

VICTORIA

BUDGET SPEECH

*Delivered on 21 April 1998 by
The Honourable Alan Stockdale MP
Treasurer of the State of Victoria*

Mr Speaker,

I move that this Bill be read a second time.

Introduction

This is the seventh Budget I have delivered since the Kennett Government was first elected in 1992. Since this Government was entrusted with the management of the State and throughout those seven Budgets, Victoria's economy and the State's fiscal position have been surely and steadily rebuilt.

Victoria now has 2,131,200 people employed, more jobs than at any time before in the State's history.

The State economy is growing solidly.

We have high private investment and record levels of Government capital works spending.

The flood of Victorians migrating interstate who had lost confidence in this State under the previous Labor Government has been substantially halted. Net interstate migration is down from almost 30,000 in 1993-94 to just 3,000 in 1997.

Victorians now feel increasingly confident and there is a real sense of achievement, even excitement, about our State and its future.

The 1998-99 Victorian Budget builds on those achievements, but it represents an important turning point too: this is a Budget of *social advantage*.

For the first time, the Government's objective of helping to improve the quality of people's lives no longer needs to be subordinated to a financial rescue plan.

We do not need to weaken the commitment to sound financial management. This Budget conclusively proves that prudent financial management is not

incompatible with social advantage. To the contrary, a secure and sustainable budget surplus is the **source** of sustainable social improvement, the foundation of a better life for every Victorian.

We cannot ignore the need to further reduce debt and other liabilities. In 1998-99, Victoria's debt will be **lower** than the level of debt Labor inherited in 1982. The debt racked up by 10 years of Labor mismanagement has been fully repaid.

The Budget cuts implemented in 1992 and 1993 are more than fully offset through this Budget.

Good management has delivered sound finances, and sound finances can now deliver real and substantial improvements in the quantity and quality of services government provides to people.

From now on, continuing prudent financial management will be harvested in social advantage for people. This is the first of many social advantage Budgets.

This Budget delivers major new initiatives to still further improve the quality of life of all Victorians.

The most important areas of State services - transport, police services, and, especially health and education - receive new funding totalling \$233 million in 1998-99, rising to \$271 million in a full year.

This Budget contains no new taxes and no increases in State taxes. On the contrary, the Budget delivers substantial tax reductions and funds significant reductions in charges for electricity and water services.

The tax reductions which form part of this Budget total \$125 million in 1998-99 and will rise to \$132 million on a full year basis.

In addition, water charges are being reduced by an average of 18 per cent for residential properties and every franchised household and business electricity customer will receive a \$60 reduction in their winter power bill for each of the three years leading up to the introduction of choice of supplier for all customers in December 2000.

Since 1994, Victorian businesses and Victorian households have benefited from cuts in State taxes and the pegging of gas, electricity and metropolitan water charges below the inflation rate. The total benefit for Victorians since 1994 now exceeds \$2,000 million.

The Budget strategy is working

Two things have to be emphasised about these social advantages achieved for Victorians :

1. The Opposition's mantra that, in key service areas, Victorians are still suffering from the Budget cuts made in 1992 and 1993 is untrue. **As a result of spending initiatives in the last three Victorian Budgets, we now spend more on health and education in real terms than we did in 1991-92.**
2. The new funding initiatives and tax cuts delivered in this (and previous) Budgets would simply not have been possible without the tough decisions the Kennett Government faced up to in 1992 and 1993.

As disclosed in Budget Paper No. 2, we now spend more, in **nominal** terms and in **real** terms, than we did in 1991-92 in health and other human services and in education.

In 1991-92, using the standard Government Finance Statistics definition, Victoria spent \$3,520 million on health and welfare. In 1998-99, we will spend \$4,685 million. Even after we allow for inflation, we are now spending \$645 million more on these health and other human services than we did in 1991-92.

In 1991-92, Victoria spent \$3,494 million on education. In 1998-99, we will spend \$4,088 million and, again, even after we allow for inflation we now spend \$140 million more on education than we did in 1991-92, on a standard basis of comparison.

This is a direct result of the efforts we all made, as Victorians, in the early years of this Government to return the Budget to sustainable surplus and to pull out of Labor's debt spiral.

These improvements in the contribution Government makes to the quality of life of Victorians could not possibly have been delivered had we not all committed to prudent financial management, Budget surpluses and the reduction of State debt.

The Budget strategy introduced after the election of the Kennett Government is clearly working and delivering ongoing benefits to the community.

Victorians would be immeasurably worse-off had we tried to continue Labor's policy of borrowing to service Labor's accumulated debts.

To highlight that point, had the policies implemented by the former Government continued (and in reality these policies simply could not have been maintained), spending on health, community services, education, public transport and police would have been diverted, inexorably, towards paying the interest bill on a mounting public sector debt.

We will end the current financial year with a net public sector debt of \$11.1 billion and an interest bill on budget sector debt of \$821 million. Contrast this with the consequences of Labor's policy.

It is estimated that on the policy settings of the former Government, net public sector debt would have ballooned to \$48 billion in 1998 and that interest payments on budget sector debt would have today reached over \$3 billion, more than \$2 billion above our actual interest bill for this year.

That \$2 billion is roughly the equivalent of the total payments made to our doctors, nurses and other staff employed in public hospitals across Victoria, in other words, those extra interest payments would have completely drained the Budget of funds equivalent to those needed to employ those who treat the chronically ill in our community.

Moreover, the interest savings to Victorian taxpayers from this Government's debt reduction program have been complemented by reduced borrowing costs stemming from successive credit rating upgrades.

The Budget strategy outlined in 1992 and implemented since then is working and Victorians' lives are being improved as a result.

The policies adopted since 1992 have produced benefits for Victorians right across the State Budget:

1. The Government is delivering better value services at lower costs. For example, Victoria's public hospitals are now treating 45 per cent more patients while at the same time reducing cost per patient;
2. Spending on health, education, and law and order is now above 1991-92 levels;

3. Victoria's taxes have fallen rapidly from \$900 million above the national average to be only \$220 million above the national average once this Budget's tax cuts have taken effect. In 1998-99, our tax effort will be some \$350 million less than that of New South Wales;
4. Reform of the State's utilities has produced efficiency gains resulting in benefits for both households and businesses in the form of better prices and service standards for electricity, gas and water;
5. Victoria is maintaining record levels of new investment in social and economic infrastructure. New projects have included CityLink, improvements to the Eastern Freeway and south-eastern arterial, a new Museum, Art Gallery, State Library, Exhibition Centre, Melbourne Sports and Aquatic Centre, new Docklands stadium and Federation Square to name but a few projects revitalising Victoria;
6. State net debt has been reduced from a disastrous level of \$32 billion in 1992 to \$11.1 billion. Debt per person in Victoria has dropped from over \$7,000 per person to under \$2,500 today;
7. Savings in interest charges of more than \$2 billion have been achieved which is now freeing up funds for tax cuts, lower charges and increased spending on health, education and other services.

In this Budget, we have continued the responsible, prudent management which has delivered these gains for all Victorians over the last few years.

This Budget delivers to the people of Victoria significant social improvements which our prosperity and security can now sustain.

It is a Budget which strikes the right balance between the Government's twin goals of fulfilling the community's service delivery expectations and reducing the tax burden on all Victorians.

The initiatives contained in this Budget are delivered in the context of a sustainable planning cash surplus that will average \$260 million between 1999-2000 and 2001-02. To protect against risks to the Budget, such as those posed by developments in Asia, the Government has reserved a safety margin.

New funding initiatives

Education will receive additional funding of \$63.5 million in 1998-99, rising to \$100 million in 1999-2000, as these new initiatives become fully operational in the 1999 school year.

This substantial new funding commitment will facilitate full implementation of the Government's Keys to Life initiative to lift literacy and numeracy standards

in Victorian primary schools. An additional \$50 million in ongoing annual funding will be provided to facilitate the expansion of the Keys to Life Program, which, along with funding for the Literacy 2001 program, will assist in achieving the Government's targets for literacy and numeracy as outlined in the Governor's speech earlier this year.

Nothing is more important in education than ensuring our children are equipped with strong literacy and numeracy skills. Our future will be determined by the education we provide for young Victorians.

In addition, \$68 million has been allocated across seven years to provide notebook computers for Victorian teachers, supplemented by \$12.8 million across two years for the VicOne project -- a broadband communications network which will link 1900 educational sites across Victoria.

Additional funding for computers in Victorian public schools will increase the computer to student ratio towards a target level of 1:5.

More than \$6 million a year will be provided to expand educational opportunities for students with disabilities and impairments.

In health, the Government will commit \$100 million in new funding, rising to \$118 million in 1999-2000 to help manage the increased demands on Victoria's public health system.

\$48 million of that funding will help meet demand growth in our public hospitals. Additional growth funding will include a \$5 million expansion in Home and Community Care, an extra \$4.6 million to meet growth in disability services and \$5.5 million to cover growth in specialist rehabilitation and palliative care services for the aged.

In addition, the new Maternity Services Strategy will commence in 1998-99, with funding of \$12.9 million, providing additional support for mothers and their babies prior to, during and following childbirth.

A further \$8.8 million has been provided in 1998-99 to implement the recommendations of the Government's Suicide Prevention Task Force taking the total to be spent in 1998-99 to \$15.1 million.

Funding will be made available to establish Food Safety Victoria -- a new agency which will ensure that Victorian food is of the highest quality, and meets world safety standards.

In the Justice portfolio, new funding has been allocated to Victoria Police for a State-wide police computer network, providing information access to police facilities 24 hours a day, and with the ability to transmit visual and audio, as well as digital information.

An additional \$17 million will be invested in a major program of road rehabilitation and reconstruction for critical parts of Victoria's urban and rural road network.

Some \$755 million in major new infrastructure projects will also be commenced in 1998-99, including a significant boost to capital spending on school education, contributing to the fulfilment of the Government's 1996 commitment to spend \$1 billion on capital works in schools by the year 2000.

Rural Victoria will also benefit from new capital works associated with the water reform package announced late last year, which will create new jobs and lift water quality in country Victoria. This is in addition to significant budget sector capital investments in rural and regional areas as a result of this Budget.

The success of the Government's move towards a greater focus on outputs in budget decision-making is exemplified by the fact that substantial re-prioritisation and significant efficiencies have been achieved across departments, providing \$125 million to be redirected towards the high priority areas of health, education and law and order.

Up to 500 redundancies will occur in areas other than health and education as a result of this re-prioritisation. These redundancies are a direct result of the additional funding allocated to health and education which could not be provided without this restructuring of the Budget sector workforce. The only other alternative would be increases in taxation which the Government has ruled out. These redundancies will be more than offset by new jobs created in the highest priority areas of health and education.

Tax relief

This Budget also delivers significant tax reductions to Victorian households and businesses.

The tax relief measures in this Budget reinforce the steps taken in the 1997-98 Budget to reduce franchise fees on petrol and diesel, and cut payroll tax from 7 per cent to 6.25 per cent.

Today I announce that from 1 July this year, the rate of payroll tax will be further reduced from 6.25 per cent down to 6 per cent, providing tax relief of a further \$90 million in a full year to Victorian businesses.

This reduction will help create additional jobs by improving our State's competitiveness and our ability to attract new investment, as well as enhancing the job security of Victorian workers.

Stamp duty on the purchase of homes and other real property will also be reduced. A package of measures will be introduced with a benefit to taxpayers of \$42 million in a full year.

There are three elements to the reform of stamp duty on real property transfers:

1. The threshold at which the top marginal rate applies will be increased providing a saving of \$540 in the stamp duty on the purchase of a median-priced family home.

This measure gives tax relief to all home-buyers purchasing properties valued between \$100,000 and \$870,000.

The greatest proportionate benefit will go to people purchasing homes of modest value.

The measure is expected to benefit around 72,000 purchasers each year.

2. The stamp duty exemption for first-home buyers will be extended.

The maximum property value to which the full concession applies will rise from \$100,000 to \$115,000.

The property value at which the partial concession applies will be increased from \$150,000 to \$165,000.

As a result, the maximum benefit will rise from \$2,200 to \$2,560.

3. The stamp duty concession provided for pensioners will also be extended.

The maximum property value to which the full concession applies will be increased from \$70,000 to \$100,000.

The maximum property value at which the partial concession applies will increase from \$100,000 to \$130,000.

As a result, the maximum benefit will rise from \$1,480 to \$2,200.

From 1 July, the Government will provide an exemption from Financial Institutions Duty and Debits tax to customers who are forced to change their bank accounts as a result of bank branch closures.

These measures are in addition to three other major initiatives which are funded in the Budget:

- The Winter Power Bonus, which offers all residential and other franchise customers across Victoria a \$60 reduction in their winter power bill for the next three years at a cost of \$369 million.
- An average 18 per cent reduction in water bills for 85 per cent of Victorian residential properties, made possible by a \$1.3 billion injection of capital by the Government, and representing a saving of over \$120 per year for the average metropolitan household bill; and
- The abolition of land tax on family homes throughout Victoria and reductions in the tax paid by many businesses providing land tax relief estimated at \$33 million in 1997-98.

As a result of these and past tax reductions, Victoria is now no longer the highest taxing State in Australia.

On the Commonwealth Grants Commission measure of 'revenue-raising effort', Victoria's tax burden will be an estimated \$350 million below that of New South Wales, once the 1998-99 tax cuts take effect. The gap between Victoria's revenue-raising effort and the Australian average will reduce to just \$220 million, compared with the \$900 million estimate reported in the 1996 *Autumn Economic Statement*.

Better delivery of public services

The policies of the Kennett Government since 1992 have not only restored firm fiscal discipline to the State, but also introduced an innovative policy framework designed to maximise the effectiveness of service delivery to all Victorians.

Service delivery reforms have included the introduction of increased competition and outsourcing and contract management where services can be provided better or at a lower cost by the private sector. The introduction of market disciplines as a result of competitive tendering, and financial management reforms have achieved a greater focus on service outputs not just inputs.

As a result of these reforms the quality and range of public services available to Victorians has been improved in many areas:

- provision of health services (number of patients treated) has increased by 45 per cent since 1990-91 and the State now has no patients with urgent needs (Category 1) waiting longer than 30 days for hospital admission. According to the Report on Government Service Provision Victoria recorded the lowest cost per casemix-adjusted separation of all States, while independent research shows that patients' satisfaction with the care they receive in Victorian public hospitals is the second highest in Australia;
- the school system now ranks highly against interstate benchmarks on literacy levels, having fallen behind the national average in the late 1980s. In addition, Victoria's retention rates from Year 7 to 12 are the second highest in Australia and 3.6 per cent above the national average, while the computer to student ratio of 1:7.7, (which will be further improved as a result of this Budget) is already better than all other States;
- the Victorian TAFE system is now the most efficient, most widely used and most highly rated by employers in the country;
- Victoria has the highest level of Home and Community Care (HACC) service provision of any State;
- Victoria spends more on services for people with disabilities than any other State, which shows clearly that this Government wants to ensure there is the greatest possible care for the people in most urgent need;
- Victoria's 1996 crime rate for major offences was the lowest of all Australian States; and
- Victoria's public transport patronage has steadily risen since 1993-94.

So now not only are we spending more on health and education than the previous Labor Government, we are also making each of these dollars produce more services and better value for money for all Victorians.

These substantial improvements in the quantity and quality of services Government delivers to people have significant social value. The most disadvantaged Victorians tend to be most reliant on many of these services.

In order to ensure ongoing social gains to the community in line with these achievements, the Government has now announced that all new legislation and initiatives brought before Parliament will be required to undergo the test of 'social advantage'. This was announced in the Governor's speech re-opening Parliament on February 17.

Victoria's infrastructure

In recent Budgets the Government has restored the infrastructure base by boosting spending to achieve a sustainable level of budget sector investment, averaging 1.25 per cent of Gross State Product.

In addition, the Government has facilitated the private sector's involvement in the financing and construction of significant infrastructure projects.

The operating surplus of \$767 million projected for 1998-99, enables considerable investment to be funded without resort to debt financing. Major new infrastructure projects with a total end cost of \$755 million are to be commenced in 1998-99 and include:

- \$78 million in new funding committed for construction, refurbishment and upgrades for Victorian schools, representing a significant increase in capital funding for education, and a significant step towards meeting the Government's 1996 promise to spend an additional \$1 billion on capital works in schools by the year 2000.
- widening of the West Gate Freeway from 3 to 4 lanes between the Grieve Parade ramp and the West Gate Bridge, relieving traffic congestion, improving safety and cutting travel times.
- similar upgrades to the Westernport Highway and construction of the Springvale Bypass which will also assist in relieving traffic congestion.
- new investment in the public transport system to fund a train brake safety upgrade, an upgrade for the Flinders Street Rail Viaduct, refurbishment of the Melton viaduct and an upgrade for the Warrnambool to Geelong rail track.
- Health Care network projects and hospital equipment upgrades, including significant capital spending in non-metropolitan hospitals.
- construction and upgrading of police stations throughout Melbourne and in rural areas, including new police complexes in Wodonga, Caulfield and Mordialloc.

Financial management reform and accrual accounting

As honourable Members will be aware, this is the first Victorian Budget to be presented on the basis of full accrual accounting and on an output-based reporting framework.

While other Australian Governments are moving towards Budgets based on full accrual appropriations, only Victoria has done so.

This is a major step forward implemented in the 1998-99 Budget and puts Victoria at the forefront of financial management reform.

The nature and implications of this reform are explained in full in the Budget Papers.

The move to accrual Budgets has many advantages :

- it involves the Budget providing full disclosure of all financial obligations incurred on behalf of taxpayers during the budget year, whether they are actually paid for in that year or in future years;
- accordingly, it enhances the accountability of Government to voters;
- it makes the cost of Government services and activities more transparent to voters and other interested parties;
- it complements output-based budgeting; and
- it provides public sector management with better quality information.

But the most important benefit is that adoption of full accrual accounting cements the integrity of the Budget.

Before 1992, the then Labor Government used a wide range of artificial devices to defer reporting of spending commitments and to artificially bring forward reporting of revenue.

These subterfuges were used to mask the real financial implications of the Government's mismanagement and to create an illusion of responsible practices.

These devices were only possible because the Budget was presented and reported on a cash, and not on an accrual basis.

The reforms implemented this year mean that no future Government will be able to hoodwink its electors the way Labor attempted to do before 1992. These reforms lock in the transparency which will assure Victorians that their Government's Budget honestly presents the true state of public finances.

Budget aggregates

This Budget delivers increased health and education services and cuts taxes without compromising our hard-won financial stability.

Over the long term, the Government's target under the accrual reporting system will be to maintain an accrual budget operating surplus which is sufficient to fully fund investment in fixed assets.

This revised budget target is the equivalent of our previous target, which was the achievement of a sustained (cash) budget balance after allowing for capital spending. Under the old cash-based system, this required a surplus on the current account at least sufficient to meet new investment.

This cash target, and its new accrual equivalent, ensure that the Government is not required to borrow in order to fund investment in fixed assets. Under the accrual accounting system, it will be clear to the Parliament and the community, how much of the Government's capital spending is required to cover the depreciation of existing assets, and how much will fund additional new assets which add to the State's balance sheet.

On the traditional cash measure, the surplus for 1998-99 is projected to be \$165 million. The sustainable surplus in cash terms from 1999-2000 to 2001-02 will average \$260 million.

In accrual terms, this Budget will deliver an overall operating surplus of \$767 million, which will translate to a sustainable operating surplus of \$701 million in 1998-99. Importantly, a significant part of that surplus is required to fund additional capital spending. In future years, the margin between the sustainable accrual operating surplus and the Government's new capital spending requirement will average \$260 million, the equivalent of the cash based sustainable surplus.

This margin is a protection against contingencies and risks to the Budget, including the possibility of worse than expected developments in East Asia and Japan.

Economic outlook

Victoria's economic performance under the current government is exemplified by:

- a near 25 per cent increase in Gross State Product and the creation of 200,000 more jobs since the early 1990s;
- a reduction in the unemployment rate from 12.5 per cent in mid-1993 to 8.3 per cent in trend terms today; and
- dramatically lower migration to other States from almost 30,000 in 1993-94 to under 3,000 in 1997.

Annual growth in trend state final demand rose from between 4 and 5 per cent in 1996 to peak at 7.3 per cent through the course of 1996-97 with strong contributions from consumer, housing activity and private business investment. As a consequence, labour market conditions continued to improve with employment up by an average of almost 5000 new jobs per month between July 1997 and March 1998.

Budget planning recognises the economic uncertainties such as those created by recent economic developments in East Asia. As a consequence of slower growth among key Asian trading partners, Victorian GSP growth is likely to slow in 1998-99, but will remain a respectable 2¾ per cent, as a consequence of strong growth in the domestic economy.

Employment growth in 1997-98 is projected to be 1¼ per cent, and pick up to 1½ per cent in 1998-99. With continued improvement in job opportunities, it is forecast that additional job seekers will come into the labour force.

Other key budget planning assumptions include price inflation of around 2½ per cent and earnings growth of around 3½ per cent.

Appropriation Bill

The Appropriation (1998-99) Bill provides authority to enable Government departments to meet their agreed service delivery responsibilities in 1998-99, by incurring both cash and non-cash expenses (in keeping with the shift to an accrual-based Appropriation system).

As a transitional measure, this year's Appropriation Bill provides authority to meet obligations in respect of both the 1998-99 financial year as well as the outstanding obligation of financial years preceding 1998-99.

The Bill, therefore, supports the change in the focus of financial management in Victoria from the traditional cash based annual appropriation to one which recognises the full cost of service delivery in Victoria. The accrual basis of the 1998-99 Budget is discussed in more detail in the Budget Papers.

In line with recent practice, the estimates included in Part 1 Schedule 1 of the Bill are provided on a net appropriation basis. These estimates do not include certain receipts that are credited to departments pursuant to Section 29 of the *Financial Management Act 1994*.

In addition, unspent appropriation under the *Appropriation (1997-98) Act 1997* has been estimated and included in the Budget Papers. At the end of the financial year, actual unspent appropriation will be finalised, approved carryover amounts determined and the 1998-99 appropriations increased accordingly, pursuant to Section 32 of the *Financial Management Act 1994*.

Conclusion

Before 1992, 10 years of Labor mismanagement trebled our State debt, sapped public and investor confidence, severely depressed our economy and virtually destroyed our State's capacity to budget for improvements in people's lives. The social advantages all Victorians should share were expropriated by Labor for the sectional interests to which it was beholden.

Victorians have been prepared to work hard and accept hardship to make the gains achieved since 1992. But after more than five years, we are only back in the position handed to Labor in 1982.

Governing in the interests of all Victorians means that we have to harvest lifestyle improvements from prudent management and consistent policy. We have to guard against any re-emergence of the reckless policies which almost destroyed our State between 1982 and 1992. Future benefits depend on continued good government.

Victorians need to be wary of the 'snake-oil' salesmen who call for the abandonment of good management and fiscal responsibility. Snake oil will not deliver:

- sustainable growth in the economy and new jobs for Victorians;
- sustainable improvements in the services which help increase the quality of people's lives; and
- sustainable reductions in State taxes, that is the cost of Government to Victorians.

This is not political rhetoric. These are the tangible outcomes of the trust which the people of Victoria placed in the Kennett Government in 1992 and again in 1996.

In the areas of service delivery most important to people, spending levels are now higher than in the last year of the previous Government. Efficiency of service delivery has been improved, infrastructure spending has risen dramatically, Victorian taxes have fallen decisively below those in New South Wales and the Budget is in sustainable surplus.

This Budget delivers social advantage, a significant improvement in the quality of life of people. With continued commitment to sound management, there are many more social advantage Budgets to come.

I commend the Bill to the House.