 months to 2 years.

The Government has already announced the deregulation of the egg industry which involves \$61 million in payments to the holders of egg quota licences. While the quota holders are being paid up-front by the Egg Corporation, the actual payment from the Budget will be spread over three years.

Finally, there is the conversion of \$95 million in borrowings to equity for the Grain Handling Authority. This is necessary in order to hold down charges and place the Authority on a solvent commercial basis prior to corporatisation and possible eventual privatisation.

The Government's corporatisation program is on schedule in regard to the State Bank and the Grain Corporation.

Major improvements have also been implemented in the structure and operating performance of the Maritime Services Board, the Water Boards, the State Transit Authority and in the electricity generation and distribution industry.

These reforms will be reflected through greater efficiency in the use of resources and through prices charged by government enterprises more properly reflecting costs. All this will lead to improved resource allocation and thereby lower prices in the longer run.

Complementing these reforms are a number of measures aimed at deregulating and improving particular markets.

Significant advances have been made in the transport area, with reform in regulation of long distance bus services, metropolitan and local bus services, taxi services and air services.

Increased competition has been facilitated in the grain handling industry, the egg industry, and hospitals.

The Government is also in the process of extensive reform directed at business deregulation. In the labour market, a major review is in progress on transforming industrial relations in New South Wales.

Management Reforms

• Financial Reforms

An essential requirement for a clear direction in public sector management is a budgetary system that establishes a clear financial framework and financial limits. It is also important that the budgetary system provides to Government information in a form suitable for setting strategic directions.

It was in this context that target budgeting was introduced; a system of forward estimates which replaces the previous "bid and review" process of Budget determination.

The forward estimates provide a medium term perspective for the Government in setting expenditure priorities and assist Departments in forward financial planning.

In addition, the Government is embarking on the first stage of a phased approach to the introduction of accrual accounting in the inner Budget sector. In 1989-90 three inner Budget sector Departments will commence reporting on an accrual basis.

NSW is the first State Government in Australia to adopt these revolutionary budget and accounting changes.

The overall quality and quantity of financial disclosure in this year's Budget Papers is further improved and easily superior to all the other States.

• Administrative Reforms

The Government has introduced some significant administrative reforms including:

- Annual Ministerial performance reviews which focus on past achievements, present issues and future objectives. The reviews will centre on the Performance Agreements, entered into between each Minister and Chief Executives, at the start of the financial year, and

- the Senior Executive Service (SES) adopted by the Government in the public sector. Under this scheme senior public sector managers will be hired on contract as in the private sector. Remuneration will be based on the commercial worth of a job and the performance of its incumbent. Accountability and assessment will be greatly enhanced. This reform will also be the model for other Governments around the nation.

7. CONCLUSION

In conclusion, Mr Speaker, I have presented tonight a Budget aimed at overcoming the crisis we inherited and meeting the challenges of the future.

It is a Budget which prepares New South Wales and its people for the 1990's and the new century beyond.

It is a Budget which goes a long way in achieving our medium term financial goals. It provides for:

- a real decline in recurrent expenditure of 0.5 per cent,
- real growth in essential capital expenditure of around 11 per cent,
- no borrowings for non revenue generating purposes with a 54 per cent reduction in net borrowings relative to 1987-88 and reduction in debt as a proportion of Gross State Product to 21 per cent by June 1990, and
- the phasing in of accrual accounting for the inner Budget sector.

It is a Budget which will restore solvency and efficiency to the Government commercial sector, which is critical to the export and import replacement drive of Australian industry. Reducing the costs of freight, ports, electricity, water and other economic services is the best contribution the State can make in restoring Australia's international competitiveness.

The success of our Financial and Microeconomic Strategies is essential in getting this State out of the debt and doldrums we inherited.

But these achievements are not ends in themselves.

They are not pursued for the sake of any ideological theory. Rather, they are pursued because they will deliver real and long lasting benefits to the people of this State in the form of responsible tax reform, targeted expenditure increases and better services.

They will enable further increases on our roads, hospitals, schools, social amenities and the environment.

The result will be a State which is a fine example for all other Governments to follow.

For we will have shown that tough decisions through discomfort in the short-term, generate considerable social and economic benefits in the medium to long-term.

It is only through this far-sighted approach that we will help to satisfy the goals and aspirations of all peoples of this great State.

Mr Speaker,

I commend this Budget and the cognate Public Authorities (Financial Arrangements) Amendment Bill 1989 to the House.

