



Tasmania

2001

PARLIAMENT OF TASMANIA

2001-02 BUDGET SPEECH

***'CARING FOR COMMUNITIES,
BOOSTING BUSINESS'***

BY

THE TREASURER

(THE HONOURABLE DR DAVID CREAN, MLC)

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Bill 2001

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Budget Documents are also available at www.treasury.tas.gov.au

MR SPEAKER

The 2001-02 Budget is a Budget tailored for Tasmania's current circumstances.

It is a Budget caring for communities and boosting business.

It is an unashamedly expansionary Budget, but it is also a financially responsible Budget. In 2001-02, the budgeted surplus is \$4.2 million and General Government net debt is projected to fall by another \$83 million.

The 2001-02 Budget will support jobs and provide opportunity for Tasmanians, and will continue the Labor Government's strong commitment to improved health, police, education, and other social services.

Mr Speaker, over the past two years, under the policies of the Bacon Labor Government, there has been solid jobs growth in Tasmania, for the first time in several years.

Over 6 000 new jobs - most of them full time jobs – have been created.

Record levels of employment, exports and economic activity were reached.

However, it is very clear that the effects of the GST storm on the national economy are now impacting on Tasmania.

The 2001-02 Budget provides a very substantial economic stimulus package designed to insulate Tasmania from the worst effects of the GST-induced national slowdown.

This has been achieved while ensuring that the Budget does not go back into deficit, and that State debt continues to be reduced substantially.

Mr Speaker, the 2001-02 Budget contains \$152 million in new spending and tax initiatives. This is the biggest financial stimulus in any Tasmanian Budget for the past 13 years.

The initiatives in this Budget will benefit all Tasmanians.

On 1 July this year:

- the five per cent levy on household and business electricity bills will be abolished, on all electricity consumed on and from that date. This will provide tax relief of \$15.5 million per annum to Tasmanian consumers and businesses;
- payroll tax will be reduced substantially for most Tasmanian businesses, at a cost of \$19.2 million per annum;
- an Infrastructure Fund of \$60 million will boost total capital spending by the State Government to around \$475 million in 2001-02 – the largest capital program in 10 years; and
- there will be additional recurrent spending of \$57 million on Government services, mainly in the areas of Health, Police, Justice and Education.

Treasury estimates that this economic stimulus will result in 2000 more jobs over the next 12 to 18 months than would have been the case without this package.

Included in this overall stimulus is a package specifically for the North-West and the West Coast of Tasmania - a highly productive area of the State that has not shared in the significant economic progress that Tasmania has made over the past two years.

Mr Speaker, this Budget is a highly responsible Budget. It is directed at the four main areas of economic, social, regional and financial responsibility.

Economic Responsibility

In last year's Budget I spoke positively about Tasmania's future but indicated the prospect of two dark clouds on the horizon - increasing interest rates and the effect of the GST.

Subsequently interest rates continued to increase for the first six months of the financial year and then were rapidly reduced as national economic growth stalled under the impact of the GST.

Mr Speaker, the Federal Government's GST which the State Government opposed, but had no power to stop, has single-handedly, temporarily stalled a record nine consecutive years of national economic growth averaging four per cent per annum.

Mr Speaker, the GST national downturn is the downturn we didn't have to have and it has impacted on Tasmania.

It has impacted generally on all businesses in the State as a result of the national downturn, but particularly on small and medium businesses in Tasmania through its complexity and compliance costs.

In Tasmania it has temporarily halted a decent jobs recovery.

The reality is it has happened and the State Government has to deal with it.

This Budget being presented today is about reversing the damage of the GST on the Tasmanian economy, particularly its small and medium sized businesses, and providing extra services and relief to the Tasmanian community.

This Budget, in an economic sense, is a truly expansionary Budget. It provides for \$118 million in increased spending over total spending in 2000-01, and taxation cuts of \$34.7 million per annum.

The important difference between this financial package and the packages of the late 1980s is that this package requires no borrowings.

Mr Speaker, the \$34.7 million taxation package delivers significant business tax cuts of \$27 million per annum, in addition to the \$7.7 million benefit to consumers from the abolition of the five per cent electricity levy.

Business tax cuts of \$27 million per annum consist of \$19.2 million in payroll tax and \$7.8 million for abolition of the business component of the five per cent electricity levy.

Mr Speaker, let us be in no doubt just how large this tax package is. The Victorian Government recently announced a \$774 million four-year tax reduction plan. Mr Speaker, in Victorian terms, the tax reductions I am announcing today amount to \$1.33 billion over four years, almost double the Victorian package.

Payroll Tax

Mr Speaker, payroll tax is currently levied on all businesses in Tasmania with a payroll above \$606 000 per annum.

All businesses with payrolls over \$606 000 pay tax at a marginal rate of 6.53 per cent on the amount by which their payroll exceeds \$606 000.

A payroll tax system such as this, which applies an exemption and a marginal rate, operates in every State and Territory in Australia.

This system produces a progressive tax regime in which the effective rate is always less than the marginal rate of tax.

In other words, small to medium businesses have a lower effective rate of payroll tax than larger businesses but no business ever pays the marginal rate

It is the effective rate of payroll tax for a given payroll not the marginal rate which is the relevant factor in comparing payroll tax competitiveness between States.

Mr Speaker, over the past 18 months the State Government has given much consideration to the best way of delivering payroll tax relief.

It is clear a cut in the marginal rate delivers most benefit to big business whereas an increase in the threshold delivers most benefit to small and medium sized businesses

The Government's strong opinion was, in the interests of equity between businesses, and in view of the struggling nature of small to medium businesses under the weight of the GST, a combination of a rate reduction and a lift in the exemption was warranted.

Mr Speaker, from 1 July there will be a reduction in the marginal rate of payroll tax from 6.53 per cent to 6.3 per cent.

The rate will be further reduced to 6.24 per cent from 1 July 2002 to honour the Government's commitment to reduce the rate as the Commonwealth Government's superannuation guarantee levy increases from eight per cent to nine per cent.

From 1 July 2001, the payroll tax exemption will be lifted from \$606 000 to \$1 million - an increase of 65 per cent.

Mr Speaker, this payroll tax package is the largest single reduction since payroll tax was transferred to the States in 1971.

It is more than the entire aggregate reductions under successive Governments in the past 30 years.

All payroll tax paying businesses will receive a significant benefit – 97 per cent of all Tasmanian businesses paying payroll tax will now have an effective payroll tax rate below the average of all the States and Territories.

200 businesses which were paying payroll tax will no longer pay any payroll tax.

99 per cent of all Tasmanian businesses will either have no payroll tax liability or will have a lower payroll tax liability than if they were located in Victoria.

The Electricity Entities Levy

From 1 July, the five per cent electricity entities levy will be abolished for consumers and business at a cost of \$15.5 million.

This will represent a saving to all consumers and businesses, the magnitude of which will depend on the size of their quarterly electricity bills.

Mr Speaker, the tax package of \$34.7 million per annum importantly provides financial relief for a community suffering under the impact of the GST but also improves Tasmania's competitive position with other States.

The combination of the payroll tax cuts and the abolition of the electricity levy, places all Tasmanian businesses in a substantially improved competitive position.

The Competition Index which Treasury compiled for the first time last year and which represents the only State by State comparison in Australia over a range of competitive issues, has been updated for presentation with this Budget.

The Competition Index shows that in terms of labour costs to business, Tasmania is the most competitive of all States.

Furthermore, our competitive position has improved markedly as a result of the payroll tax changes announced today.

This comparison covers the full range of labour costs including payroll tax, superannuation, workers' compensation, wages and salaries, and fringe benefits tax.

On electricity costs, last year we ranked fourth - we are now ranked third and have become still more competitive as a result of the abolition of the electricity levy in this Budget.

This improvement, together with the State Government's pursuit of natural gas, and injecting competition into the wholesale petrol market, will underpin future competitive improvement in the State's overall energy costs.

Gas infrastructure construction will commence in December this year and Liberty Oil has been working hard to establish more retail sites in Tasmania, working through the normal environmental tests and finalising leasing arrangements. Liberty anticipates rebranding and opening two sites in the north of the State within six weeks.

Infrastructure Fund

Mr Speaker, the \$152 million financial package in the Budget, as well as providing \$34.7 million in tax cuts, will provide a one-off \$60 million for economic and social infrastructure.

This \$60 million is in addition to the Budget's Capital Investment Program which has been maintained in real terms, and is in addition to the expenditure of \$10 million over two years to rebuild Reece High School.

The \$60 million will be allocated and dispensed through two new accounts in the Special Deposits and Trust Fund. \$40 million will be applied to economic infrastructure and \$20 million applied to social infrastructure.

The two main components of the \$40 million Economic Infrastructure Fund are:

- \$10 million for irrigation schemes and associated water developments. These funds will ensure that Tasmania's major irrigation proposals are quickly brought to 'investment-ready' stage. In particular, the long-awaited construction of the Meander (Warners Creek) Scheme is now assured; and
- \$22.2 million for strategic transport projects (based on the Land Transport Infrastructure Investment Strategy) and resource development facilitation projects.

The \$20 million Social Infrastructure Fund will consist of:

- \$10 million for school maintenance backlog and fire protection;
- \$5.6 million for capital projects in health and human services, including \$4 million for replacement and upgrading of equipment in hospitals;
- \$2.6 million for police and public safety, including refurbishment of police stations and residences throughout the State and replacement of marine police vessels; and
- \$1.8 million for community development projects of a social nature.

The \$40 million required for the Economic Infrastructure Fund will be provided from surplus funds in the 2000-01 financial year due largely to additional one-off own source revenue not anticipated in the 2000-01 Budget.

A special Appropriation Bill will be required to transfer the 2000-01 financial year funds forward in the Economic Infrastructure Fund account. It will be presented as a separate Bill during this Budget session.

Mr Speaker, the \$60 million one-off Infrastructure Fund, together with the Capital Investment Program and Capital Expenditure by Government businesses, amount to \$475 million being spent on capital programs in the State in 2001-02.

This is the largest capital program in 10 years.

This expenditure will support 7 000 jobs in Tasmania including around 900 new jobs created as a result of the \$60 million Infrastructure Fund.

Social Responsibility

Mr Speaker, in this its fourth Budget, the Bacon Labor Government continues to build upon its commitment to the education, health, well being and safety of the Tasmanian community.

The Budget has been developed based upon the Government's commitment to its key community strategies, Tasmania *Together* and Partnership Agreements.

Mr Speaker, ultimately, these strategies are about listening to the Tasmanian community – understanding the wants and needs of individual Tasmanians. These strategies will shape and are shaping Tasmania's future.

The Government has listened and acted since coming to Office. There have been 25 Cabinet meetings and Community Forums throughout the State where Ministers and agency heads have been available to directly address issues of concern in a variety of communities.

In recent times, community organisations have highlighted the plight of the disadvantaged in our society.

While income support is a Commonwealth responsibility, through the social security system, the State Government provides all the support it can, in the best way it can, through the social services it delivers.

In its three previous Budgets so far, the Bacon Labor Government has given a very high priority to re-establishing and improving these services in this State – services that were underfunded and rundown by the previous Government.

Services such as hospitals, community health, disability services, child protection, emergency welfare relief, family and child support and a wide range of other programs provided through the Department of Health and Human Services.

Last year, the Government announced a \$30 million recurrent *Social Package*.

This initiative is complemented in the 2001-02 Budget by the \$20 million Social Infrastructure Fund and the provision of \$65.7 million in extra recurrent funding for social services compared with the 2000-01 Budget-time estimates.

Education will receive an additional \$24.3 million in 2001-02.

Law and Order services – Police, Public Safety and Justice - will receive an increase of \$6.5 million.

Health and Human Services will receive an extra \$34.9 million in this Budget. This complements the substantial increases in funding already provided to Health and Human Services since the 1998-99 Budget.

The 2001-02 recurrent allocation for this agency is \$113 million, or 21 per cent, greater than in 1997-98, the last year of the previous Government.

Furthermore, the Government continues to provide significant increases in funding for community programs and for support for the disadvantaged in our society.

The total value of concessions for pensioners, low income earners and others less well-off in our community will increase by \$7.7 million in 2001-02 to \$130 million – an increase of 3.9 per cent in real terms.

In addition to this, the total funds provided to non-government service providers and community organisations in 2001-02 will be \$106.5 million, an increase of \$7 million, or 4.4 per cent in real terms over 2000-01. This includes funds provided through the two main community grant programs – the Tasmanian Community Fund and the Community Support Levy.

Mr Speaker, the high priority given to providing funds to meeting the needs of individual Tasmanians has been a hallmark of this Government.

Mr Speaker, the most effective way to assist those more disadvantaged in the community is to create more jobs. To this end, the 6000 jobs created over the past two and a half years will be increased by another 2600 jobs over the next 12 months in large part due to this Budget's financial package.

Along with the creation of job opportunities, social and community services will continue to be the highest priority of the Labor Government.

I will briefly mention some of the many social initiatives provided for in the 2001-02 Budget:

Health and Human Services

- Upgrading of Health and Community Services in Rural Areas - \$14 million for the construction of new facilities and the upgrading of existing facilities to meet the needs of rural communities;
- Hospital Upgrades - \$8.8 million upgrade of major hospital facilities to meet patient needs and \$4 million from the Social Infrastructure Fund for the replacement and upgrade of public hospital equipment; and
- Additional Ambulances - \$3 million to complete the three year program to replace the statewide fleet of ambulance, retrieval and rescue support vehicles; and \$550 000 to upgrade the ambulance radio and communications systems.

Education

- \$10 million through the Social Infrastructure Fund for school maintenance and fire protection, taking to \$25 million the total funding for school maintenance in 2001-02.
- \$10 million over two years for rebuilding Reece High School;
- An additional \$700 000 annually, to support intensive Early Learning Literacy Intervention programs for children;
- An additional \$700 000 annually to schools through the School Resource Package; and
- A further increase in the Student Assistance Scheme which also received a significant funding increase in this Government's first Budget.

Law and Order

- \$1.025 million, taking to \$6.9 million the funding for implementation of the DNA and National Automated Fingerprint Identification systems;
- \$525 000 per annum to enable enhancement of the police mobile radio network, critically important to effective policing;
- \$2.431 million over three years to provide for the refurbishment of the Tasmanian Police Academy;

- \$2.6 million from the Social Infrastructure Fund for refurbishment of police residences, particularly in rural and regional areas, and marine police vessel replacement; and
- Commencement of the six year \$53.3 million project to redevelop Tasmania's major prison facilities.

The Environment

Mr Speaker, the other main area of any government's social responsibility is the environment.

Tasmania has a unique environment and this is one of our greatest assets. We are very committed to maintaining and improving this environment.

This is important not only for those of us who are lucky enough to live here, but is a vital component of our economy through its contribution to tourism and our food industries that rely on clean air and water and our pest and disease free status.

We provide substantial funding for environmental management activities.

But of course, we can always do better, and the Government has a number of programs aimed at improving water and air quality by addressing issues such as wood smoke from home heaters, urban stormwater and acid drainage.

We are also ensuring that new major development proposals such as Basslink and Duke Energy's gas project are subject to rigorous but fair environmental assessment.

This year the Government will develop a Natural Resources Management Framework, in consultation with the community, to help us identify priorities in managing and conserving our environment. We are also developing a framework for native vegetation management, covering forest and non-forest vegetation.

Regional Responsibility

Mr Speaker, most of the \$152 million financial package impacts in all regions of Tasmania.

However, the State Government has been acutely aware of the uneven nature of the economic recovery in Tasmania over the past two and a half years.

In particular the North-West and West Coast have struggled to benefit from the Tasmanian recovery which has essentially occurred in the North of the State and to a lesser degree in the South.

There are a number of reasons for this but most notably the fact that the North-West and West Coast were hardest hit by the economic downturn throughout most of the 90s and the consequent population decline which was associated with this downturn.

The Government has recognised the special plight of the North-West and West Coast in this Budget and has targeted a larger portion of the Budget's Capital Investment Program (CIP) and Infrastructure Fund than would normally be the case.

Capital spending in the North-West and West Coast in 2001-02 from the CIP and Infrastructure Fund will total around \$60 million.

From the two Infrastructure funds, a total of \$21.3 million will be provided as follows:

- a specific allocation of \$6.6 million, primarily for sewerage and infrastructure improvements on the West Coast;
- approximately \$9 million from the \$22 million allocated for transport infrastructure; and
- approximately \$5.7 million from the Social Infrastructure Fund allocations for school maintenance and police residences refurbishment, marine vessel replacement and hospital equipment.

Mr Speaker, in an unprecedented move, from the \$14 million in funds unallocated in the CIP at the start of the 2001-02 Budget process for new projects, \$12 million has been applied specifically for projects on the West Coast and in the North-West of the State.

Additional to this \$12 million is the \$5 million allocated for rebuilding Reece High School in 2001-02.

The aggregate increase in capital funding to the West Coast and North-West in 2001-02, compared with 2000-01, is \$24 million – representing an increase of 67 per cent.

Together with the tax relief package and additional recurrent expenditure, this economic stimulus will add around 600 jobs to the region.

This will assist in supporting the North-West and West Coast while the Government's industry approach to securing the Gas, Wind and Basslink energy developments will deliver sustained increases in investment and jobs into the future.

Financial Responsibility

Mr Speaker, Tasmania has taken huge steps in terms of financial management over Labor's four Budgets.

The Bacon Government delivered a Consolidated Fund cash surplus in its second Budget and has committed to maintain the Consolidated Fund in surplus into the future.

Mr Speaker, this commitment meant that no longer would borrowings be incurred to fund government services and no longer would General Government net debt rise.

As important as this commitment is, it pales when compared to the inroads made into reducing General Government net debt since the Bacon Government came to Office.

Mr Speaker, when I announced in last year's Budget that General Government net debt which stood at \$1.35 billion on coming to Office in September 1998 could be eliminated within 15 years, most people were astounded.

They were astounded because just under two years beforehand, at the last State election, they were told by the previous Government we had a debt crisis and the only way out was to sell our electricity assets.

Mr Speaker, this year the position is even better. The Forward Estimates show, on page 270 of Budget Paper Number 1, that the Bacon Labor Government, which will have reduced General Government net debt from \$1.35 billion to \$745 million by June 2002, is now on track to halve our present net debt

again to \$337 million by 2004-05. That is, in three years time. The State is now in a position to completely eliminate General Government net debt by 2007-08, just six years away.

Mr Speaker, by 2007-08 the General Government net debt which stood at \$1.35 billion in 1998 and costing the State \$144 million in net interest payments each year will be completely eliminated.

Mr Speaker, all the financial targets laid out in our first Budget to be achieved by 2003-04 have already been achieved.

As a result of this Budget, total State Government sector net debt as a percentage of Gross State Product will be 15.5 per cent after peaking at 35 per cent just six years ago.

General Government net debt as a percentage of GSP, which peaked at 15 per cent seven years ago, will be reduced to under six per cent as a result of this Budget.

The net interest cost ratio, that is, the proportion of our income going in debt servicing which peaked at 10.2 per cent in the mid 90s will be down to 4.2 per cent by the end of the 2001-02 financial year.

Mr Speaker, all this has been possible as a result of a combination of:

- prudent financial management;
- solid economic activity over the past two and a half years;
- a commitment to building up financial assets within the General Government sector producing a reduction of General Government net debt and net interest payments;
- lower interest rates; and
- an increase in our Grants Commission relativity reflecting the State's poor economic performance throughout most of the 90s.

Mr Speaker, the Government has released a detailed list of positive revenue movements over the past 12 months, projecting into the next 12 months, that have enabled the Government to fund an expansionary Budget without the need to resort to borrowings.

Mr Speaker, none of the reasons for our improved financial position relate to the GST. In fact, Commonwealth estimates released just two months ago indicate Tasmania will not be better off financially under the GST arrangements until 2007-08.

And, Mr Speaker, less than two per cent of our improved financial position is due to increases in gambling tax revenue.

Tasmania's Economic Outlook

In terms of the economic backdrop for 2001-02, there are a few uncertainties facing the Tasmanian economy, most particularly as mentioned, the extent and duration of the current GST induced national downturn, but also the economic circumstances in the United States and the continued uncertainty surrounding the outlook for Japan.

However, if current consensus forecasts prove correct in terms of national and global growth over the coming year, the Tasmanian economy should hold up relatively well.

Consistent with this, the State Government expects employment growth to be fairly flat or weak over the next three to six months followed by a strengthening of activity and employment.

However, there will be a number of positive influences for the Tasmanian economy in 2001-02 which will help offset this weaker external environment and the direct and indirect negative impact of the GST.

The State Government's \$152 million financial package, together with the commencement of work on the Tasmanian Natural Gas Project, the continued low value of the Australian dollar and the reduction in official interest rates of recent months, will all assist in driving the Tasmanian economy forward.

On current trends, Treasury expects Tasmania's economic growth rate will be 2.3 percent in 2001-02, a further improvement on the anticipated 1.8 percent for 2000-01. This would represent a solid performance in a period of softer global and national growth, and is likely to compare well with the national performance over this period.

The State Government's \$152 million financial package is designed to underpin Tasmania's economic performance and maintain the positive momentum in terms of output and employment growth that has developed over the past couple of years.

Treasury estimates that the total package will increase employment by 2000 and contribute 1.0 per cent to GSP growth over the next 12 to 18 months.

For the financial year, Treasury forecasts year average employment to grow by 1.3 per cent or 2 600 jobs in 2001-02.

In formulating its employment forecast for 2001-02, Treasury has taken into account a number of specific developments. These include the impact of the State Government's financial package, most notably the payroll tax changes and the Infrastructure Fund, and projects being progressed through the Industry Development Plan.

These projects include:

- the commencement of work on the Tasmanian Natural Gas Project;
- further expansion in the State's call centre industry, including a major call centre providing over 500 jobs by the Commonwealth Bank, and continued growth at Qantas;
- further expansion in the State's IT industry; and
- a number of tourism developments.

In addition, Treasury has taken into account the Government's policy of no-inner Budget sector redundancy programs and increased agency expenditure in the financial year.

Treasury predicts the State participation rate to average 59.8 per cent for the year, a solid improvement on 59.3 per cent in 2000-01, and the unemployment rate to average 8.5 per cent in 2001-02 compared to an estimated 8.7 per cent in 2000-01, down from a high of 10.2 per cent on coming to office in 1998.

In terms of the private sector, the most significant project on the horizon is the Tasmanian Natural Gas Project, the largest private sector infrastructure development in the State's history.

This \$600 million project is expected to commence by December this year and will provide a major stimulus to construction and related industries over the next two years.

More importantly, the arrival of natural gas in Tasmania will allow for the potential establishment of a new set of industries over the longer-term.

Mr Speaker, this project together with the linkages to wind developments and Basslink has been one of the most complex and time consuming set of projects ever brought together in Tasmania.

State Government ownership of the electricity entities including the Bell Bay power station has been vital in enabling the Government to drive this set of projects to the point now where they are all close to reality.

Mr Speaker, as difficult as it has been to progress these projects, it would have been far more difficult, if not impossible, to achieve this had our electricity entities been in private ownership.

Mr Speaker, apart from the Natural Gas Project, the outlook for business investment is continued moderate growth into 2001-02.

The State's export performance is expected to continue its impressive growth path of the last three years.

Underpinned by increasing market diversification, the low Australian dollar and a favourable forecast on most Tasmanian commodity prices over the next 12 months, exports are expected to record a further year of solid expansion.

Conclusion

Mr Speaker, this Budget is the right Budget for our economic circumstances and ensures the priority of jobs is kept at the forefront of the Bacon Government's agenda.

It is a Budget which recognises the differing needs of communities and their people, particularly those most disadvantaged.

It is a Budget which has recognised the struggling nature of our small to medium sized businesses under the weight of the Federal Government's GST.

It has recognised and is comprehensively addressing important competitive pressures which businesses face in Tasmania in their pursuit of investment and jobs.

It is a Budget which once again commits to increased funding for those important government services of Health, Education, Law and Order and for general community grants and concessions.

At the same time it is a Budget which takes enormous strides in reducing our debt and debt servicing costs which will underpin funding opportunities into the future.

Mr Speaker, this is a Budget for communities, a Budget for consolidating the present and building for future prosperity.

I commend the Bill to the House.