APPROPRIATION BILL 2008
APPROPRIATION (PARLIAMENT) BILL 2008
APPROPRIATION (SPECIAL OFFICES) BILL 2008
STATE REVENUE AND OTHER LEGISLATION AMENDMENT (BUDGET) BILL 2008

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Second Reading

The Hon. HENRY TSANG (Parliamentary Secretary) [6.01 p.m.], on behalf of the Hon. Michael Costa: I move:

That these bills be now read a second time.

I seek leave to have my second reading speech incorporated in *Hansard*.

Leave granted.

I am pleased to deliver the third budget of the Iemma Labor Government, a Budget that continues our commitment to invest in infrastructure and frontline services, in record amounts.

Twelve months ago the economic environment was significantly different from today's.

Since I last addressed this place, financial markets have experienced severe instability.

The resources boom has continued to create challenges for the national economy, the States, and our budget.

A year of surprisingly strong growth in domestic demand and employment has seen inflationary pressures emerge and the Reserve Bank lift interest rates four times, to levels not seen for more than a decade.

As the Government has previously reported, the ageing of the population will begin to impact within the period of the forward estimates as the first baby boomers turn 65.

The annual increase in the population aged over 65 will more than double over the forward estimates period, increasing demand for services in health, ageing and disabilities, transport, and community services.

The Rudd Government's commitment to reforming Commonwealth-State financial arrangements has provided an opportunity for reform to the way in which government services are funded and delivered—but this opportunity does not come without its own set of challenges.

In this context this budget balances the challenges of delivering improved services, investing more in infrastructure, and cutting taxes.

Within the parameters established by the State Plan it delivers better services with a record $47.6 billion budget.

This includes new spending targeted at the Premier's priority areas: Aboriginal health, emergency departments, child protection, mental health and disability services.

It continues our record investment in infrastructure with almost $14 billion this year alone invested in rail, water, electricity, schools, police stations and hospitals.

It keeps the budget in surplus, this year and across the forward estimates, securing our triple-A credit rating and maintaining Labor's record of strong financial management.

And once again it delivers tax cuts—$3.6 billion worth of tax cuts to support jobs and economic growth.

BUDGET OVERVIEWBUDGET OVERVIEW

The Government's strong financial management means the budget in 2008-09 will be a surplus of $268 million, or $737 million under the accounting standards that applied until last year.

In the following three years surpluses will average around $800 million.

I can also advise the House today the budget result for 2007-08 will be a surplus of $700 million—or $1 billion under the previous accounting standards.

This is an improvement of $660 million since last year's budget.

This improvement is in addition to an early repayment of $390 million in debt accrued during the construction of the

Epping to Chatswood rail line.

Last financial year we paid off $960 million of debt associated with this project.

Because of our responsible financial management, by the middle of next year the Epping to Chatswood rail line will be debt free.

The Iemma Government has worked hard for these results.

For the third year in a row we have brought operating expenses in on target.

In 2005-06 the difference between budgeted and actual expenses was 0.1 per cent. In 2006-07 that difference was 0.2 per cent.

Allowing for "pass through" funding from the Commonwealth for specific initiatives and the $390 million rail debt repayment, in 2007-08 expenses are estimated to be just 0.6 per cent higher than budgeted.

These results reflect the Iemma Government's commitment to keeping a tight rein on expenditure in order to redirect taxpayers' funds where they want them—on frontline public services.

Last year I reported that the Government's stringent efficiency measures were delivering savings of around $300 million a year.

Today I can report those measures have yielded $1.7 billion in real savings to date.

Last year I reported that, after years of expenditure growth outpacing revenues, we were on track to align the two, on average, over the forward estimates.

Today I can report that revenue and expenses will continue to grow at around the same rate over the next four years.

Last year I reported that productivity savings would ensure that in coming public sector wage rounds the net cost to taxpayers would be limited to 2.5 per cent per annum.

Today I can report that over the past 12 months the Government and unions have struck 11 agreements where the cost to taxpayers has been limited to 2.5 per cent, while, because of productivity offsets, wage rises for employees under those awards have been as high as 5 per cent.

The Government will continue to utilise the mid-point of the Reserve Bank's target inflation range as the indexation factor for funding wage increases.

This is not only fiscally responsible; it is the key role the New South Wales Government can play in the fight against inflation and higher interest rates.

BALANCE SHEET AND NET WORTHBALANCE SHEET AND NET WORTH

The balance sheet is now considerably stronger than it was in the mid-1990s, which has put the State in a much better position to handle cyclical fluctuations in revenue, such as those arising from higher interest rates and weaker equity markets.

Demographic change, urban congestion, and greater demand for essential services have seen strong growth in spending in key areas such as health, transport, community services and police, and record capital expenditure.

The Government's record capital works—$57.6 billion over the next four years—will see the value of our physical assets increase from $189 billion in June 2008 to $229 billion by June 2012.

The increase in capital expenditure, further tax cuts, changes to accounting standards, and the recent downturn in capital markets mean some of our fiscal targets will not be met.

General government net debt will increase from 1.4 per cent of GSP in June 2008 to 1.7 per cent of gross State product [GSP] in June 2012.

However, net debt will remain at sustainable levels and will stay significantly lower than in 1995, when it was 7.4 per cent of GSP.

General government net financial liabilities will increase from $29.3 billion in June 2008 to $36.5 billion in June 2012, but will decrease as a percentage of GSP from 8.2 per cent to 8 per cent over the same period.

While above the target of 7.5 per cent, net financial liabilities will also remain below the unsustainably high levels of the mid-1990s, when it was almost 20 per cent of GSP.

In 2006 we estimated that the ageing of the population and other pressures could lead to a budget shortfall in 2044 of around 3.4 per cent of GSP. Subsequent budgets increased that fiscal gap to 3.5 per cent.

Tax cuts announced today and our significant boost to capital expenditure will add 0.3 percentage points to the long-term fiscal gap, while increased growth in demand for services in areas such as health, transport and community services will add 0.1 percentage points.

These long-term pressures highlight the need for an overhaul in Commonwealth-State financial arrangements.

The reform of intergovernmental financial arrangements will be judged by how well new specific purpose payments deal with indexation related to wage costs and demand.

In December last year the Government embarked on the process of securing the State's electricity needs through greater participation by the private sector in the delivery of electricity.

The Government's plans for electricity will also have a positive impact on our balance sheet.

But as has been the case with past major transactions, estimates of the proceeds of electricity sector transactions have not been included in the budget, with the impact on the balance sheet and our fiscal targets to be shown in future years.

NEW SOUTH WALES ECONOMYNEW SOUTH WALES ECONOMY

Despite the challenges from an uncertain global economic environment, the economic fundamentals in New South Wales remain strong.

In 2007-08 State final demand is estimated to have grown by a very strong 4¼ cent, gross State product by 2½ per cent and employment by 2½ per cent, while unemployment dropped to a generational low of 4½ per cent.

Growth in the first half of 2007-08 was stronger than in the second half, when the economy was hit by constrained credit markets and four interest rate increases between August and March.

Nowhere was this more apparent than in the New South Wales housing sector, which showed signs of recovery during the first half of the financial year, only to slow early in the new year.

Similarly, consumer spending grew strongly in the last six months of 2007, but stalled in the first quarter of 2008.

Business investment—which has been a real strength of the New South Wales economy for some time—grew by more than 10 per cent in the first half of the financial year; however, current expectations are also for that growth to moderate.

In the agricultural and farming sector the follow-up autumn rains we were all hoping for did not eventuate, which is expected to trim overall GSP growth instead of adding to it as originally forecast.

In the current high interest rate environment New South Wales will continue to face challenges this year.

Growth in State final demand is expected to slow to 2½ per cent, GSP to 2 per cent, and employment to 1 per cent.

Unemployment is expected to rise slightly to 4¾ per cent, but remain well below historic levels.

Inflation is expected to ease as a result of the Reserve Bank strategy.

IMPROVED AND EXPANDED SERVICESIMPROVED AND EXPANDED SERVICES

Over the four years to 2008-09 spending on priority areas of service delivery has increased significantly.

? Spending on community and disability services has increased by 29 per cent

? Spending on public transport and roads has increased by 25 per cent

? Spending on health has increased by 25 per cent

? Spending on police and justice has increased by 18 per cent

? Spending on education and training has increased by 17 per cent, and

? Spending on environment and natural resources has increased by 53 per cent.

This year the Government will spend $47.6 billion on delivering improved and expanded services for the people of New South Wales.

This includes:

? $13.2 billion in Health, up 5 per cent on last year, including $49 million for the full-year cost of an additional 180 acute care beds added in November to ease the pressure on the busiest emergency departments

? $11 billion on Education and Training, an increase of 4.7 per cent, including $19 million to improve childhood literacy with the Best Start Program

? Spending on Police will increase by 4 per cent to almost $2.4 billion as the Government meets its commitment to increase police numbers to 15,956 by December 2011

? $815 million for Emergency Services, including an 18 per cent increase in funding for the State Emergency Service following one of their busiest years on record

? For the first time spending on Ageing and Disability Services will exceed $2 billion, an increase of 7 per cent

? Spending on Community Services will also increase by 7 per cent to $1.35 billion, including an additional $21 million to provide preschool opportunities for an additional 10,500 children for two days per week in their year prior to school and

? Almost $1 billion will be spent in the area of the Environment, including a 40 per cent increase in funding to buy back water for rivers and wetlands.

Total spending on providing public transport is $5.9 billion, reflecting the Government's commitment to the North West Metro, South West Rail Link, clearways, the rolling stock public-private partnership [PPP], and new environmentally friendly buses.

Challenging economic times also demand that governments target areas of most need.

The budget includes $4 billion for Community Services, Ageing and Disability, Housing and Aboriginal Affairs.

Spending in these areas will include:

? $263 million, an increase of 16 per cent, for prevention and early intervention, to provide support for children, young people and families early on, before their problems turn into a crisis

? $109 million, an increase of 55 per cent, to fund 620 supported accommodation places to provide community-based residential support for people with a disability

? $17.7 million, an increase of 75 per cent, to prevent young people entering nursing homes, improve services to young people who live in nursing homes, and develop alternative models of support and accommodation for young people with a disability

? $10.1 million to assist eligible people with a disability and people with HIV/AIDS to access the private rental market

? $22.9 million over four years to combat child sexual abuse in Aboriginal communities, with the expansion of the Safe Families program in an additional five communities in the Orana Far West region

? $30 million over four years to provide ongoing support for the operation, maintenance, and monitoring of water and sewerage systems, in partnership with the New South Wales Aboriginal Land Council

? $1.1 billion for mental health, including new funding of $31.6 million for the expansion of mental health services and to fully operate the new forensic hospital at Long Bay.

Over the past 12 months the New South Wales Government has committed around $90 million to assist farming communities with the ongoing impacts of the drought, and it remains committed to assisting rural communities in need.

INVESTING IN INFRASTRUCTUREINVESTING IN INFRASTRUCTURE

Two years ago we released the State Infrastructure Strategy, setting out for the first time a comprehensive 10-year plan for New South Wales's infrastructure needs.

The 2006 State Infrastructure Strategy included $110 billion in capital projects over the decade to 2016.

The State Infrastructure Strategy for the decade to 2018 will be released next week, but today I can announce our infrastructure expenditure over the coming decade is expected to reach about $140 billion.

This year the State's total investment in infrastructure will reach $13.9 billion, 11 per cent higher than in the 2007-08 Budget.

Over the four years to 2011-12 the State's capital expenditure will total $57.6 billion, partly funded by an increase in net debt of $20.9 billion.

This is $21.2 billion, or 58 per cent, higher than the previous four-year capital spend.

Over the next four years capital expenditure by transport businesses will almost triple from $1.3 billion to $3.7 billion, driven by the North West Metro, the South West Rail Link, major ports expansions, the continuation of the Rail Clearways Project, and the acquisition of new rolling stock.

Capital expenditure in the electricity sector will grow by more than 60 per cent over the same period, largely because of increased investment by the network transmission and distribution businesses.

Infrastructure spending in 2008-09 in non-commercial areas includes:

? $1.8 billion on transport

? $2.2 billion on roads

? $784 million on health

? $735 million on education and training

? $569 million on housing and

? $411 million on law and order.

Infrastructure spending in 2008-09 in commercial areas includes:

? $3.5 billion on electricity

? $2.2 billion on water and

? $397 million on ports.

Major new capital projects in the budget include:

? the $12 billion North West Metro

? 19 new school projects and 12 new TAFE projects, at a total cost of $246 million

? Almost 1,300 new units of public housing, community housing and crisis accommodation at a total cost of $201 million

? $65 million for the M5 East filtration project and $150 million on the Victoria Road upgrade

? $27 million towards the Lismore Integrated Cancer Centre and

? Riverstone Police Station and Lake Macquarie Local Area Command at a cost of $35 million.

The Iemma Government is delivering on its commitment to invest in new infrastructure.

REVENUE MEASURESREVENUE MEASURES

This budget continues the Iemma Government's policy of strategic reductions in taxation, with $3.6 billion in tax cuts.

Since August 2005 there's been a significant rationalisation of property-related taxes, including:

? abolishing vendor duty

? abolishing mortgage duty, and

? overhauling land tax, including indexing the threshold and dropping the rate.

It was Labor that abolished stamp duty for first home buyers on properties under $500,000.

We have cut business taxes, including:

? abolishing a range of stamp duties, the so-called "nuisance taxes" and

? payroll tax concessions for businesses in areas of higher than average unemployment.

We have also cut workers compensation premiums and reduced red tape by harmonising payroll tax arrangements with other States.

And we have done this while continuing to be penalised on the GST.

New South Wales has lower revenue per capita than the average of the other States, and the second lowest revenue per capita of all the States.

New South Wales overall tax rates are around the average of all States, with a lower than average reliance on transfer duty, gambling taxes and motor vehicle taxes.

As announced last year, the 2008-09 budget abolishes mortgage duty on residential investment properties from 1 July 2008 and abolishes stamp duty on unquoted marketable securities from 1 January 2009.

The abolition of mortgage duty on residential investment properties will save property investors $160 million this year and $718 million over the next four years.

It is further proof of the Iemma Government's commitment to reducing the burden of property taxes.

The abolition of stamp duty on unquoted marketable securities will save business $36 million this year and $272 million over the next four years.

Today I can announce further tax cuts worth $2.2 billion.

This budget cuts payroll tax from 6 per cent to 5.5 per cent and indexes the payroll tax threshold to inflation.

This makes New South Wales the only jurisdiction in Australia to index the payroll tax threshold.

From 1 July 2008 the payroll tax threshold will increase from $600,000 to $623,000, rising thereafter with increases in the CPI in Sydney.

Tax cuts must be implemented without jeopardising funding for essential services: that is why the cut to the payroll tax rate will be phased.

The rate will be reduced to 5.75 per cent from 1 January 2009, to 5.65 per cent from 1 January 2010, and to 5.5 per cent from 1 January 2011.

In total, changes to payroll tax announced today will exceed $1.9 billion over the next four years.

I can also announce today that the abolition of transfer duty on non-land business assets will be brought forward by 18 months, from 1 July 2012 to 1 January 2011, a further tax cut for business of $270 million over the forward estimates.

In total this budget reduces taxation by $344 million in 2008-09, increasing to $1.4 billion in 2011-12, and by $3.6 billion over the next four years.

Over the four years to 2011-12 Iemma Government tax cuts and reductions in workers compensation premiums will save New South Wales taxpayers $12.4 billion.

CONCLUSIONCONCLUSION

The people of New South Wales expect the Government to constantly work at improving and expanding services.

This budget does that.

This budget invests for the future, building social and economic infrastructure.

This budget provides strong financial management.

This budget keeps taxes as low as possible to support jobs, economic growth, and funding for essential services.

I commend the bills to the House.