

General Purpose Standing Committee No. 1

2004 Mini Budget

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Terms of Reference

1. That the General Purpose Standing Committee No. 1 inquire into and report on the 2004 Mini Budget.
2. That the Committee:
 - (a) must hear evidence on the Mini Budget in public,
 - (b) may ask for explanations from the Treasurer or officers of the Treasury relating to the items of proposed expenditure outlined in the Mini Budget,
 - (c) have leave to sit during the sittings or any adjournment of the House.
3. That the Committee report to the House by Thursday 3 June 2004.

(Minutes of Proceedings No. 52, pp 677-678, 5 May 2004)

Committee Membership

Revd the Hon Fred Nile MLC	Christian Democratic Party	<i>Chairman</i>
Hon Tony Burke MLC	Australian Labor Party	
Ms Jan Burnswoods MLC	Australian Labor Party	
Hon Henry Tsang MLC	Australian Labor Party	
Hon Catherine Cusack MLC	Liberal Party	
Hon Greg Pearce MLC	Liberal Party	
Ms Lee Rhiannon MLC	The Greens	

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Chairman's Foreword

The 2004 Mini Budget, delivered by the Treasurer, the Hon Michael Egan MLC on 6 April 2004, falls outside the normal estimates process for review of Government Budgets. Accordingly, I believe that it was appropriate that the Mini Budget was referred to the General Purpose Standing Committee No 1 for review and report.

The Committee has examined the 2004 Mini Budget, with particular reference to:

- The NSW Government's financial position and outlook;
- The development of the proposed tax changes and their impact; and
- The effects of some of the proposed savings measures.

The Committee expresses its appreciation to the Minister, the Hon Michael Egan MLC, officers of the Treasury and other Government departments, and other witnesses who gave evidence to the Committee.

Revd the Hon Fred Nile MLC
Chairman

Glossary

CGC	Commonwealth Grants Commission
GMA	Guaranteed Minimum Amount
GST	Goods and Services Tax
NCOSS	Council of Social Services of NSW
OSR	Office of State Revenue

Chapter 1 Introduction

Terms of reference

1.1 On 5 May 2004, the Legislative Council resolved:

1. *That the General Purpose Standing Committee No. 1 inquire into and report on the 2004 Mini Budget.*
2. *That the Committee:*
 - (a) *must bear evidence on the Mini Budget in public,*
 - (b) *may ask for explanations from the Treasurer or officers of the Treasury relating to the items of proposed expenditure outlined in the Mini Budget,*
 - (c) *have leave to sit during the sittings or any adjournment of the House.*
3. *That the Committee report to the House by Thursday 3 June 2004.*¹

Background to this inquiry

1.2 For a number of years, the General Purpose Standing Committees have conducted annual estimates inquiries into the Budget. The estimates process provides an opportunity to review, test and challenge the actions of the Government.

1.3 However, the Mini Budget announced on 6 April is not subject to direct review through the estimates process. Accordingly, this inquiry was undertaken to subject the Mini Budget to the same level of public review and accountability as other budget processes.

Background to the 2004 Mini Budget

1.4 On 25 February 2004, the Commonwealth Grants Commission (CGC) released its *2004 Review Report on State Revenue Sharing Relativities*. In its report, the CGC recommended the following underlying changes in the share of GST revenue received by each Australian State and Territory in 2004-2005.

Table 1.1: Changes in the Distribution of Funding to the States – 2004-2005 (\$ million)

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Change	-317.0	-51.2	262.7	230.9	-26.3	-37.9	-13.4	-47.7

Source: CGC, 2004 Review Report on State Revenue Sharing Relativities, February 2004, Attachment F

¹ *Minutes of Proceedings No. 52, pp 677-678, 5 May 2004*

- 1.5 Additional details on the total Commonwealth payments to the states and territories in 2003-2004 and 2004-2005 are provided in Appendix 2.
- 1.6 The State funding arrangements recommended in the *2004 Review Report on State Revenue Sharing Relativities* cited in Table 1.1 were accepted by the Commonwealth Treasurer at the meeting of the Ministerial Council for Commonwealth-State Financial Relations (the Treasurers' Conference) on 26 March 2004.
- 1.7 In response to the outcome of the 2004 Treasurer's Conference, the NSW Treasurer, the Hon Michael Egan MLC, delivered the 2004 Mini Budget on 6 April 2004. In his speech, the Treasurer outlined a number of initiatives, including:
- \$365 million of targeted expenditure cuts and savings;
 - the levying of a 2¼ % stamp duty on the sale of properties except for a person's principal place of residence and farms;
 - the abolition of the land tax threshold and major reductions in the rate of land tax;
 - additional budget funding for country and city hospitals of \$572 million per year;
 - a capital investment program for new hospital facilities and equipment in 2004-2005 of \$600 million;
 - additional support for the passenger rail system in 2004-2005 of \$300 million;
 - an overhaul of the Sydney rail system with a six year, \$1 billion program for five rail clearways and a \$1.5 billion program for 498 new air-conditioned train carriages;
 - extra budget funding of \$356 million for education, including the roll-out of smaller class sizes; and
 - the complete abolition of stamp duty for almost all first homebuyers.²
- 1.8 A full copy of the Treasurer's Mini Budget Speech of 6 April 2004 is at Appendix 3.
- 1.9 The Treasurer also published a media release on 6 April 2004 entitled 'Savings to Fund Increases for Hospitals and Rail' which expanded on the savings measures in the Mini Budget. This is reproduced in Appendix 4.

Public hearings

- 1.10 The Committee held two public hearings to examine the provisions of the 2004 Mini Budget. The hearings were held at Parliament House on Monday 17 May 2004 and Friday 21 May 2004. A list of witnesses is at Appendix 1. The transcripts can be read on the Committee's web site via www.parliament.nsw.gov.au.

² The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, pp2-3

Response to questions on notice

- 1.11** The Committee notes that it received responses to questions on notice from the Treasurer, the Office of the Valuer General and the Department of Environment and Conservation.
- 1.12** The responses to questions on notice from the Treasurer and the Office of the Valuer General are included in the body of this report. Regrettably, however, the Committee was not in a position to include the responses provided by the Department of Environment and Conservation, due to their late receipt on 2 June 2004. A copy of the responses provided by the Department of Environment and Conservation in at Appendix Five.

Structure of this report

- 1.13** This report is in four Chapters:
- Chapter One provides an introduction;
 - Chapter Two examines the Mini Budget fiscal position and outlook;
 - Chapter Three examines the development and impact of the Mini Budget changes; and
 - Chapter Four examines the savings and expenditure measures in the Mini Budget.

Chapter 2 **The Mini Budget fiscal position and outlook**

Introduction

2.1 This Chapter examines the following issues:

- The financial measures outlined in the Mini Budget;
- The projected Budget outcome in 2004-2005; and
- The projected Budget outcome beyond 2004-2005.

The financial measures outlined in the Mini Budget

2.2 In his Mini Budget speech of 6 April 2004, the Treasurer indicated that when preparing the Mini Budget, the Government was faced with three financial imperatives:

- a cut in Commonwealth Government payments of \$376 million a year;
- the need to fund almost \$400 million a year in recently awarded pay rises for nurses and teachers; and
- the need to provide extra funding for frontline services.³

2.3 This Committee examines these issues below.

The financial cuts from the Federal Government

2.4 As indicated, in his Mini Budget speech of 6 April 2004, the Treasurer stated that the Federal Government had cut \$376 million from funding for NSW in 2004-2005.⁴

2.5 The Committee notes that in the 2004-2005 Half Year Budget Review, the projected level of Commonwealth Grants to NSW for the 12 months to 30 June 2004 was \$15,548 million, and the projected level of grants for the 12 months to 30 June 2005 was \$15,789 million.⁵ This was raised during the hearing on 17 May 2004:

The Hon. GREG PEARCE: ... In the mid-year review the total Commonwealth grants was \$15,548 million. For 2004 it was \$15,789 million. The document that I have just given you is the same document that was hand delivered to [you] ... just before the Ministerial Council for Commonwealth-State Financial Relations meeting on 25 March. It gives the actual figures for Commonwealth grants for the two years in question. Could you read those out or would you like me to write them on the whiteboard?

³ The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, p1

⁴ The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, p4

⁵ Treasury of NSW, *2003-2004 Half Yearly Budget Review*, <http://www.treasury.nsw.gov.au/pubs/treasure/br03-04/03-04br.pdf>

The Hon. MICHAEL EGAN: No, it is in a public document.

The Hon. GREG PEARCE: To help you, the actual amount of Commonwealth grants for 2003-2004 was \$15,728 million. That was an extra \$180 million for 2003-2004, and an extra \$127 million for 2004-2005. Would you agree, then, that when you gave the mini-budget the State was receiving \$180 million more than you expected in your mid-year review, and in 2004-2005 it was \$127 million more than you projected in the mid-year review?⁶

- 2.6 In response, the Treasurer cited the level of Commonwealth Government general purpose payments to NSW (as opposed to specific purpose payments), which he argued are the source of funding for hospitals, education, roads and community services. This funding is reproduced in Figure 2.1 below.

Table 2.1: General Purpose Payments to NSW (\$ million)

	2001-2002	2002-2003	2003-2004	2004-2005	Aggregate 3years
\$ Million	9,709	9,679	9,737	9,744	
Change (%)		-0.31	0.60	0.07	0.36

Source: Mr Egan, Evidence, 17 May 2004, p2. See also Tabled Document, 'GST or GMA (whichever is the greater)', p1

- 2.7 Based on the figures cited in Table 2.1, the Treasurer highlighted that from 2001-2002 to 2004-2005, there was aggregate growth in Commonwealth general purpose payments to NSW of 0.36%, which he argued translates to a decline in real terms of 8.94%. By contrast, the Treasurer cited figures that Victoria had a real decline in general purpose payments over that period of 1.33%, while Queensland had a real increase of 13.00%, and WA a real increase of 10.46%.⁷ The Treasurer, the Hon Michael Egan, continued:

I would like to see how any other governments or organisations could cope with the increases in funding demands and wage costs without any growth at all in their general purpose payments.⁸

- 2.8 The Committee notes that the under the *A New Tax System (Commonwealth State-Financial Arrangements) Act 1999*, the Federal Government has paid so-called Budget Balancing Assistance to the States with a stated aim of ensuring that each State's budgetary position is no worse than it would have been had the Federal Government not reformed Commonwealth – State financial relations under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The amount of funding each State would have received under the previous system of Commonwealth – State financial relations is known as the Guaranteed Minimum Amount (GMA).⁹

⁶ Evidence, 17 May 2004, p 2

⁷ Mr Egan, Treasurer, Evidence, 17 May 2004, p2. See also Tabled Document, 'GST or GMA (whichever is the greater)', p1

⁸ Mr Egan, Evidence, 17 May 2004, p2

⁹ See Federal Budget Paper No 3, *Federal Financial Relations*, 22 May 2001, p12

- 2.9** During the hearing on 17 May 2004, the Treasurer, the Hon Michael Egan, raised the issue of the GMA:

I am sure your next question would have been the assertion—although I would put it as a lie—by the Commonwealth Treasurer that we will be better off as a result of the GST revenue. What he means is that we will be better off compared with the guaranteed minimum amount. But the guaranteed minimum amount is in fact a misnomer because it is not guaranteed at all. As the table I have circulated to you shows, the guaranteed minimum amount for this coming year, 2004-2005, has been declining every year since May 2000. It has declined by \$657 million. So the guaranteed minimum amount is really just the name that Mr Costello wants to give it; it is not guaranteed at all. It is not the minimum amount because it keeps declining.¹⁰

The recently awarded pay rises for nurses and teachers

- 2.10** As indicated, in his Mini Budget speech of 6 April 2004, the Treasurer stated that the Government needed to fund almost \$400 million a year in recently awarded pay rises for nurses and teachers.¹¹
- 2.11** The Committee notes that the Half Yearly Budget Review already included allowances of \$308 million for teacher pay rises (over a full year) and \$86 million for nurse pay rises (over a full year).¹² This issue was also raised during the hearing on 17 May 2004:

The Hon. GREG PEARCE: Mr Pierce,¹³ the \$400 million that is mentioned in the mini-budget in relation to nurse and teacher salaries, can you identify for me how that figure was calculated. It must be different from the amounts that were included in the half yearly budget review, which was \$308 million for a full year for teachers and \$86 million in a full year for nurses, bearing in mind that the previous year the nurses' decision had an impact of \$130 million. I am just trying to work out where the new \$400 million comes from?

The Hon. MICHAEL EGAN: It is the full-year impact of those decisions.

Mr PIERCE: Plus, if my memory serves me correctly, at the time of the mid-year review, whilst there was a case put on for teachers before the Industrial Relations Commission, they had not brought down in any sort of decision but after the mid-year review they brought down an interim decision on teachers.

...

The Hon. GREG PEARCE: The mid year review. In relation to teachers, page 10 states, "Department of Education and Training expenses are projected to increase significantly above budget. This includes the recent teachers' award in 2003-2004 (\$308 million in a full year)".

¹⁰ Mr Egan, Evidence, 17 May 2004, p3

¹¹ The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, p4

¹² Treasury of NSW, *2003-2004 Half Yearly Budget Review*, <http://www.treasury.nsw.gov.au/pubs/treasure/br03-04/03-04br.pdf>, executive summary

¹³ Mr John Pierce, Secretary, Treasury

The Hon. MICHAEL EGAN: That is right.

The Hon. GREG PEARCE: If it is already in there, how can this be new?

The Hon. MICHAEL EGAN: It is in the half yearly review, which had a deficit of \$275 million.¹⁴

- 2.12** The Committee also notes the following comment of Mr Garry Moore, Director, Council of Social Services of NSW (NCOSS), during the hearing on 21 May 2004 in relation to the impact of salary increases on the State Government Budget:

There is no doubt that public sector wage increases should be paid to reflect the quality of people we want, particularly in our frontline services, but in some agencies, some of the big human services agencies, when we look at the expenditure increase in recent years in health, education, community services and ageing and disability, by far the most significant part of that is in wage increases.¹⁵

The projected Budget outcome in 2004-2005

- 2.13** In his Mini Budget speech of 6 April 2004, the Treasurer indicated that the Budget deficit in 2004-2005 was expected to be in the order of \$300 million,¹⁶ up from the \$275 million deficit forecast in the 2003-2004 Half Yearly Budget Review.¹⁷

- 2.14** Once again, this issue was debated during the hearing on 17 May 2004:

The Hon. GREG PEARCE: The extra costs that have been identified were the first home buyers stamp duty, the Commonwealth cuts that you claim of \$376 million, the \$400 million nurses and teachers, the health measures, rail, education, community services and ageing. Based on those figures we would be looking at a deficit of \$1.584 billion. So I would ask you to fill in the gaps about how we get to a deficit of \$300 million.

The Hon. MICHAEL EGAN: I thank Mr Pearce for the opportunity. I will not rub these figures off just yet; I will come to that later. The figures appear to be right but I draw your attention to the figure of \$1.548 billion, because this is the figure that Mr Pearce and Mr Brogden before him on the day of the mini budget said would be the deficit for 2004-2005. If I rub off the other figures we are left with two figures. I would like everybody to bear in mind that that is the deficit which the opposition is saying I will deliver on 22 June. As I indicated in the mini-budget the likely deficit for 2004-2005 is in the vicinity of \$300 million. The budget will be brought down on 22 June. I want all of you, particularly the press, to remember the figures off \$1.584 billion and \$300 million and see what the result is.¹⁸

¹⁴ Evidence, 17 May 2004, p21

¹⁵ Mr Moore, Director, NCOSS, Evidence, 21 May 2004, p5

¹⁶ The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, p23

¹⁷ Treasury of NSW, *2003-2004 Half Yearly Budget Review*, <http://www.treasury.nsw.gov.au/pubs/treasure/br03-04/03-04br.pdf>, executive summary

¹⁸ Evidence, 17 May 2004, p3

- 2.15** The Committee also notes the following evidence in relation to the projected Budget outcome in 2004-2005:

The Hon. MICHAEL EGAN: The midyear review I think was predicting a starting point deficit in 2004-2005 of \$275 million. For reasons of caution and prudence we factored in a cut of about \$100 million in Commonwealth general purpose assistance to us because we already have the preliminary reports of the drafts from the Commonwealth Grants commission. On the basis of strong arguments and a good case we were hoping that we would not only be able to reverse but indeed would be able to draw back some of the \$2.9 billion that taxpayers in this State are required to subsidise taxpayers in the other States.

The Hon. GREG PEARCE: So you did not have the \$376 million in the projections?

The Hon. MICHAEL EGAN: That is right.

...

The Hon. MICHAEL EGAN: The Treasurer's conference was held on 26 March and the Commonwealth Grants Commission's final report was not delivered until early in March.¹⁹

- 2.16** The Committee also raised with Mr Pierce, Secretary, Treasury, whether Treasury had any documentation which concluded that the Mini Budget would bring down a \$300 million deficit.²⁰
- 2.17** Mr Pierce replied that there was such a document, but took on notice whether it could be supplied to the Committee.²¹ The Treasurer subsequently advised the Committee in his response to questions on notice that the document is Cabinet in Confidence.²²

Projected revenue from stamp duty in 2004-2005

- 2.18** During the hearing on 17 May 2004, the Treasurer indicated that in 2003-2004, the Government raised approximately \$4 billion in stamp duty. In 2004-2005, incorporating the introduction of vendor duty and the concession for first home buyers, revenue from stamp duty is expected to remain virtually unchanged or to fall slightly.²³ However, the Treasurer continued:

The estimates for stamp duty notoriously are unpredictable because you do not know what is going to happen to the property market during the next 12 months or 24 months. All sorts of things could happen. Interest rates could be increased by the Reserve Bank. We do not know what impact world events will have. We cannot even be sure at this stage what impact the recent Federal budget will have.²⁴

¹⁹ Evidence, 17 May 2004, p4

²⁰ Evidence, 17 May 2004, p18

²¹ Mr Pierce, Secretary, Treasury, Evidence, 17 May 2004, p18

²² Mr Egan, Response to questions taken on notice on 17 May 2003, Question No 2

²³ Mr Egan, Evidence, 17 May 2004, p5

²⁴ Mr Egan, Evidence, 17 May 2004, p5

Projected revenue from the premium property duty in 2004-2005

- 2.19** In his Mini Budget speech of 6 April 2004, the Treasurer indicated that the Government would change the premium property duty to impose a 7% marginal rate stamp duty on all residential properties purchased for more than \$3 million.²⁵
- 2.20** During the hearing on 17 May 2004, the Treasurer indicated that the new premium property duty is estimated to raise about \$14 million each year. The previous premium property tax also raised approximately \$14 million each year.²⁶

Projected revenue from vendor duty in 2004-2005

- 2.21** During the hearing on 17 May 2004, Mr Pierce indicated that Treasury anticipates \$687 million in revenue from the vendor duty in 2004-2005, but no revenue from the vendor duty in 2003-2004.²⁷ The Committee did not have available to it the Treasury documentation to verify this assertion.

The projected Budget outcome beyond 2004-2005

- 2.22** During the hearing on 17 May 2004, Mr Pierce indicated that at the time of the 2004 Mini Budget, Treasury had not finalised the forward estimates for 2005-2006, 2006-2007 and 2007-2008, but that the estimates would be available in the Budget to be brought down on 22 June 2004.²⁸
- 2.23** The Committee notes the following exchange during the hearing on 17 May 2004:

The Hon. GREG PEARCE: At the time of the mini-budget you had no idea of the impact of all of these tax changes going forward over the next three or four years?

Mr PIERCE: We did not have finalised estimates in dollar terms that we were in a position to present to the Government.

The Hon. GREG PEARCE: Did you have a draft set of figures that was the basis of some sort of analysis you had done of the land tax and other tax changes?

Mr PIERCE: I certainly did not, and people's knowledge at that point would have been, depending upon the type of tax, just based on their knowledge of existing trends in that tax base in terms of direction rather than actual dollar estimates, whether it is going to go up or down.

The Hon. GREG PEARCE: You did not even have a rough estimate?

²⁵ The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, p17

²⁶ Mr Egan, Evidence, 17 May 2004, p19

²⁷ Mr Pierce, Evidence, 17 May 2004, p7

²⁸ Mr Pierce, Evidence, 17 May 2004, p8

The Hon. MICHAEL EGAN: A rough estimate is the first year's revenue. There are marginal differences from year to year. The rough starting point is the first year's estimates.²⁹

²⁹ Evidence, 17 May 2004, p8

Chapter 3 The development and impact of the 2004 Mini Budget changes

Introduction

3.1 This Chapter examines the 2004 Mini Budget with reference to:

- The timing of the Mini Budget;
- The preparation of the Mini Budget;
- Modelling of the Mini Budget changes; and
- Impact of the Mini Budget changes.

The timing of the Mini Budget

3.2 During the hearing on 17 May 2004, the Treasurer indicated that the decision to hand down a Mini Budget was taken so that measures outlined in the Mini Budget could be put in place to apply from 1 July 2004. Without the Mini Budget, the Treasurer argued that the expenditure measures, and even the revenue measures, would have been very difficult to get in place for the 2004-2005 financial year. In effect, holding the Mini Budget gave the Government an extra three months.³⁰

The preparation of the Mini Budget

3.3 During the hearings on 17 and 21 May 2004, the Committee questioned officials from Treasury and Office of State Revenue (OSR), and also the Valuer General about their role in helping to prepare the 2004 Mini Budget. Their responses are outlined below.

Treasury

3.4 Mr Pierce, Secretary, Treasury, indicated that prior to the 'Treasurers' Conference, the Treasury began preparing a paper outlining taxation options open to the Government, including those options subsequently adopted in the 2004 Mini Budget.³¹

3.5 Similarly, Mr Robert Carling, Executive Director, Economic and Fiscal within Treasury, indicated that work examining the land tax changes commenced prior to the 'Treasurers' Conference.³² Mr Carling also indicated that his area began working on the vendor duty changes immediately after the 'Treasurers' Conference in late March. This was later reaffirmed by Mr Pierce.³³

³⁰ Mr Egan, Evidence, 17 May 2004, p12

³¹ Mr Pierce, Evidence, 17 May 2004, p9

³² Mr Carling, Executive Director, Economic and Fiscal, Treasury, Evidence, 17 May 2004, pp10-11

³³ Mr Pierce, Evidence, 17 May 2004, p17

- 3.6** Mr Pierce further noted that work would have been going-on in relation to expenditure reductions and savings as part of the normal budgetary process from January through to April 2004.
- 3.7** In this regard, Mr Pierce indicated that the Mini Budget made public decisions about budget cuts that the budget committee would have communicated under normal circumstances to agencies in allocation letters. Under the Budget process, those agencies would in turn have reported back on their financial position, with the details to be reported in the June Budget.³⁴

OSR

- 3.8** Mr Peter Achterstraat, Executive Director, OSR, indicated that his office was asked questions in relation to the administration of the proposed new taxes prior to the Mini Budget, such as the number of land tax payers, but that OSR had no role in estimating the revenue impacts of the Mini Budget proposals.³⁵

The vendor stamp duty

- 3.9** Mr Achterstraat indicated that prior to the Mini Budget, OSR had discussions on a general basis with Treasury about how OSR would implement various aspects of the Mini Budget. In particular, in relation to the vendor stamp duty, Mr Achterstraat indicated that the discussion centred on the cash flow situation of vendors, and the easiest way for them to pay the vendor transfer duty³⁶
- 3.10** Mr Pierce in turn noted that Treasury sought from OSR prior to the Mini Budget information on the tax base, compliance issues in relation to the definition of a 'principal place of residence' and so forth, rather than specific details.³⁷

The land tax changes

- 3.11** Mr Achterstraat indicated that prior to the Mini Budget, OSR gave advice on the number of existing land tax payers, and possibly the number of properties on which land tax was paid at that time.³⁸
- 3.12** The Treasurer subsequently noted, however, that the Government does not know the number of additional land tax payers under the Mini Budget measures, and will not know until the end of the first year of operation of the new scheme. The Treasurer noted that the Opposition has used a figure of 300,000, which he indicated could be accurate.³⁹

³⁴ Mr Pierce, Evidence, 17 May 2004, p11

³⁵ Mr Achterstraat, Executive Director, OSR, Evidence, 17 May 2004, p12

³⁶ Mr Achterstraat, Evidence, 17 May 2004, p22

³⁷ Mr Pierce, Evidence, 17 May 2004, p22

³⁸ Mr Achterstraat, Evidence, 17 May 2004, p23

³⁹ Mr Egan, Evidence, 17 May 2004, p23

The Valuer General

3.13 Mr Philip Western, the Valuer General of NSW, indicated that Treasury contacted him in the week before the Mini Budget to provide data on the number of properties within specific local government zones, and the values associated with those zones.⁴⁰

Modelling of the Mini Budget changes

3.14 During the hearing on 17 May 2004, the Committee was presented with evidence that Treasury did not do any modelling of the impact of the tax changes included in the Mini Budget:

- In relation to the housing market, the Treasurer argued that it would be almost impossible to model accurately the impact of the changes on the housing market, but that if the property market were to cool, then that would be very good for the economy, the community, and particularly people trying to buy their first home.⁴¹
- In relation to the rental market, the Treasurer indicated that Treasury did not do any modelling of the impact of the vendor duty, on the grounds that it would be very difficult to do.⁴²
- In relation to the impact of the vendor stamp duty, the Treasurer reiterated that there was no modelling 'because commonsense tells you what the outcome will be.'⁴³ In further evidence, the Treasurer subsequently indicated that the concessions on the vendor duty, such as the rule that it should not apply to properties that have not risen in value by 15%, were decided after consultation with stakeholders.⁴⁴

Impact of the Mini Budget changes

The land tax changes

3.15 During the hearing on 21 May 2004, Mr Western indicated that after the Mini Budget on 6 April, the Office of the Valuer General prepared an estimate of the likely number of properties in NSW that will be affected by the new land tax, based on the existing \$317,000 threshold. The Office estimated the number at 800,000, although Mr Western noted that it could be as low as 750,000. Mr Western also highlighted that this estimate applies to all properties, such as weekend homes with no investment component, and not just investment properties.⁴⁵

⁴⁰ Mr Western, Valuer General of NSW, Evidence, 21 May 2004, p24

⁴¹ Mr Egan, Evidence, 17 May 2004, p6

⁴² Mr Egan, Evidence, 17 May 2004, p6

⁴³ Mr Egan, Evidence, 17 May 2004, p7

⁴⁴ Mr Egan, Evidence, 17 May 2004, p18

⁴⁵ Mr Western, Evidence, 21 May 2004, pp25-26

- 3.16** By way of comparison, Mr Western indicated that prior to the land tax changes, approximately 260,000 properties were subject to land tax, meaning that the new arrangement will capture about 540,000 new properties. Mr Western was unable to break down this figure according to whether the properties were houses or units.⁴⁶
- 3.17** Mr Western finally noted that the Office of the Valuer General usually supplies information on the value of the approximately 2.3 million properties in NSW to the OSR between the middle of November and the end of December each year. Mr Western did not envisage bringing this forward in the next financial year in response to the Mini Budget.⁴⁷

The vendor duty changes

- 3.18** During the hearing on 17 May 2004, the Treasurer indicated that the vendor duty tax changes would be extended to include transactions involving land rich companies. The Treasurer noted that the Government is planning to implement this measure in its legislation to go before the Parliament to implement the Mini Budget.⁴⁸

Property prices

- 3.19** During the hearing on 17 May 2004, the Committee raised with the Treasurer the impact of the stamp duty changes and land tax changes on the property market:

CHAIRMAN: Do you anticipate that your mini-budget and its new taxation system in land tax and the 2.5 per cent [stamp duty] will have a bigger impact on the housing market than you anticipated? You are actually helping to drive down sales.

The Hon. MICHAEL EGAN: ... if the property market cools down then that is something we should not be worried about. Overall I think that would be very good for the economy, the community and, particularly, people trying to buy their first homes. That has been a problem over recent years. Homebuyers have been priced out of the market. We talked about auction results on the weekend. If you look at the Sydney Morning Herald publication Domain—admittedly this is for the week before—you will see that the median price of houses of the 109 that was sold at auction was \$761,000 compared with \$666,000 months ago. If you look at the median price for a unit, the price was \$432,000 compared with \$395,000 a year before. Increases like that I find very worrying.⁴⁹

- 3.20** The Committee notes that in his response to questions on notice from 21 May 2004, Mr Western cited the following average increases in land valuations within the metropolitan regions of Sydney in the last five years:

- July 1998 to June 1999 – 9.7 %;
- July 1999 to June 2000 – 5.4 %;

⁴⁶ Mr Western, Evidence, 21 May 2004, p26

⁴⁷ Mr Western, Evidence, 21 May 2004, pp28-29

⁴⁸ Mr Egan, Evidence, 17 May 2004, p26

⁴⁹ Evidence, 17 May 2004, p6

- July 2000 to June 2001 – 5.9 %;
- July 2001 to June 2002 – 16.4 %; and
- July 2002 to June 2003 – 16.3 %.⁵⁰

⁵⁰ Mr Western, Response to questions on notice from 21 May 2004, p2

Chapter 4 **The savings and expenditure measures in the Mini Budget**

Introduction

4.1 This Chapter examines the following issues:

- Cuts in the Mini Budget to certain Government agencies and programs; and
- Proposals for additional funding.

Cuts in the Mini Budget to certain Government agencies and programs

4.2 The Treasurer's Media Release of 6 April 2004 outlined a total of \$354 million in savings from government agencies and programs. That figure included \$284 million in specific savings measures such as closing the Government's representative office in Tokyo, cancelling the multicultural arts festival ("Carnivale"), and replacing the Department for Women with a new Office of Women elevated to the Premier's Department (see Appendix 4 for more details). It also included a further \$81 million to be taken from the budget of most government agencies, with priority given to cuts to advertising, travel and accommodation, printing publications and other administration.⁵¹

4.3 The Committee notes that in evidence on 17 May 2004, the Treasurer indicated that decisions to apply cuts to particular agencies and programs were made solely on the basis of Government policy.⁵² The Treasurer elaborated on this as follows:

I cannot divulge the workings of the Cabinet but, in general terms, I do not think there is any harm in me saying that decisions like these are made, as I expect they would be in any government, at formal meetings of the budget committee, or whatever it is called in other jurisdictions, and in discussions with individual Ministers.⁵³

4.4 The Treasurer subsequently noted that the largest savings are being found in the Department of Environment and Conservation and from the establishment of a new Department of Primary Industry by amalgamating the Department of Agriculture, NSW Fisheries, the Department of Mineral Resources and State Forests.⁵⁴

The Department for Women

4.5 The Treasurer's Media Release of 6 April 2004 indicated that the Government would abolish the Department for Women and replace it with a new Office of Women elevated to the

⁵¹ The Treasurer, Media Release, 'Savings to Fund Increases for Hospitals and Rail', 6 April 2004, p1

⁵² Mr Egan, Evidence, 17 May 2004, p4

⁵³ Mr Egan, Evidence, 17 May 2004, p13

⁵⁴ Mr Egan, Evidence, 17 May 2004, p13

Premier's Department, with an anticipated saving of \$2.4 million in the first year, rising to \$4 million in subsequent years.⁵⁵

- 4.6** During the hearing on 17 May 2004, the Treasurer elaborated on this, indicating that the Department for Women will be merged with the Premier's Council for Women, which will place it in a better position to offer whole-of-government advice. The Treasurer acknowledged that some grants programs would suffer under this move, but argued that this was unavoidable given the tightness of the budget circumstances, and the priority given in the Mini Budget to health, education, public transport and community services.⁵⁶
- 4.7** The Committee also notes the evidence of Dr Elizabeth Coombs, Acting Director General of the Department for Women, during the hearing on 21 May 2004.
- 4.8** Dr Coombs indicated to the Committee that she only became aware of the abolition of the Department for Women during the Mini Budget announcement on 6 April, although she noted that she previously understood that there would be decisions about the machinery of government announced in the Mini Budget. Dr Coombs specified she did not make any formal submissions to the Government on the funding of the Department prior to 6 April 2004.⁵⁷
- 4.9** Dr Coombs also indicated that the new arrangements are due to come into place on 1 July 2004, but that currently no decision has been made on the staffing or mix of programs of the new Office of Women within the Premier's Department, although the Minister has made a very strong commitment to the grants program, which has in the past received funding of \$1.155 million per year. Accordingly, as at 21 May 2004, the Department was still functioning as it was prior to 6 April 2004.⁵⁸
- 4.10** In relation to the specific program priorities of the new Office of Women after 1 July 2004, Dr Coombs stated that the Government's commitments are clear:
- ... there is a very strong commitment to young girls, to the mentoring process underneath there through the Lucy program, for example, and the Diversity Foundation, thereby increasing the representation of women in leadership positions. In addition, there have been commitments to the area of indigenous women.⁵⁹
- 4.11** Dr Coombs further noted that a decision has yet to be made about the ongoing viability of the Department's audit work which forms part of the Government's Action Plan for Women. The audit work involves the Department for Women contacting other Government agencies to gain an understanding of what they have been doing to assist women.⁶⁰

⁵⁵ The Treasurer, Media Release, 'Savings to Fund Increases for Hospitals and Rail', 6 April 2004, p3

⁵⁶ Mr Egan, Evidence, 17 May 2004, p14

⁵⁷ Dr Coombs, Acting Director General, Department for Women Evidence, 21 May 2004, pp12-13

⁵⁸ Dr Coombs, Evidence, 21 May 2004, pp12-13,16

⁵⁹ Dr Coombs, Evidence, 21 May 2004, p14

⁶⁰ Dr Coombs, Evidence, 21 May 2004, pp14

- 4.12** The Committee notes, however, that Dr Coombs indicated that she wants to have these matters of program funding, the Department's audit work and staffing concluded in June 'so that the Office for Women will be very clearly set up to start on 1 July.'⁶¹
- 4.13** In relation to the funding of the Office of Women, Dr Coombs noted that the net cost of service budgeted for 2004-2005 for the Office of Women is \$3.165 million, which will need to cover transitional costs, including voluntary redundancies. The net cost of service for 2005-2006 is anticipated to be \$1.125 million.⁶²
- 4.14** Finally, in relation to the move of the Department for Women into the Premier's Department, Dr Coombs observed:
- I have worked in both the Premier's Department and also now as an Acting Director-General inside the Department for Women. I think that being inside a department that has the [status] of the Premier's Department can really very strongly assist you in influencing the directions and the nature of the service provisions inside some of those mainstream services and very large agencies such as health and education.⁶³
- 4.15** Ms Eva Cox, Lecturer at the University of Technology, also raised the decreased funding for the Department for Women in her evidence on 21 May 2004. Ms Cox argued that the substantial cut in the budget of the Department for Women indicates that the Government is not concerned about getting the best possible advice about issues concerning women:
- ... to cut back on good policy advice, good research and good co-ordination across the State Government of programs targeted to women ... can only indicate to groups like mine⁶⁴ and to the women of New South Wales that the Government has actually stopped caring about women and has absolutely no recognition that a lot of policy that is formulated in a huge range of departments—transport, health, education, planning—require some central awareness of the fact that there are differences between the way those programs often affect males and females and the need for some decent advice in terms of Cabinet submissions and the development of policy in a central agency such as Premier's Department.⁶⁵
- 4.16** At the same time, however, Ms Cox welcomed the move of the new Office of Women into the Premier's Department, noting that the Premier's Department should be a source of advice, coordination, assessment and monitoring to make sure that policies are well advised, and that it is appropriate that the Department have access to advisors on women's issues.⁶⁶
- 4.17** Similarly, Mr Moore, Director, NCOSS, also supported the placement of the new Office of Women within the Premier's Department, given the degree of policy and cross-government influence to be obtained in central agencies.⁶⁷

⁶¹ Dr Coombs, Evidence, 21 May 2004, p16

⁶² Dr Coombs, Evidence, 21 May 2004, pp 16-17

⁶³ Dr Coombs, Evidence, 21 May 2004, p15

⁶⁴ The Women's Electoral Lobby

⁶⁵ Ms Cox, Lecturer at the University of Technology, Evidence, 21 May 2004, p2

⁶⁶ Ms Cox, Evidence, 21 May 2004, p3

⁶⁷ Mr Moore, Evidence, 21 May 2004, p4

The Department of Education and Training

4.18 The Treasurer's Media Release of 6 April 2004 indicated that the Government would end funding of the final two labour market programs run by the Government – the Mature Workers' Program and the Migrant Skills Strategy – on the basis that such programs are the responsibility of the Commonwealth Government. The projected saving from this measure is \$5.5 million a year.⁶⁸

The Mature Workers' Program

4.19 During the hearing on 21 May 2004, Ms Pamela Christie, General Manager, State Training Services, Department of Education and Training, indicated that she provided a briefing on the Mature Workers' Program in the week prior to the Mini Budget, but that she was not aware that the program was to be cut until it was announced in the Budget.⁶⁹

4.20 However, Ms Christie did indicate to the Committee that the Department identified an option to extend the project by three months until September 2004 using unexpended funds of approximately \$830,000 from the 2003-2004 financial year budget, and that this had been approved by the Minister. Ms Christie noted that this decision was made:

... in recognition of the need for those projects to provide referral services to their clients, to help their clients update their resumes, give them information about other services.⁷⁰

4.21 Ms Christie further indicated that the Department of Education and Training is currently negotiating with the 37 organisations that manage the different projects under the program to ascertain whether they wish to take up the additional funding available for three months. Some organisations have indicated that they will not take up the offer, and will close at the end of the 2004-2005 financial year.⁷¹

4.22 Finally, the Committee also notes concerns about the loss of skills by people who currently work on the Mature Workers' Program. This was raised during the hearing on 21 May 2004:

CHAIRMAN: Ms Christie, earlier you said that the extension to September was to assist clients with resumes and things like that. Was any consideration given to the providers, to the organisations, the 37 agencies? We have had submissions from them that the skilled people who run the programs will be unemployed as well. Have you considered the loss of skills in the people that run the programs?

Ms CHRISTIE: Yes, it has. We have been working very closely with the organisations and talking to them about those needs. The Minister did approve, as part of the transition arrangements, some funding to support a professional development or recognition of skills of some of those workers, workers on projects, to assist them in gaining other employment. We are not able to meet the organisations employment cost; that has been an issue raised by the projects and it is quite clear under the terms

⁶⁸ The Treasurer, Media Release, 'Savings to Fund Increases for Hospitals and Rail', 6 April 2004, p3

⁶⁹ Ms Christie, General Manager, State Training Services, Department of Education and Training, Evidence, 21 May 2004, p10

⁷⁰ Ms Christie, Evidence, 21 May 2004, p8

⁷¹ Ms Christie, Evidence, 21 May 2004, p8

of our contract with those organisations. But we have felt the three-month extension has assisted them in dealing with some of those issues and assisting their employees.⁷²

The Migrant Skills Strategy

4.23 During the hearing on 21 May 2004, Mr Robin Shreeve, Deputy Director General, TAFE and Community Education, Department of Education and Training, indicated that he only became aware that the Migrant Skills Strategy was to be cut following the Mini Budget, although he was aware that some programs were under review prior to 6 April 2004. Mr Shreeve specifically indicated that he did not recommend that the program be cut.⁷³

4.24 Mr Shreeve also indicated to the Committee that extending the wind-up of the Migrant Skills Strategy in the manner of the Mature Workers' Program is not on the agenda because the Migrant Skills Strategy does not have unexpended funds available like the Mature Workers Program. The Department is, however, in ongoing discussions with the providers to make sure that there is as smooth a transition as possible.⁷⁴ Mr Shreeve further noted:

... the discussions we have had with the providers have been predicated on the basis of the legal obligations between us as the funder and them as the provider. So all our announcements have been to the effect that we are looking to wind up the programs at the end of the contractual period. We have taken steps to make that wind-up as easy as possible for them. But at this stage we have not had any discussions of doing anything similar to what happened with the Mature Workers' Program.⁷⁵

Commonwealth Funding

4.25 During the hearing on 21 May 2004, Ms Christie indicated that since the 2004 Mini Budget and the 2004-2005 Commonwealth Budget, her Department has been in ongoing discussions with the Commonwealth Department of Employment and Workplace Relations about the possibility of the Commonwealth taking on the funding of the Mature Workers' Program and Migrant Skills Strategy. The 2004-2005 Commonwealth Budget included a mature age employment and workplace strategy, although Ms Christie indicated her understanding that it included no additional funding.⁷⁶

4.26 The Committee also notes the following comment of Mr Moore in relation to the Mature Workers' Program and the Migrant Skills Strategy:

I want to indicate for the record that both the mature workers' program and the skilled migrant strategy have been highly effective, highly successful programs in operation since 1989 in this State. They deliver real results in terms of vocational training and assistance into employment. The two target groups—people aged over 40 and migrants with skills but unable to obtain positions in the work force—experience unemployment rates well above the State average. We have two concerns: the way it

⁷² Evidence, 21 May 2004, p9

⁷³ Mr Shreeve, Deputy Director General, TAFE and Community Education, Department of Education and Training, Evidence, 21 May 2004, pp 7-8

⁷⁴ Mr Shreeve, Evidence, 21 May 2004, p8

⁷⁵ Mr Shreeve, Evidence, 21 May 2004, p9

⁷⁶ Ms Christie, Evidence, 21 May 2004, p9

was done and the fallacy of the policy argument. It is only \$5.5 million a year out of a total budget of \$19 billion in that portfolio.

It is argued that it is a Commonwealth responsibility. Say that to Premier Bracks, to Premier Beattie, to Premier Gallop and to Premier Rann, who have all increased their spending in these sorts of programs in recent years. Premier Bracks has just announced a new Victorian skilled migrants strategy and South Australia is about to announce one shortly. It just does not cut in a policy sense. Secondly, the programs are not like the Job Network. In fact, the majority of clients of both programs will not get Job Network assistance even though the Commonwealth did put a small amount of money in its budget for mature workers. New South Wales received about \$800,000 and it will not go to the clients of these programs. So come 30 September, or well before that, a number of workers of mature age will be made redundant and 67 projects will be out the door, with a lesser number in the skilled migrant strategy. We think that this was a very silly decision, a very counterproductive decision. It is worth nothing in total State budget terms but as far as impact on people it is really significant.⁷⁷

- 4.27 Similarly, Ms Cox also expressed her strong support for the Mature Workers' Program and the Migrant Skills Strategy, noting that the two programs help many women.⁷⁸

The Department of Environment and Conservation

- 4.28 The Treasurer's Media Release of 6 April 2004 indicated that the Government would reform the Department of Environment and Conservation, saving \$30 million in 2004-2005, rising to \$34 million in future years.⁷⁹

- 4.29 During the hearing on 21 May 2004, Ms Lisa Corbyn, Director General, Department of Environment and Conservation, indicated that she is currently evaluating the impact of the funding cuts on the Department, and would not speculate as to whether there would be any job losses within the Department:

From my perspective it is generally not productive to actually try to speculate on the numbers. We have not actually finalised the overall analysis of areas that are operational versus staff. Of course we have some idea, if you use the average figures, but it very much depends on the amount of salary per position and we have not actually finalised that, so at this point it is too early to give any sort of definitive figure.⁸⁰

- 4.30 However, Ms Corbyn did acknowledge that the Department has sought expressions of interest in a redundancy package from employees in the sustainability programs division.⁸¹

- 4.31 More broadly, Ms Corbyn indicated that the Department is looking to make the largest savings in the corporate services areas of the Department, in the expectation that the bulk of

⁷⁷ Mr Moore, Evidence, 21 May 2004, p6

⁷⁸ Ms Cox, Evidence, 21 May 2004, p6

⁷⁹ The Treasurer, Media Release, 'Savings to Fund Increases for Hospitals and Rail', 6 April 2004, p4

⁸⁰ Ms Corbyn, Director General, Department of Environment and Conservation, Evidence, 21 May 2004, p20

⁸¹ Ms Corbyn, Evidence, 21 May 2004, pp18

the required savings can be achieved from head offices in Sydney. The Department will also be focussing on areas of duplication (as previously indicated, the Department was brought together in 2004 by merging four separate agencies).⁸²

- 4.32** In relation to the impact of the budget cuts on programs such as the feral animal control programs, the weed eradication programs, fencing and other major programs that are ongoing within the National Parks and Wildlife Service, Ms Corbyn indicated that the Department and the Minister have made clear their desire to minimise the impact on core services such as park management and pest control. Rather, Ms Corbyn indicated that those programs likely to be targeted for funding cuts are discretionary programs such as educational work and advertising.⁸³

The NSW Government representative office in Tokyo

- 4.33** The Treasurer's Media Release of 6 April 2004 indicated that the Government would close the NSW Government's representative office in Tokyo and remove two of three positions, including that of the director, saving \$500,000 a year.⁸⁴
- 4.34** During the hearing on 17 May 2004, the Treasurer, in his capacity as Minister for State and Regional Development, indicated that the decision to close the Tokyo office and not the London office was taken because the London office services the whole of Europe, whereas the Tokyo office simply services Japan. At the same time, however, the Treasurer indicated that two remaining officers in the London office have moved into the Australian High Commission in order to save money.⁸⁵
- 4.35** The Treasurer subsequently confirmed this in his response to questions on notice, in which he noted that the NSW Government's Trade and Investment Office in London has been located in the Australian High Commission building since 1996.⁸⁶

The Casino to Murwillumbah rail service

- 4.36** The Treasurer's Media Release of 6 April 2004 indicated that the Government would replace the one return passenger train per day on the Casino to Murwillumbah rail line with a coach service running twice as often. The anticipated saving was \$5 million a year.⁸⁷
- 4.37** During the hearing on 17 May 2004, the Treasurer refused to elaborate on the decision to close the Casino to Murwillumbah rail service, indicating only that it was a policy decision for the Government.⁸⁸

⁸² Ms Corbyn, Evidence, 21 May 2004, pp18-19

⁸³ Ms Corbyn, Evidence, 21 May 2004, p20

⁸⁴ The Treasurer, Media Release, 'Savings to Fund Increases for Hospitals and Rail', 6 April 2004, p3

⁸⁵ Mr Egan, Evidence, 17 May 2004, pp25-26

⁸⁶ Mr Egan, Response to questions on notice from 17 May 2004, Question No 4

⁸⁷ The Treasurer, Media Release, 'Savings to Fund Increases for Hospitals and Rail', 6 April 2004, p3

⁸⁸ Mr Egan, Evidence, 17 May 2004, p15

- 4.38 The Committee notes that the closure of the Casino to Murwillumbah rail service is the subject of a separate inquiry by General Purpose Standing Committee No 4.⁸⁹

The \$81 million in global savings

- 4.39 During the hearing on 17 May 2004, Mr Pierce indicated that the agencies that were exempt from the \$81 million in global savings were those agencies that had absorbed savings in specific functions and programs. However, the Department of Health was exempt from both specific savings and the global savings.⁹⁰
- 4.40 The Treasurer subsequently supplied to the Committee on notice a list of agencies exempt from the global savings, reproduced in Appendix 6. These agencies were exempt either because they were subject to a major restructure and associated economies, or because they were making specific savings or because they could not deliver savings.⁹¹

Parliamentary allowances and entitlements

- 4.41 During the hearing on 17 May 2004, the Treasurer indicated that there was no consideration given in the 2004 Mini Budget to cutting the allowances and entitlements of MPs.
- 4.42 The Treasurer noted that parliamentary allowances and entitlements are matters determined by the Parliamentary Remuneration Tribunal, and that it is appropriate that the tribunal continue to operate at arm's length from Government.⁹²

Proposals for additional funding

Spending on mental health

- 4.43 In his Mini Budget speech delivered on 6 April 2004, the Treasurer outlined additional spending on mental health in NSW.⁹³
- 4.44 The Committee notes that in his evidence on 21 May 2004, Mr Moore welcomed this additional funding, but expressed concern that since 6 April 2004, neither the Government nor NSW Health has been able to indicate where the money would be spent. Mr Moore also noted that NSW continues to lag behind all the other states in terms of spending per capita on mental health.⁹⁴

⁸⁹ Evidence in relation to the 2004 Mini Budget was also raised in the hearing of GPSC 4 on 20 May 2004 into the closure of the Casino to Murwillumbah rail service. Additional details are available at the Committee's website at www.parliament.nsw.gov.au

⁹⁰ Mr Pierce, Evidence, 17 May 2004, p24

⁹¹ Mr Egan, Response to question on notice from 17 May 2004, Question No 3

⁹² Mr Egan, Evidence, 17 May 2004, pp4-5

⁹³ The Hon Michael Egan MLC, NSW Mini Budget Speech, 6 April 2004, p19

⁹⁴ Mr Moore, Evidence, 21 May 2004, p5

Spending on public and community housing

4.45 During the hearing on 17 May 2004, the Committee raised with the Treasurer whether the Government considered including additional spending on public and community housing in the Mini Budget.

4.46 In response, the Treasurer indicated that the revenue measures outlined in the Mini Budget were to fund the additional funding for health, education, public transport and community services outlined in the Mini Budget. However, the Treasurer did indicate that in relation to social housing, the State Government's contribution to the overall housing budget in NSW had increased from 27% to 37% since the advent of conservative governments at the federal level. Accordingly, the Treasurer suggested that the State Government has 'stepped in to fill the breach'.⁹⁵

4.47 The Committee also notes the evidence of Mr Moore that NCOSS supported the general thrust of the property tax changes in the Mini Budget, but strongly criticised the Government's failure to direct any revenue from the stamp duty changes into social housing. Mr Moore stated:

One gets no confidence at all in thinking that the Government does not want to invest in social housing. If it is ever to get a mix of people in your communities in this city it will have to make that sort of investment, as well as developers and others paying. I think it is an area the Government has dropped the ball on massively. As I said, the Commonwealth bears some responsibility because for a decade it has reduced its level of funding, but other State governments have decided to invest in this area. I remind the Committee that the Tasmanian Government decided to put \$45 million of its excess stamp duty windfall into an affordable housing package in December last year.⁹⁶

4.48 This point was reiterated by Ms Cox, who noted that housing is an extraordinarily important issue for women, notably older women who cannot afford to rent or to move into retirement villages, and sole parents, who are the biggest group on the housing waiting list. Ms Cox further noted that to her knowledge, the Department of Housing does not look specifically at gender issues.⁹⁷

OSR

4.49 During the hearing on 17 May 2004, Mr Achterstraat indicated that OSR is putting together a project team to determine all the necessary actions, systems, people and so forth that it needs to put in place to collect the new taxes outlined in the Mini Budget. This will require a budget increase for OSR, the precise size of which will depend upon the nature of Treasury's preferred mechanisms for revenue collection.⁹⁸

⁹⁵ Mr Egan, Evidence, 17 May 2004, p14

⁹⁶ Mr Moore, Evidence, 21 May 2004, p3

⁹⁷ Ms Cox, Evidence, 21 May 2004, p3

⁹⁸ Mr Achterstraat, Evidence, 17 May 2004, pp26-27

Appendix 1 List of witnesses

Date	Name	Position and Organisation	
Friday 17 May 2004	The Hon Michael Egan MLC	Treasurer	
	Mr John Pierce	Secretary, Treasury	
	Mr Robert Carling	Executive Director, Economic and Fiscal, Treasury	
	Mr Ziggi Lejins	Director, Transport and Ports Branch, Treasury	
	Mr Peter Achterstraat	Executive Director, OSR	
	Mr Ian Phillips	Principal Adviser, Land Tax and Payroll Tax, OSR	
	Mr Peter Johnson	Principal Adviser, Duties, OSR	
	Mr Bob Smith	Director, Revenue Advisory Services, OSR	
	Friday 21 May 2004	Mr Gary Moore	Director, NCOSS
		Ms Eva Cox	Social Policy Analyst
Mr Robin Shreeve		Deputy Director General, TAFE and Community Education, Department of Education and Training	
Ms Pam Christie		General Manager, State Training Services, Department of Education and Training	
Dr Elizabeth Coombs		Acting Director General, Department for Women	
Ms Lisa Corbyn		Director General, Department of Environment	
Mr Simon Smith		Deputy Director General, Department of Environment and Conservation	
Mr Phillip Western		The Valuer General of NSW	

Appendix 2 Total Commonwealth payments (\$m) to the States and Territories

	GST Entitlement	General Revenue Assistance	Specific Purpose Payments "To"	Total Payments to the States	Change		Direct to		Total Payments	
					\$m	%	Through	Local Govt	\$m	%
2003-04										
NSW	9,438.3	520.3	5,769.6	15,728.1	-	-	1,966.6	113.7	17,808.4	-
Vic	6,792.2	222.5	3,809.4	10,824.1	-	-	1,519.8	96.7	12,440.5	-
Qld	6,410.5	87.9	3,145.3	9,643.7	-	-	1,086.3	72.2	10,802.1	-
WA	3,079.6	33.6	1,912.8	5,025.9	-	-	610.5	54.3	5,690.7	-
SA	3,076.4	40.7	1,343.5	4,460.5	-	-	439.2	27.5	4,927.3	-
Tas	1,366.9	17.2	417.8	1,801.9	-	-	138.8	16.1	1,956.8	-
ACT	645.1	11.0	274.8	931.0	-	-	128.0	5.0	1,064.0	-
NT	1,648.0	5.9	282.5	1,936.4	-	-	72.5	5.9	2,014.9	-
Total	32,457.0	939.0	16,955.7	50,351.6	-	-	5,961.7	391.4	56,704.7	-
2004-05										
NSW	9,549.5	383.5	5,983.3	15,916.3	188.2	1.2	2,077.5	100.3	18,094.1	285.7
Vic	7,078.7	191.1	4,100.0	11,369.8	545.7	5.0	1,608.9	87.2	13,065.9	625.4
Qld	7,098.9	150.9	3,282.3	10,532.1	888.4	9.2	1,149.7	61.0	11,742.8	940.7
WA	3,494.3	76.4	2,043.9	5,614.6	588.7	11.7	644.7	47.0	6,306.3	615.6
SA	3,181.6	59.0	1,408.7	4,649.2	188.7	4.2	464.4	23.5	5,137.1	209.8
Tas	1,395.1	18.8	427.6	1,841.5	39.6	2.2	146.3	14.0	2,001.8	45.0
ACT	657.6	12.4	271.9	941.9	10.9	1.2	135.3	4.2	1,081.3	17.4
NT	1,664.4	7.6	299.4	1,971.4	35.0	1.8	76.1	5.1	2,052.6	37.7
Total	34,120.0	899.6	17,817.2	52,836.8	2,485	4.9	6,303.0	342.2	59,481.9	2,777.2

Source: Treasury of NSW, 2003-04 Half Yearly Budget Review, <http://www.treasury.nsw.gov.au/pubs/treasure/br03-04/03-04br.pdf>, table 12

Appendix 3 The Treasurer's Mini Budget speech

NEW SOUTH WALES MINI BUDGET SPEECH

Delivered on 6 April 2004
by the honourable Michael Egan MLC
Treasurer of New South Wales

Mr Speaker,

Today I will announce a package of new measures that will enable New South Wales to deal responsibly with the financial pressures that have been imposed on us and still substantially increase funding for key frontline services in hospitals, public transport and education and provide additional support for young families.

The package, Mr Speaker, is tough but fair.

Faced with savage financial cuts from the Federal Government, the need to fund almost \$400 million a year in recently awarded pay rises for nurses and teachers, and the need to provide extra funding for frontline services the Government knew that it had to think outside the square.

Notwithstanding the Howard/Costello cuts we are determined not to reverse or claw back the billion dollars per year we previously cut from payroll tax, insurance stamp duty, motor vehicle registration and first homebuyers stamp duty.

Notwithstanding the Howard/Costello cuts, we are determined to provide not less, but considerably more funding for hospitals, public transport and education.

And notwithstanding the Howard/Costello cuts, we are determined to make the vast majority of our families and citizens not worse off, but better off.

We're determined also to make sure that our government provides more value for money, with greater efficiency, less duplication, and with our focus firmly fixed on the fundamentals.

And we are determined to achieve within our community a fairer sharing of benefits and the burdens.

Mr Speaker, the package I will announce today is a Labor response to difficult circumstances.

It is big and it is bold and it is fair. Above all it is fair.

Mr Speaker, these measures include:

- \$365 million of targeted expenditure cuts and savings;
- the levying of 2 ¼ per cent stamp duty on the sale of properties except for a person's principal place of residence and farms;

- the abolition of the land tax threshold and major reductions in the rate of land tax;
- additional budget funding for country and city hospital running costs of \$572 million per year;
- a capital investment program for new hospital facilities and equipment next year of \$600million;
- additional support for the passenger rail system in the coming year of \$300 million
- the biggest ever overhaul of the Sydney rail system with a six-year, \$1 billion program for five rail clearways and a \$1.5 billion program for 498 new air-conditioned train carriages;
- extra budget funding of \$356 million for education, including the roll-out of smaller class sizes; and
- Mr Speaker, I am also very pleased to announce the complete abolition of stamp duty for almost all first homebuyers.

I told you Mr Speaker, it's the result of thinking outside the square.

It's big, it's bold and it's fair.

Mr Speaker,

None of the expenditure cuts or tax increases that I am announcing today would be necessary if New South Wales were to receive fair treatment from the Federal government.

The latest cut of \$376 million a year is simply that- merely the latest of the now routine cuts that New South Wales suffers each and every year.

This year \$376 million, last year \$153 million, the year before \$200 million and the year before \$93 million.

In other words, in just four years, the money taken from us annually has increased but \$821 million.

That explains why the annual subsidy from the New South Wales to other States has grown in the last nine years from \$1.2 billion a year to a staggering \$2.9 billion a year.

Here in New South Wales we account for 34 per cent of the nations population. We contribute 37 per cent of the nations GST revenue. Yet we get back only 28 per cent.

We accept that it is fair for the stronger States to help the weaker States.

But we object vehemently that strong and wealthy States like Queensland and Western Australia are not required to pull their weight and instead are able to sponge off the people and taxpayers of NSW.

How the Commonwealth Grants Commission, or the Federal Treasurer or the Prime Minister can justify this rip-off defies belief.

Why does a citizen of Dubbo subsidise a citizen in Dalby to the tune of \$120 every year?

How is it that Mr Howard can throw money around like a drunken sailor in the months before his own election, while depriving our hospitals, public transport and schools of much needed funds.

It's because, Mr Speaker, out of every six tax dollars paid by New South Wales taxpayers, Mr Costello grabs five. Five out of every six.

And even after Commonwealth grants are factored in, the Federal government gets to keep two out of every three tax dollars collected from New South Wales.

But it's the States, not the Federal government that have to run all the essential public services – our hospitals, our schools, our public transport and numerous other basic services as well.

In other words, Mr Howard runs almost nothing, but gets most of the money.

Now, Mr Speaker, if we can't rely on the Federal government for a fair go, then we have to work doubly hard to find new ways to maintain and improve the funding of our key public services.

And it's not just our public services that are potentially at risk.

It's also our capacity to remain a competitive business and investment location.

We're proud of the fact that we have the lowest unemployment rate of all the States.

We're proud of the fact that we get more private investment than the other States.

We're proud that New South Wales is the powerhouse of the Australian economy. But a matter of pride for us is often a matter of resentment on the other Federal and State jurisdictions.

Other States, using our taxes and subsidies, are often able to lure investment and business with lower business tax rates and outrageous incentives.

Look at the Queensland subsidies to seduce Virgin Airlines to Brisbane.

Look at the Federal and State subsidies for Mitsubishi in South Australia.

And look at the \$300 million the federal and Queensland governments threw at, and lost, with the Australian Magnesium project.

So, Mr Speaker, the challenge for the government has been a difficult one.

We're determined to help families and avoid slugging the ordinary family budget.

We're determined that new imposts imposed today will be fair and are based on the capacity to pay.

Mr Speaker, I turn now to our measures to cut the cost of the government.

Many government programs will be suspended or abolished, and budgets for advertising, travel and printing cut, in order to provide \$365 million towards the massive increases in funding for health and public transport I will announce today.

These savings measures are tough, but they are necessary to pay for more hospital beds and gain a better rail system.

I won't pretend the cuts won't hurt. They will.

Many worthwhile activities of the government will have to be curtailed or stopped.

Around \$81 million will be taken from the budgets of most government agencies with priority given to cuts to advertising, travel and accommodation, printing, publications and other administration.

The agencies exempt from the measure include NSW Health and the Department of Education and Training.

In addition to this general belt tightening, we have identified more than 20 specific savings measures that will free-up \$284 million next year to be redirected to health and rail.

These include closing the government's representative office in Tokyo, cancelling the multicultural arts festival, Carnivale, closing the London office of Tourism NSW and replacing the Department of Women with the Office of Women elevated to the Premier's Department.

We are continuing a major attack on duplication and overlap in the agencies that regulate and supervise the use of land.

This follows the creation last year of the Department of Infrastructure, Planning and Natural Resources, the passage of reforms to native vegetation and water use and the devolution of many natural resource service and planning responsibilities to catchment management authorities.

In order to further reduce expensive duplication, we will establish a new Department of Primary Industry by amalgamating the Department of Agriculture, NSW Fisheries, the Department of Mineral Resources and State Forests.

This structure is now common to most Australian governments and, not only will it reduce costs to the Budget but \$37 million next year, it will give rural NSW a much stronger voice in government.

We will require the Department of Environment and Conservation to do more support and work closer with catchment management authorities, Department of Infrastructure, Planning and Natural Resources and the new Department of Primary Industry.

As a result, the cost to the budget for the Department of Environment and Conservation will be reduced by \$30 million next year.

We will continue to reform the Department of Infrastructure, Planning and Natural Resources with the transfer of 234 staff to the catchment management authorities and by increasing previously announced departmental savings by \$5 million to \$75 million next year.

The Waterways Authority will be reformed and its land management functions moved to the Department of Lands. This will save \$5million next year.

The management of Crowns lands in NSW will be changed root and branch.

We will simplify the administration of public land, introduce fairer rents and, by converting perpetual leases to freehold title, do away with the need for on-going administration.

These changes will reduce the cost of the State Budget of running the Department of Lands by \$36 million next year.

These are sweeping changes and change is not always easy.

As a Labor government we will implement change in a way that's fair to our workforce. The government wrote to the Labor Council before last election to make clear that forced redundancies would only be used as "the last and unavoidable resort"

Despite the changes announced today, redundancies will remain a last resort. We will always try to retrain and redeploy displaced staff.

Given the scale of the changes no doubt there will be some situations where workers cannot, or will not, take advantages of retraining and redeployment.

We expect that the bulk of the savings we need can be achieved by voluntary redundancy and redeployment, the policy we went to the election with.

In addition, I today announce a tightening of policy on salary maintenance.

Displaced workers who move to a new job on lower pay will receive their old salary for a year, and only a year. That will give people a chance to adjust their household finances and give taxpayers better value for money.

We will work with public sector employees and their unions to make these changes in a way that's fair and clear to all.

I now turn to the revenue measures.

The first measure concerns coal royalties and is expected to raise \$44 million in 2004-05.

From 1 July, New South Wales will abolish flat rate royalties and replace them with royalties on the value of the coal.

The main advantage of ad valorem royalties is that coal producers will pay more when coal prices are high, such as now, and less when prices are low.

The ad valorem rate will be 5 per cent for deep underground mines, 6 per cent for underground mines, and 7 per cent for open cut mines.

The second measure that I announce today is a major overhaul of the land tax system.

At present New South Wales has a high threshold at \$317,000 and a rate of 1.7 per cent above that. From 1 July, the threshold will be abolished and fairer and lower rates will be introduced.

For properties with a land value of less than \$400,000 the new rate will be 0.4 per cent.

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

These changes are designed to do two things:

First, take some of the heat out of the frenzied residential investment property market which has been the major factor driving up New South Wales house prices.

And second, provide most businesses with a significant reduction in their land tax bills.

The new rates are tailored to deliver the major benefit to small and medium sized businesses, those whose business premises have a land value component of between \$500,000 and \$1 million.

Businesses in this bracket will see their land tax cut by between 20 and 30 per cent compared with the current tax.

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

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

Our new top marginal rate of 1.4 per cent compares with 5 per cent in Victoria, 3.3 per cent in Queensland, 2.5 per cent in Western Australia, 3.7 per cent in South Australia and 2.5 per cent in Tasmania.

The third and fourth measures concern stamp duty on the sale and purchase of properties.

Over recent years the property market has boomed.

An overheated property market is no good for the economy, it's no good for the community and it's certainly no good for young people and families who are battling to buy their first home and are priced out of the market.

An overheated property market is only good for people like me—people who, besides owning their own home, have made good profits by owning an investment or second property.

We've made the profits on our property investment, so I believe we can afford to pay a 2¼ per cent stamp duty when we sell the property.

This duty will not apply to the sale of a person's principal place of residence and it will not apply to the sale of farms.

To ensure that only property profits are being taxed, properties will be exempt from the duty in cases where the vendor's sale price does not exceed 12 per cent of their original purchase price, with the exemption phasing out between 12 per cent and 15 per cent.

Legislation for the new duty will be introduced in May and the new duty will apply from 1 June.

During drafting of the legislation consultations will be held with the property industry to prevent any unintended effects and to maximise administrative efficiency and simplicity.

Clearly exceptions will need to be put in place for genuine builders to ensure that the duty does not become a value added tax on new homes.

This duty is expected to raise in the order of \$690 million per year.

The majority of the proceeds will cover this year's Howard/Costello cuts.

Most of the remainder will enable us to help the victims of the property boom, those people battling to buy their first home.

Four years ago I introduced First Home Plus, the most generous concessions for first home buyers in Australia.

Today I am pleased and proud to announce that the Carr Government will abolish stamp duty completely for almost all first home buyers.

There will be a complete exemption for homes costing up to \$500,000, with the concession phasing out between \$500,000 and \$600,000.

For a family buying a \$300,000 home the saving will amount to \$8,990, for a \$400,000 home, \$13,490, and for a \$500,000 home \$17,990 and for a \$550,000 home \$8,895.

Compare this with the 10 per cent across the board cut proposed by the Leader of the Opposition.

Under the Mr Brogdon's suggestion, a \$300,000 first home buyer gets a miserly \$896 benefit and a \$5 million homebuyer gets a massive \$26,000 benefit.

Under Mr Brogden's plan the rich get looked after, but the battlers have to look after themselves.

In addition to First Home Plus, first homebuyers will continue to receive the joint Commonwealth/State \$7000 first homeowners grant. This means the total maximum benefit for a first homebuyer will now total \$24,990.

The eligibility for the new first home buyers stamp duty concession will mirror the requirements of the Commonwealth/State First Home Owners Grant scheme. That is, it will only be available where none of the joint buyers have previously held equity in a home.

The legislation, which will be introduced in May, will make the new benefits available to all eligible first home buyers who have entered a contract after midnight last Saturday.

The final tax change is to the structure of the Premium Property Tax.

At present this is a land tax on owner-occupied properties with a land value of over \$1.97 million, provided they come within the top 0.2 per cent of properties in the State.

This arrangement will now be abolished and in future, the Premium Property Tax will be imposed as a 7 per cent marginal rate stamp duty on all residential properties purchased for more than \$3 million.

I emphasise that the new rate will apply only to that portion of the purchase price that exceeds \$3 million.

I now turn to our funding enhancements for key frontline services.

Our hospital emergency departments now deal with two million attendances each year, up from 1.565 million in 1995.

Our hospital system now performs around 24 million procedures a year, up almost seven per cent in a year.

This year we will dispatch nearly 900,000 ambulances, 300,000 more than a decade ago.

Our workforce has never been better paid. An eighth year nurse was paid \$44,560 in 1995. They now get \$70,533, a 58 per cent increase.

Since 1995 we've invested \$2.75 billion in hospital capital works—297 projects including new hospitals in Blacktown, Gosford, Wyong, Concord, Maitland and Illawarra, and major upgrades for St George, Royal Prince Alfred, the Prince of Wales, Westmead, Liverpool and St Vincent's.

All of this has been made possible by massively increased health spending.

In the last Budget we took the difficult decision to raise tax on poker machines and direct all of that revenue into the health system.

Together with other funding, that made for a sizeable increase in funding for health next year.

Today I can announce that we will be doing more again, substantially more.

Our new plans for health mark out the difference between this government and the Federal Government.

Canberra is taking almost \$400 million from our public hospitals over this and the next four years.

Today I announce an immediate \$50 million injection of funding for this year to help redress the Federal cuts and tackle the inexorable rise in demand for care.

And next year funding for NSW Health will rise by \$572 million.

This is a massive increase.

It includes not just our usual growth funding and money for wage rises, but further funding to address rising demand, to provide more elective surgery, to increase the number of acute and transitional care beds and to provide more and better services in mental health.

As well as putting new money into the health system, we are introducing new ideas and new ways of doing things.

The Government will continue to reduce the size of health administration to release more funds to our emergency departments and hospital wards.

We will further pare back the North Sydney head office of NSW Health.

We will reduce the number of area health services.

We will amalgamate back office administration between the health areas to reduce the cost of providing corporate services to frontline health staff

All of the savings produced by these economies will be redirected straight back to our nurses, doctors and allied health professionals.

Next year will see the largest health capital works budget ever—with \$600 million to be spent equipping our nurses and doctors with facilities and equipment to provide better care to more people.

\$120 million will be allocated for new works commencing in 2004-05, including \$23 million of projects supported by the Health Super Growth Fund.

- \$21.3 million will be spent on our commitment to combating cancer through new cancer therapy and screening facilities and equipment.

New projects that will be going to tender in 2004-05 include:

- the \$25.8 million Richmond Mental Health Clinic at Lismore;
- a \$5 million upgrade of Griffith Hospital Emergency Department; and
- a new \$60 million Clinical Information System.

Eight million dollars will be allocated to small rural hospitals. Construction will commence in Dunedoo, Portland, Guyra, Walcha, Tottenham, Tullamore, Tingha and Junee.

This year's Budget will provide also for the biggest ever overhaul of the rail system.

Passenger rail will get the benefit of an additional \$300 million next year.

Projects totalling \$1 billion will improve reliability for the entire metropolitan rail network as part of the government's Rail Clearways plan.

In total, 15 projects over the next six years will separate the existing 14 CityRail lines—one of the most complex rail systems in the world—by removing complexity and interconnections.

These new works will create five independent lines with more reliable and frequent services and reduced congestion and delays.

The lines which will become Rail Clearways are the Illawarra and Eastern Suburbs line, the Bankstown line, the Campbelltown Express line, the Liverpool line and a North-West line.

We will have simpler timetables and more regular and reliable services.

Around one-third of all metropolitan rail carriages are without air-conditioning.

We aim to replace all of these 498 carriages in the next six years with new, air-conditioned stock.

The capital cost associated with the new fleet is estimated at around \$1.5 billion.

The Government will continue to modernise the State Transit Authority's bus fleet.

The STA will call for tenders for 140 new buses at a cost of \$84 million.

These vehicles will be low floor, wheelchair accessible, fully air-conditioned.

The buses will ensure the STA maintains a 12-year average fleet age.

Next year we will increase funding for education and training by \$356 million, which will fund in full, the recent 5.5 per cent pay rise granted to teachers and press on with our plan to reduce class sizes.

In the coming year we will recruit an additional 800 teachers as part of our commitment to employ an additional 1,500 teachers.

We have already reduced the average sizes of kindergarten classes to 20 in more than 420 of our most disadvantaged schools for the start of this school year. This has provided 181 extra teaching positions in these schools.

We have built 66 new classrooms at 26 schools. By the start of Term 2 this will increase to 74 new classrooms at 30 schools.

We said we would protect our frontline services from cuts, and we will increase funding to the Department of Community Services by \$41 million next year.

This includes money to employ 150 more caseworkers to protect children, work with young parents and support foster children and their carers.

Our funding for the Department of Ageing, Disability and Home Care will rise by nearly \$88 million.

The additional funding is targeted to expand residential accommodation, support more school leavers wanting to enter the workforce and provide more help to families with disabled children.

Even with the expenditure savings and revenue measures that I have announced today, we expect the 2004-05 budget result to be a deficit in the order of \$300 million.

You all know how much I like surplus budgets.

I have delivered lots of them, and I'll deliver more.

They're good for the State.

They enable us to reduce debt, reduce the interest bill, and in the medium and longer term fund more and better services.

They're also important now if New South Wales is to be well positioned to cope with the ageing of the population over the next few decades.

But after a string of surpluses, our triple A finances can withstand a \$300 million deficit in the coming year.

And I am also confident, with the measures put in place today, and provided future wage outcomes are reasonable, and that we don't experience some unexpected major financial shock, that the Budget can be restored to balance in the near future.

And while next year's budget will be in deficit, I take some solace from the fact that, with the exception of my budgets, only one other budget in the last twenty years has managed a better bottom line result.

For example, the last budget of the Fahey Government saw a \$611 million cash deficit and the Greiner Government chalked up two budgets with deficits of \$1.1 billion and \$1.6 billion.

I look forward to coming back to deliver a great Labor budget on 22 June. Thank you.

Appendix 4 The Treasurer's media release of 6 April 2004

Treasurer of New South Wales
Australia

MEDIA RELEASE

6 April 2004

SAVINGS TO FUND INCREASES FOR HOSPITALS AND RAIL

Many State Government programs will be suspended or abolished and budgets for advertising, travel and printing cut to provide \$365 million towards the massive increases in funding for health and public transport announced in today's mini-Budget.

The Treasurer, Michael Egan, said the savings measures were tough but necessary in order to pay for more hospital beds and a better rail system.

"I won't pretend the cuts won't hurt. They will. Many worthwhile activities of government will have to be curtailed or stopped," he said.

Mr Egan said specific savings measures (see attached) including closing the Government's representative office in Tokyo, cancelling the multicultural arts festival, Carnivale, and replacing the Department of Women, would provide \$284 million next year for health and rail.

A further \$81 million will be taken from the budgets of most government agencies with priority given to cuts to advertising, travel and accommodation, printing, publications and other administration.

Some agencies including NSW Health and the Department of Education and Training are exempt from this measure.

Mr Egan said the Government had used the mini-Budget to launch a major attack on duplication and overlap in the agencies that regulate and supervise the use of land.

This follows the creation last year of the Department of Infrastructure, Planning and Natural Resources, the passage of reforms to native vegetation and water use and the devolution of many natural resource service and planning responsibilities to catchment management authorities.

In order to further reduce expensive duplication the Government will:

- establish a new Department of Primary Industries by amalgamating the Department of Agriculture, NSW Fisheries, the Department of Mineral Resources and State Forests. This will save \$37 million next year.

- require the Department of Environment and Conservation to do more to support and work closer with catchment management authorities, DIPNR and the new Department of Primary Industry. The budget for the department will be reduced by \$30 million next year.
- continue to reform DIPNR with the transfer of 234 staff to the catchment management authorities and by increasing previously announced departmental savings by \$5 million to \$75 million next year.
- reform the Waterways Authority and move its land management functions to the Department of Lands. This will save \$5 million next year.

SAVINGS MEASURES

- Close the NSW Government representative office in Tokyo and remove two of three positions, including that of the director who is paid \$250,000 a year. Saving \$500,000 a year.
- Reduce spending on business assistance grants and other programs run by the Department of State and Regional Development. Saving \$2.5 million in the first year, rising to \$6 million a year after that.
- Cancel the multicultural arts festival, Carnivale. Saving \$755,000 a year.
- Abolish the Department of Women and replace it with a new Office of Women elevated to the Premier's Department. Saving \$2.5 million in the first year, rising to \$4 million a year.
- Charge for the full cost of arranging overseas adoptions. Saving \$1 million a year.
- Reduce the \$1.3 billion roads capital works program by \$50 million each year for two years, with the savings going to public transport.
- Cap spending on the first stage of the North West Transitway at \$80 million a year. This will delay completion of the project by approximately 12 months. Saving \$20 million next year, \$40 million in 2005-06 and \$15 million in 2006-07.
- Replace the one return passenger train per day on the Casino-Murwillumbah line with a coach service running twice as often. Saving \$5 million a year.
- Introduce greater efficiencies into the State Transit Authority, reducing the budget subsidy to the STA by \$20 million. Saving \$20 million a year.
- Charge the full cost of undertaking complex development approvals for major developments handled by the Department of Infrastructure, Planning and Natural Resources rather than local councils. Saving \$4 million a year.
- Modify interest subsidy scheme to reduce the value of the subsidy and close the scheme to schools that charge fees in the order of \$10,000 (high school) and \$7,000 (primary school). Saving \$1.6 million in the first year, rising to \$5.5 million a year.
- End funding for the final two labour market programs run by the Government, the Mature Workers' Program and the Migrant Skills Strategy. Labour market programs are the responsibility of the Commonwealth. Saving \$5.5 million a year.
- Close the London office of Tourism NSW as part of an overall savings plan within the agency. Saving \$3 million a year.
- One-off reduction or suspension of grants to local government for work on floodplains, estuaries, waterways, river entrances and other minor works. Saving \$16.5 million next year.

- One year delay in starting 60 projects earmarked for funding under the Country Towns Water Supply and Sewerage program. Funding will be provided for 104 projects already under construction and a further 184 projects in pre-construction. Saving \$29.8 million next year.
- Partially suspend for one year Budget funding for capital works undertaken by State Water. The Budget currently funds around \$20 million of the \$27 million capital works program. Saving \$8.7 million next year.

Changes to land use agencies

- Create a new Department of Primary Industries. Saving \$37 million next year, rising to \$58 million by 2007/08.
- Reform of the Department of Environment and Conservation. Saving \$30 million next year, rising to \$34 million.
- Further reforms to DIPNR including ending funding to the Urban Design Advisory Service and to the Urban Initiatives grant program. Saving \$5 million a year.
- Reduce the cost to the State Budget of running the Department of Lands by simplifying the administration of public land, increasing rents on Crown land and by converting perpetual leases to freehold title to do away with the need for on-going administration. Saving \$36 million next year.
- Reform the Waterways Authority and move its land management function to the Department of Lands. Saving \$5 million.

Appendix 5 Department of Environment and Conservation: Response to questions on notice

Questions taken on notice by Ms Corbyn, Director General, Department of Environment and Conservation

1. Mr Pearce asked Ms Corbyn: How much has the Department spent/budgeted for on advertising in 2003-04? (Hansard, page 20)

Answer: The 2003-04 budget is \$5.8 million. We do not yet have final figures for total expenditure for the 2003-04 financial year.

2. Ms Rhiannon asked Ms Corbyn: Is there a land acquisition allocation for the 2004-05 financial year, and does the Department have any details? (Hansard, page 20)

Answer: We will have a land acquisition strategy for the 2004 – 05 financial year that is in line with Government policy. However this is dependent upon the appropriate properties becoming available for acquisition during that period. Therefore the 2004-05 program is not currently available.

3. Ms Rhiannon asked Ms Corbyn: Is the Department's concurrence role prior to any conversion of perpetual Crown leasehold land to freehold to be maintained? (Hansard, page 21)

Answer: This question does not appear to fall within the terms of reference of the Inquiry into the 2004/05 Mini Budget, raised during the questioning at the hearings.

4. Mr Pearce asked Ms Corbyn: Can you provide details of the Department's current staffing levels division by division? (Hansard, page 22)

Answer: Based on the most recent available data as reviewed the week of 24 May 2004, relevant staffing levels (equivalent full time staff – EFT) are as follows:

Division	EFT
Parks and Wildlife	1,404
Environment Protection and Regulation	540
Sustainability Programs	128
Policy and Science	319
Cultural Heritage	66
Botanic Gardens Trust	295
Office of the Director-General (includes Legal Services)	133
Corporate Services	212
Total	3,097

5. Mr Pearce asked Ms Corbyn: Can you provide an average staff cost across the Department, and the average number of staff that would need to be taken off the payroll for the Department to meet its required savings? (Hansard, page 22)

Answer: The average staff cost across the Department including relevant oncost, is approximately \$70,000. In order to meet its required savings, the DEC is examining its business practices and is cutting spending as much as practicable in areas such as, printing, advertising, accommodation, travel and other administrative functions.

6. Mr Pearce asked Ms Corbyn: How much has the Department spent/budgeted for on travel in 2003-04? (Hansard, page 22)

Answer: The 2003-04 budget is \$5.6 million. We do not yet have the final figures for the total expenditure for the 2003-04 financial year.

Appendix 6 List of agencies exempt from the global savings

Department of Health
Health Care Complaints Commission
NSW Fisheries
Department of State and Regional Development
Department of Infrastructure, Planning and Natural Resources
Crown Financial Entity
The Environment Trust
Department of Environment and Conservation
Department of Commerce
State Emergency Service
NSW Fire Brigades
Department of Education and Training
Department of Ageing, Disability and Home Care
Home Care Services of NSW
Department of Rural Fire Services
Department of Mineral Resources
Roads and Traffic Authority
Tourism of NSW
Department of Agriculture
NSE Insurance Ministerial Corporation

In addition, the NSW Police, Department of Corrective Services and Department of Community Services are all largely exempt from global savings, with 90 % of their budgets quarantined.

Appendix 7 Minutes

Monday 10 May 2004

At Parliament House, at 11:45 am, Room 1108

1. **Members Present**

Revd Nile

Mr Catanzariti MLC (Burnswoods)

Ms Burnswoods MLC (Burke)

Mr Tsang MLC (Primrose)

Mr Clarke MLC (Cusack)

Mr Pearce MLC (Harwin)

Ms Rhiannon MLC

2. **Substitute arrangements**

The Chairman advised that for the inquiry into the 2004 Mini Budget:

- Mr Catanzariti would be substituting for Ms Burnswoods
- Mr Tsang would be substituting for Mr Primrose
- Mr Pearce would be substituting for Mr Harwin

3. **Inquiry into the 2004 Mini Budget**

The Chairman advised the Committee that the House resolved that this Committee conduct an inquiry into the 2004 Mini Budget.

Submissions

The Chairman noted that the Committee would not conduct a call for submissions for this inquiry.

Public Hearings

Resolved, on the motion of Mr Pearce, that the Committee conduct two public hearings, each of two hours duration.

Resolved, on the motion of Mr Pearce, that the Committee conduct public hearings on the following times and dates:

- Monday, 17 May 2004 from 10 am to 12 am or
- Monday, 17 May 2004 from 2 pm to 4 pm and
- Friday, 21 May 2004 from 11 am to 1 pm

Conduct of hearings

Resolved, on the motion of Mr Catanzariti, that questions raised during public hearings should relate to the 2004 Mini Budget, in accordance with the inquiry terms of reference.

Witnesses

Resolved, on the motion of Ms Rhiannon, that the following witnesses be invited to the public hearings:

- The Hon Michael Egan – Treasurer
- Mr John Pierce – Secretary, Treasury
- Mr Robert Carling – Executive Director, Economic and Fiscal, Treasury
- Mr Michael Clark-Lewis – Director, Revenue Strategy, Treasury
- Mr Russell Agnew – Principal Advisor, Revenue Strategy, Treasury
- Mr Mark Ronsisvalle – Acting Deputy Secretary, Resources and Budget, Treasury
- Mr Alastair Hunter – Acting Senior Director, Financial Management and Reporting, Treasury
- Mr Ziggi Lejins – Director, Transport and Ports Branch, Treasury
- Mr Peter Achterstraat – Executive Director, OSR
- Mr Ian Phillips – Principal Adviser, Land Tax and Payroll Tax, OSR
- Mr Peter Johnson – Principal Adviser, Duties, OSR
- Mr Bob Smith – Director, Revenue Advisory Services, OSR
- Mr Philip Western – Valuer General of NSW

Resolved, on the motion of Ms Rhiannon, that members of the Committee provide to the Secretariat by 5pm Monday 10 July 2004 the names of any additional witnesses sought.

Questions for hearings

Resolved, on the motion of Mr Pearce, that members of the Committee forward to the Secretariat by 5 pm Wednesday, 12 May 2004 any questions to be forwarded to the witnesses prior to the public hearings.

4. Adjournment

The Committee adjourned at 12.15 pm until the first public hearing on the 2004 Mini Budget.

Robert Stefanic

Clerk to the Committee

Monday 17 May 2004

At Parliament House, at 2:00 pm, Room 814-815

1. Members Present

Revd Nile
 Ms Burnswoods MLC (Burke)
 Mr Tsang MLC (Primrose)
 Mr Harwin MLC (Cusack)
 Mr Pearce MLC (Harwin)
 Ms Rhiannon MLC

2. Public hearing - Inquiry into the 2004 Mini Budget

Witnesses, public and the media were admitted.

The following witness was examined:

- The Hon Michael Egan MLC, Treasurer

The following witnesses were sworn and examined:

- Mr John Pierce, Secretary, Treasury
- Mr Peter Achterstraat, Executive Director, OSR
- Mr Ian Phillips, Principal Adviser, Land Tax and Payroll Tax, OSR
- Mr Peter Johnson, Principal Adviser, Duties, OSR
- Mr Bob Smith, Director, Revenue Advisory Services, OSR
- Mr Robert Carling, Executive Director, Economic and Fiscal, Treasury
- Mr Ziggi Lejins, Director, Transport and Ports Branch, Treasury

The following documents tendered by The Hon Michael Egan MLC were tabled with the Committee:

- “2004-05 GMA for NSW: Changes over time ...”
- “GST or GMA (whichever is greater)”

The evidence was concluded and the witnesses withdrew.

The public hearing was concluded and the media and public withdrew.

3. Next meeting

The Committee adjourned at 4.05 pm until Friday, 21 May 2004 (deliberative meeting and public hearing).

Robert Stefanic

Clerk to the Committee

Friday 21 May 2004

At Parliament House, at 11:00 am, Room 814-815

1. Members Present

Revd Nile
Mr Burke
Ms Burnswoods (Catanzariti)
Ms Cusack
Mr Pearce (Harwin)
Ms Rhiannon
Mr Tsang (Primrose)

2. Substitute arrangement

The Chairman advised that for 21 May 2004, Ms Burnswoods would be substituting for Mr Catanzariti.

3. Deliberative meeting – Inquiry into the 2004 Mini Budget

Minutes 24 and 25

Resolved, on a motion of Mr Pearce, that Minutes No 24 and 25 be confirmed.

Timetable for tabling of the report

Resolved, on a motion of Ms Cusack, that the Committee adopt the proposed timetable for the tabling of the report, with a deliberative meeting of the Committee on Wednesday, 2 June 2004 at 9:00 am.

4. Public hearing - Inquiry into the 2004 Mini Budget

Witnesses, public and the media were admitted.

The Chairman made an opening statement.

The following witnesses were sworn and examined:

- Mr Gary Moore, Director, NCOSS
- Ms Eva Cox, Social Policy Analyst

The evidence was concluded and the witnesses withdrew.

The following witnesses were sworn and examined:

- Mr Robin Shreeve, Deputy Director General, TAFE and Community Education, Department of Education and Training
- Ms Pam Christie, General Manager, State Training Services, Department of Education and Training

The evidence was concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Dr Elizabeth Coombs, Acting Director General, Department for Women

The evidence was concluded and the witness withdrew.

The following witnesses were sworn and examined:

- Ms Lisa Corbyn, Director General, Department of Environment and Conservation
- Mr Simon Smith, Deputy Director General, Department of Environment and Conservation

The evidence was concluded and the witnesses withdrew.

The following witness was sworn and examined:

- Mr Philip Western, the Valuer General of NSW

The evidence was concluded and the witness withdrew.

The public hearing was concluded and the media and public withdrew.

5. Next meeting

The Committee adjourned at 12.55 pm until Wednesday, 2 June 2004 (deliberative meeting).

Robert Stefanic

Clerk to the Committee

Wednesday 2 June 2004

At Parliament House, at 9.05 am, Room 1153

1. Members Present

Revd Nile

Mr Burke

Ms Burnswoods

Ms Cusack

Mr Pearce (Harwin)

Ms Rhiannon

Mr Tsang (Primrose)

2. Confirmation of Minutes No 26

Resolved, on a motion of Ms Burnswoods, that Minutes No 26 be confirmed.

3. Inquiry into the 2004 Mini Budget

Response to questions on notice

The Chairman noted the responses to questions on notice received from the Treasurer and the Office of the Valuer General of NSW.

The Chairman noted the expected receipt of responses to questions on notice taken by the Department of Environment and Conservation.

Resolved, on a motion of Mr Tsang, that the responses to questions on notice from the Department of Environment and Conservation be included in an appendix in the report on the 2004 Mini Budget.

Consideration of Chair's Draft Report on the 2004 Mini Budget

Resolved, on a motion of Mr Tsang, that a new paragraph be inserted after paragraph 1.4 to cite in an appendix table 12 from the *2003-04 Half Yearly Budget Review*.

Resolved, on a motion of Mr Pearce, that a new paragraph be inserted after paragraph 2.14 to cite the following text from the transcript of 17 May 2004:

The Hon. MICHAEL EGAN: The midyear review I think was predicting a starting point deficit in 2004-05 of \$275 million. For reasons of caution and prudence we factored in a cut of about \$100 million in Commonwealth general purpose assistance to us because we already have the preliminary reports of the drafts from the Commonwealth Grants commission. On the basis of strong arguments and a good case we were hoping that we would not only be able to reverse but indeed would be able to draw back some of the \$2.9 billion that taxpayers in this State are required to subsidise taxpayers in the other States.

The Hon. GREG PEARCE: So you did not have the \$376 million in the projections?

The Hon. MICHAEL EGAN: That is right.

...

The Hon. MICHAEL EGAN: The Treasurer's conference was held on 26 March and the Commonwealth Grants Commission's final report was not delivered until early in March.

Resolved, on a motion of Mr Pearce, that a new paragraph be inserted after paragraph 3.6 to paraphrase the following evidence from Mr Pierce from the transcript of 17 May 2004:

Mr PIERCE: As far as the expenditure side of things is concerned, the mini-budget, in a sense, made public decisions that would have been necessary to make in the normal function of a budget. From a process and project management viewpoint, it was simply making public decisions which at that time the budget committee would have made and communicated to agencies through their allocation letters. Agencies then take that information, put their financial statements together, and return it to us, and that is what comes out in the budget on 22 June.

Resolved, on a motion of Ms Burnswoods, that a new paragraph be inserted after paragraph 3.18 stating:

The Committee notes that in his response to questions on notice from 21 May 2004, Mr Western cited the following average increases in land valuations within the metropolitan regions of Sydney in the last five years:

- July 1998 to June 1999 – 9.7 %;
- July 1999 to June 2000 – 5.4 %;
- July 2000 to June 2001 – 5.9 %;
- July 2001 to June 2002 – 16.4 %; and
- July 2002 to June 2003 – 16.3 %.

Resolved, on a motion of Ms Cusack, that paragraph 4.9 be amended to insert the words 'which has in the past received funding of \$1.155 million per year' after the words 'grant program'.

Resolved, on a motion of Ms Cusack, that paragraph 4.20 be amended to replace the words 'the Minister has approved' with the words 'the Department identified', and that the words 'and that this had been approved by the Minister' be inserted after the words '2003-04 financial year budget'.

Resolved, on a motion of Ms Cusack, that a footnote be added to paragraph 3.38 stating:

Evidence in relation to the 2004 Mini Budget was also raised in the hearing of GPSC 4 on 20 May 2004 into the closure of the Casino to Murwillumbah rail service.

Ms Cusack moved that the following paragraphs be included at the conclusion of the report:

The Committee expresses concern at the decision making process used by the Government for identifying savings measures. All five agencies that were asked how savings were identified indicated they were selected by the Ministers' Offices; wider advice had not been sought and in many instances the first agencies knew of the decision was at the time of the Mini Budget itself.

Such a method exposes the decisions to the perception that they were political and not properly considered. The result is unjust and even perverse outcomes. It is impossible to discern any attempt to prioritise area of activity or assess programmes on the basis of performance or value for money. Indeed there is no context at all in which savings measures can be justified. Of greatest concern is the impact on equity – a core objective for all Australian Governments. It is clear equity objectives have been disregarded and this is a very troubling and unwelcome development.

The Committee divided:

Ayes:

Mr Pearce

Ms Cusack

Noes:

Revd Nile

Ms Burnswoods

Mr Burke

The question was resolved in the negative.

Resolved, on a motion of Mr Burke:

That the report, as amended, be adopted.

That the report be signed by the Chairman and presented to the House in accordance with the resolution establishing the committee of 3 July 2003.

That pursuant to the provisions of section 4 of the Parliamentary Papers (Supplementary Provisions) Act 1975 and under the authority of Standing Order 224, the Committee authorises the Clerk of the Committee to publish the report, minutes and transcript.

Resolved, on a motion of Mr Burke, that Members wishing to make a dissenting report provide the dissenting report to the Secretariat by 5.00 pm Wednesday, 2 June 2004.

4. Next meeting

To be advised.

5. Adjournment

The Committee adjourned at 10.15 am.

Steven Reynolds

Clerk to the Committee