

APPROPRIATION BILL 2011
DUTIES AMENDMENT (FIRST HOME—NEW HOME) BILL 2011

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Second Reading

The Hon. GREG PEARCE (Minister for Finance and Services, and Minister for the Illawarra) [11.21 a.m.]: I move:

That these bills be now read a second time.

I am sure members will join me in congratulating the Treasurer, Mike Baird, on his first budget. The budget has returned fiscal responsibility to the State, allowed the Government to deliver on its election promises, focused on front-line services for the people of New South Wales, and is delivering much-needed infrastructure after 16 years of mismanagement, decay and waste under Labor. I will touch on a number of aspects of the budget and the Duties Amendment (First Home—New Home) Bill. At the outset I acknowledge that in the first year of the budget forward estimates we are anticipating an operating deficit of \$718 million for 2011-12. This outcome reflects the global economic outlook, the downward revision of growth forecasts, the solar bonus costs and restructuring costs.

Without the impact of Federal stimulus spending, the New South Wales budget would also have been in deficit for two of the past three years. Sovereign debt concerns in the euro zone and uncertainty over fiscal settings in the United States have intensified. The high Australian dollar has weakened conditions in some non-mining areas of the economy, and global uncertainty has continued to affect consumer confidence, which has fallen sharply in recent months to levels not seen since the slowdown of 2009. Treasury has revised down its growth forecasts for 2011-12, from 3.5 per cent to 2.5 per cent. This reduction has a \$414 million impact on the budget this year. Forecasts for GST revenue for 2011-12 have also been revised down by \$395 million since the half-yearly review.

This budget is also affected by and suffers a \$260 million hit due to cost blow-outs from Labor's failed Solar Bonus Scheme. The cost of the scheme, initially estimated at \$355 million, has since blown out to an estimated \$1.75 billion, including \$260 million in this year alone. This year's budget is also meeting restructuring and transitional costs associated with the change of government. This includes the cost of funding our election commitments. The Government intends to return the budget to surplus in 2012-13. This is in contrast to the forecasts left by Labor, which would have led to ongoing and bigger deficits across the forward estimates period, including a \$2.4 billion deficit in 2014-15. The budget result for 2012 is a forecast \$292 million surplus, and the budget is then expected to remain in surplus of about \$150 million each year.

The PRESIDENT: Order! Members should leave the Chamber quickly and quietly. It would assist Hansard if the Minister spoke a little louder.

The Hon. GREG PEARCE: This represents a total turnaround over the forward estimates of \$5.2 billion, compared to the forecasts confronting us in March this year. In order to achieve the budget turnaround, approximately \$8 billion of savings are needed over the next four years. This requires tough decisions, including a combination of long-term structural reforms and additional savings measures. Long-term structural reforms to the public sector include changes to the Health, Transport and Corrective Services portfolios, including a reduction of about 300 administrative positions in Health, a reduction of about 350 administrative positions in Transport and around 350 voluntary redundancies in Corrective Services.

We are also introducing greater contestability to service provision, including in ferries, road

maintenance and prisons. Our wages policy and changes to managing excess employees are expected to avoid costs of about \$2 billion over the next four years, and procurement reform is expected to deliver more than \$1 billion in savings through improved purchasing, whole-of-government contracts and reduced expenditure on consultants, travel and advertising. The efficiency dividend and program savings will deliver about \$6 billion in savings over the next four years. While efficiency dividend savings targets were included in Labor's budget forecasts, many of the savings were not implemented. This Government will maintain and deliver Labor's efficiency dividend savings over the forward estimates. An additional efficiency dividend target of \$150 million has also been included for 2014-15.

A program review will also contribute \$800 million in savings. This will involve a comprehensive assessment of programs against a range of criteria, including effectiveness and value. Over the next three years, programs no longer delivering for the taxpayers will be discontinued. To underpin delivery of these savings, the O'Farrell Government is prepared to offer about 5,000 voluntary redundancies over the next four years. This is a difficult but necessary decision, and it compares to similar approaches in other States: about 3,500 voluntary redundancies in Queensland in 2010 and 4,000 in South Australia over the past two years. Further reductions are also likely to occur through normal staff turnover and natural attrition.

These measures will be delivered in accordance with our election commitments to deliver improved front-line services, including more teachers, nurses and police. One of the first problems confronting the Government was the blow-out in costs of Labor's Solar Bonus Scheme. The cost of the scheme, initially thought to be \$355 million, has since blown out to \$1.75 billion, delivering a significant blow to the budget. The Government has absorbed some of these costs in the budget. However, an additional blow-out in the costs of Labor's failure will require a further \$150 million increase in climate change fund contributions from 2013-14. This is expected to increase average annual electricity bills by about \$10 to \$12 per household. The Government regrets the impact that this will have on electricity users, but Labor's failure has made this action necessary.

One good decision in the budget, among a large number of good decisions, is a \$342 million increase in the disability services area this year. The budget provides for a record \$1.4 billion in new growth funding for disability services as part of the five year \$2 billion Stronger Together Program. This latest funding commitment to disability services is the greatest in New South Wales history and it is a great privilege to be part of making that decision.

One of the other difficult decisions was in relation to the first home buyers grants. The undersupply of the housing market is a major challenge. We have already undertaken a number of reforms to increase housing supply with the release of 10,000 new housing lots, a comprehensive review of the planning laws, extending concessions on State infrastructure levies, extending the home builders bonus for over-55s who buy a new home and abolishing Labor's \$400 million home buyers tax. With new housing construction at historically weak levels and a weak fiscal position, we need to target assistance to where it is most needed in the economy.

To encourage activity the Government currently provides a stamp duty exemption for first home buyers purchasing a new or existing dwelling up to \$600,000 in addition to the \$7,000 first home owners grant. Preliminary Treasury advice suggests that these incentives may put upward pressure on housing prices, particularly for existing homes. Treasury analysis of the period of the 2009 first home buyers boost indicates that prices were higher due to the influence of first home buyers buoyed by the increased grants. Some housing market analysts

also believe these grants can increase prices. On 6 September the *Australian* reported Andrew Wilson, senior economist with Australian Property Monitors, as follows:

AMP economist, Shane Oliver, said that stamp duty concessions did not improve housing affordability because they caused a spike in demand. He suggested the release of more housing blocks would provide a better stimulus.

On 27 August the *Sydney Morning Herald* reported him as saying:

I don't think we have a need really for ongoing grants.

On the same day Cameron Kusher of RP Data said:

If anything, the grants worked too well and resulted in too many people ... competing for properties so prices rose.

Our incentives should encourage activity, not push up house prices. In the 2010-11 financial year around 32,500 first home owner grants were provided, of which only around 2,700 were for new homes, about 12 per cent. The Government has therefore decided that from 1 January 2012 eligibility for stamp duty concessions through the First Home Plus and First Home Plus One schemes will be limited to those purchasing newly constructed homes, including off the plan. The revised First Home Plus and First Home Plus One schemes will continue to provide a full stamp duty exemption for all eligible first home buyers purchasing a newly built home up to \$500,000 and partial exemptions for homes costing between \$500,000 and \$600,000. All eligible first home buyers will continue to receive the \$7,000 first home owner grant for purchases of new and existing dwellings. We recognise that this is a difficult decision but it is necessary to make buying a new home relatively more attractive than buying an existing dwelling for first home buyers. We will continue to closely monitor housing sector conditions and will work closely with the sector to develop further options to encourage growth.

The budget has affirmed the Liberal-Nationals Government commitment to preventing housing stress and homelessness with the allocation of more than \$2 billion in this year's budget to address these issues. The budget provided significant investment in housing infrastructure and services to help those most in need of housing support. This budget will assist more than 450,000 people across New South Wales, including more than 330,000 people living in public, community and Aboriginal housing. The Government is committed to building stronger and more sustainable communities. We are listening to and meeting tenants' demands and this budget will also assist 38,000 with crisis accommodation: \$45.7 million will be available to help at least 37,000 households with temporary accommodation and Rentstart to help secure accommodation in the private rental market, and a further \$119 million has been set aside for new leases from the private rental market and to continue leases on 9,285 homes already let to public and community housing.

The budget includes a \$488.6 million investment in capital works for public, community and Aboriginal housing during 2011-12. This investment is underpinned by a new approach in social housing investment targeting the building of communities rather than construction of towers. This will lead to reduced concentrations in social housing, support the social and economic participation of residents and contribute to a more sustainable and affordable social housing system. This budget is a first step to addressing Labor's legacy of 43,000 people on the social housing waiting list and a maintenance backlog of over \$300 million.

Areas of expenditure in the 2011-12 budget include \$221.5 million to build 529 new social

housing homes and to complete 1,072 units that were started in previous years; \$203.2 million for routine repairs and maintenance in public and community housing; \$195 million to upgrade public and community housing, including crisis accommodation such as women's refuges and emergency accommodation for homeless people; \$23.6 million for private rental subsidies to assist people with disabilities; \$17.7 million for the Building Stronger Communities Program to improve the quality of the built environment and community in seven major locations; \$5.5 million to continue with the rollout of Start Safely, a program to provide assistance to 567 households leaving domestic and family violence; and \$2.4 million to improve environmental sustainability in public housing by replacing electric hot water systems with solar systems and retrofitting ceiling insulation.

In addition the Aboriginal Housing Office will be allocated \$21 million for the repair and maintenance of up to 500 homes supplied by Aboriginal housing providers in urban and regional areas under the Build and Grow Program; \$12.6 million to reform and strengthen the Aboriginal community housing sector under the Build and Grow Program through the Provider Assessment and Registration System, time-limited operating subsidies and business development and support; \$13 million to deliver 30 new homes under the Aboriginal Housing Office's capital works program; \$16.7 million to build 35 new homes in remote areas under the National Partnership Agreement on Remote Indigenous Housing; and \$2.7 million for six new homes for employment and training related accommodation for Aboriginal people. In total the family and community services cluster will receive over \$5.5 billion in the 2011-12 budget.

One of the other decisions in the budget involves the long-term lease of Port Botany. The Government has undertaken an additional asset transaction to free up funds that can be used to address Labor's critical infrastructure backlog. We are making a record investment in infrastructure but more needs to be done. The recent Pacific Highway funding offer from the Commonwealth has placed added pressure on our infrastructure spending. In its last budget the Commonwealth allocated \$750 million for the Pacific Highway to 2014-15, but only on the condition that the New South Wales Government matched this amount. Notwithstanding our differences with the Commonwealth on other matters, this offer provides an opportunity for an historic contribution to the upgrade. While falling short of previous Commonwealth commitments, we are determined to provide the funds needed to match the Commonwealth offer. The Government has therefore decided to proceed to market with the long-term lease of Port Botany. Funds made available by the transaction will be used to match the Commonwealth's funding offer on the Pacific Highway. Funds made available will also deliver further improvements to the Princes Highway, as well as other key infrastructure projects through Restart NSW.

Existing ownership arrangements for the Port of Newcastle and Port Kembla will be retained. The port facilities in Sydney Harbour will remain under State management. The introduction of private operators at Port Botany will increase contestability and help drive further efficiency on the waterfront, which will in turn help to further develop the New South Wales economy. This measure is in line with measures taken in other jurisdictions. The Queensland Labor Government sold the Port of Brisbane for \$2.1 billion in 2010. A number of other ports in Australia are also privately operated, including the Port of Adelaide in South Australia, Port Walcott in Western Australia and Portland in Victoria.

The Government also made a decision to increase mining royalties. New South Wales is not getting its fair share from Canberra and Federal Labor. As I mentioned earlier, GST revenue will be \$900 million less than will be raised in New South Wales in 2011-12, and each New South Wales household will be around \$300 worse off on GST. The people of New South

Wales paid the most for the flood levy and will also be hard hit by Federal Labor's means test of the private health insurance rebate. New South Wales has also missed out on a fair share of Federal infrastructure funding.

But the most damaging Federal Government measure is the Federal carbon tax, with its impacts on the New South Wales budget. New South Wales Treasury analysis confirms that the carbon tax will have a big negative impact on New South Wales. There will be 31,000 fewer jobs, with the Hunter and Illawarra being particularly hard hit, with a predicted 17,000 job losses in the Hunter. The direct cost to New South Wales of the carbon tax is predicted to be up to \$900 million, or perhaps more, over the forward estimates, and the value of State generator assets is expected to diminish by \$3.6 billion. The Commonwealth has refused to consider or discuss these issues despite our repeated attempts.

We are not going to accept a multibillion dollar hit without taking action to protect the budget on behalf of the people of New South Wales. To offset the cost of the carbon tax on the State budget the Government plans to increase State mining royalties. Noting the commitment of the Commonwealth to reimburse companies for State royalty liabilities, it will be the Commonwealth that will bear the cost, not the mining companies. We will work with the mining sector on this measure and finalise details once the Commonwealth's mining resources rent tax legislation is finalised. The Commonwealth recently released a preliminary draft of its legislation and will release a final exposure draft later in the year. Should the Commonwealth propose a suitable alternative compensation arrangement, or not proceed with the carbon tax, the New South Wales Government will not proceed with this measure.

I mentioned voluntary redundancies and job losses. We are determined to deliver the savings needed to fund improved services and infrastructure and to fix Labor's mess. To underpin delivery of the required savings we are prepared to offer around 5,000 voluntary redundancies over the next four years. This is a difficult but necessary decision. It also compares to similar approaches in other States. In 2011 the Queensland Government announced 3,500 voluntary redundancies. Similarly, a reduction of 4,000 positions has been announced over the past two South Australian State budgets. Further reductions are possible from normal staff turnover and natural attrition. These measures will be delivered in accordance with our election commitments, including more teachers, nurses and police.

In an orderly and methodical way, each department and agency is assessing its activities and costs to identify savings. As part of this process departments and agencies can use voluntary redundancies to help meet their savings targets. We have already announced changes in the Health, Transport and Corrective Services portfolios. I mentioned those earlier in this speech. Further changes are expected as departments and agencies implement their futures savings programs.

I am particularly pleased and proud that the budget delivers services and infrastructure to the Illawarra. The budget is focused on improving services and providing the essential infrastructure required for the Illawarra region to grow. The Illawarra is absolutely vital to the health of the New South Wales economy, and the investment in this year's budget shows that the New South Wales Liberals and The Nationals are committed to the success of the region. By focusing investment on both frontline services and core infrastructure we will make a real difference to the lives of residents and provide the facilities for the region to grow and prosper.

In health we are providing 192 additional nurses in the Illawarra Shoalhaven Local Health District and South Eastern Sydney Local Health District. We are also providing 21 more

acute care beds in Wollongong Hospital and \$4 million to commence planning on the Shellharbour Hospital expansion. We are investing in education with more than \$540 million for local schools. This includes new gymnasiums at Bomaderry and Kiama high schools and upgrading Wollongong and Nowra TAFEs.

We are improving the Illawarra road network by investing \$103 million for major projects, upgrades and maintenance and to improve road safety. This includes an upgrade to the Princes Highway between Gerringong and Bomaderry and widening it to two lanes between Mount Pleasant and Toolijooa Road. In public transport we are building the new train stabling facility at Wollongong for the OSCar trains and investing in community transport. Together with other statewide initiatives, this will keep the region moving. There is \$106.2 to be provided for disability services and \$40.6 million for the Home and Community Care program to assist the most vulnerable in our society. The Illawarra is a vital regional area and the commitment in this year's budget will ensure we provide the services that people need and the essential infrastructure to support its continuing growth.

This year's budget delivers on our commitment to rebuild our State finances. There are tough reforms and savings measures to deliver long-term benefits. We are delivering on our commitments to rebuild services, with 200 more teachers, 900 more nurses and 150 more police in this budget. We are rebuilding infrastructure with the biggest investment in infrastructure in the history of New South Wales, \$62.6 billion over the next four years, including \$600 million for the North West and South West Rail Links. We are rebuilding protection of the vulnerable with record funding for disability services to deliver Stronger Together II. And we are rebuilding the confidence of the community by delivery of our Jobs Action Plan, including payroll tax rebates for 100,000 jobs, record infrastructure spending, focusing on the supply of new homes, and we are standing up to Canberra in the context of the Rudd-Gillard Government's failure to give New South Wales its fair share. I commend the budget and the Duties Amendment (First Home—New Home) Bill 2011 to the House.