NSW is open for business

Morris Iemma, NSW Premier

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[The Premier began by responding to remarks from the introducer regarding Victorian Premier Steve Bracks.]

[Steve] Bracks has been trying to take from us, I think, the South Sapphire Coast, the far south coast of NSW. He’s wanted to redraw the state boundary. And I’ve told him to back off... We pinched one of his officials to do the review into motorways and there are a few other aspects regarding the Victorian model of the PPPs [public/private partnerships], particularly with motorways, which we won’t hesitate to steal – but he can’t have the far south coast of NSW in compensation for having taken the AFL championship off him. So that’s it for Steve Bracks but we certainly have some areas where we can take from the Victorians.

... This is an economic speech, but I am going to start by raising the matters of concern of the last few days and it doesn’t need me to repeat the concern and what has happened over the last few days. Let’s say there was some suggestion and I did think long and hard about cancelling today and there was some suggestion that I should, but to be honest, although I was tempted, I thought that no, that it should go ahead and I should come along and give this presentation, if nothing else for a demonstration that I’m not going to allow, nor is the government, nor should it, the events of the last 48 hours and what we will face over the course of the rest of this week and into the weekend and beyond to derail us from the job of managing the state economy and the budget and to present to you an outline to the business community of what we are about and what we want to achieve. So a decision was made by myself to come along and make this presentation and not allow the events of the last few days to stop me from doing it. And that’s something just too important for the state’s economic future to have allowed what has happened to prevent me from doing that and there’s certainly no more appropriate forum than with CEDA given the role that you’ve played, outstanding role that you’ve played in driving economic reform over the past two decades.

And I want to take as my starting point a lot of the commentary that’s been made about the NSW economy, a lot of it negative, in the last few months – negative commentary about the performance of the economy, negative commentary about the state’s budgetary position – and use this as an opportunity to dispel some myths and present some facts. The first one is that the economy in NSW is a mature economy, an economy in which with reforms over the last two decades we have transformed successive governments, we have transformed the NSW economy from one that often relied on just digging it up to one in which it relies on the skills of its people and its workforce, one in which financial services and manufacturing, I think we account for some 37% of the nation’s manufacturing and some 40% of the nation’s financial services, an economy which has a breadth to it and a maturity that enables it to withstand booms and busts in, for example, mineral prices. And so it’s not a surprise that Western Australia and Queensland have a higher growth rate. The economy is driven by the extraordinary boom in resource prices and simple comparisons about what the percentage figure is on GDP does not reveal the true state of
an economy that is mature and that is diversified. And that I think is an important point to make and with the plans that the government has we want to build on that and strengthen our economic position.

Now yes, the NSW economy does get affected much more than other state economies by changes in property prices and the housing industry. That’s something that has caused a downturn in state revenues. NSW and particularly Sydney is much more sensitive to property prices in the housing market than other states and that does affect our revenue and that has an affect on state activity. But notwithstanding that there is a determination on the part of the government and the topic up there, NSW opened for business, to send a very clear message backed with firm decisions to drive a number of things. Firstly, activity, activity leading to investment, jobs, growth and prosperity. If I can sum up what the government is about, what I’m about, it is about activity and plans to drive activity. Now, Jim mentioned some of the decisions that we’ve made. The vendor duty decision. It’s not about property prices but it is about sending a message that we are about activity and I’ll come to more of the vendor duty later. The establishment in my own department of a unit under the leadership of Professor David Richmond recapturing some of the can do attitude that we had during the Olympics of delivering major infrastructure on time and on budget, but ensuring that our plans for infrastructure were actually implemented. And so the formation of that unit to take over the oversight of major projects to ensure that they are delivered on time and on budget.

The changes to the planning system has always been about activity. Some 60 major projects in the planning system and the changes to streamline our planning regime in this state, seeing 60 major DAs worth some $2B getting approval. Declaring another 70 projects. Projects caught in the planning system awaiting assessment, awaiting a decision caught in there, a backlog of investment and jobs caught in the planning system being unlocked with the changes that have been made and unlocking another $3B worth of what are major projects creating, along with the 60 major DAs that have been approved, thousands of jobs ready to go now, decision made, the blockages removed and proposals that were in the pipeline but caught in that planning regime and now being freed up. The decision to reduce workers compensation premiums is all about reducing the cost of doing business in NSW. That’s the first reduction in workers compensation premiums in just on a decade. Returning to business and to the most seriously injured workers some of the benefits of the hard decisions that were made to reform and stabilise the workers compensation scheme in this state, decisions that were taken a number of years ago but now sharing the benefits to both business and to the most seriously injured workers and an additional $36M of benefits for them but a significant package of benefit for business with plans for more, returning more of the benefits of the changes to the workers compensation scheme and stabilising it, reducing its massive deficit and next year plans to do more for business in reducing the cost of doing business in NSW.

Completing the blueprint that Jim mentioned in his address, completing the blueprint for Sydney for the next 25 years. The vision of where the growth will be in population, the jobs, the investment and the infrastructure, getting that work done and having it released and starting 2006 with the hard work at the local level with local government to implement the detail of the metropolitan plan so that come 2007 we can start implementation. No longer a plan and thinking about doing something, but delivering the vision and providing not only the certainty but the framework within which significant investment decisions can be made. Back that up with a state infrastructure plan that’s coming around budget time of next year. Laying out the blueprint of where the growth will be in our city, how the growth will take place. For services and the infrastructure that will be with that growth and tied to the metro plan significant state employment zones, areas of state significance designated as such and one springs to mind in western Sydney near the M7 and the M4. Land designated of state significant in which in this one we will see 40,000 jobs providing certainty in planning, certainty for business in new lands to create jobs in that part of Sydney and of course the metro plan sets aside other areas as well, employment zones to provide for the expansion of jobs into the future.
They're just some of the decisions that have been taken that are about not just the future of the city for the next 2 or 3 years but of the next 25 and 30 years but are essentially about activity, investment and jobs. And that’s also behind the major infrastructure decisions and not only plans for the expansion, for example, of our ports but a decision made to proceed with the expansion of say Port Botany further than the commission of enquiry recommended, not as ambitious as Sydney Ports Corporation had first proposed but further than the commission of enquiry and why? Because it’s too big a gamble to risk 1,000 jobs for every 10% of containers that go to Steve Brack’s ports in Melbourne or Peter Beattie’s in Brisbane and that’s not jobs and investment that I’m going to see going to Brisbane or Melbourne and that’s why Port Botany got the green light, that’s why Port Kembla’s got the green light and that’s why Newcastle coal loader also got the green light. Big infrastructure decisions vital to the state’s economic future, vital to the state’s economic expansion and decisions that needed to be taken, had to be taken and were taken.

Jim’s already mentioned desalination. That’s about securing a new source of water for this city. Forget about the nonsense of the debate about desalination. It is about two very simple issues - guarantee of water; new source of water. Yes, we can cross our fingers and hope that it will rain but we know that when that does it will be followed by another long period of dry weather or a drought and drought proofing Sydney is what desalination is about. It also means recycling and opening Sydney Water up to competition from the private sector. It’s also about not just securing additional investment in water recycling; it is also about sending a message of opening up one of our state monopolies in an important area in waste water and recycling and access to its infrastructure to drive innovation and competition, innovation on the state instrumentality, the state corporation and provide competition so that it can lift its game as well in those two important areas - its infrastructure and the access to waste water and that was a landmark policy change to open Sydney Water up to competition in those two important areas.

Jim mentioned private public partnerships and I’ll say a few words about those. This has occupied a lot of space before the hooligans and criminals of the last two days and to emphasis again that PPPs are part of our plans for driving investment and jobs in NSW. The Richmond Review was important in examining a set of arrangements that we have in place with one project and the lesson out of that is that just because we deliver in this instance Cross City Tunnel in one way with one set of arrangements does not mean that you cannot and do not subject those to an examination to see how you can do better. We’re not throwing the baby out with the bath water. The model of PPPs is very clearly set out in the Richmond Report, have delivered enormous benefits to the state’s road infrastructure over the last 10 years, has seen the delivery of a massive network of motorways that has stimulated economic growth as well as all of those motoring benefits of reduced travelling times for motorists. There’s been a significant economic benefit in that $5.4B investment in motorways over the last decade and had it not occurred it would have had to have come from the RTA budget and RTA budget that over the similar period of time amounted to some $3.4B that went into other road projects. Had it not been for the investment in those PPPs and that $3.4B budget would have had to have gone into building those motorways and then other RTA road projects would not have been able to proceed over the last decade.

It’s also transferred as Richmond highlighted some $340M in recurrent expenditure over that period to the private sector in other costs of roads. So transferring that type of cost to government has meant that government had those funds available, those were current funds, to invest in other areas of government priorities - health, hospitals, schools and policing. So very important that we understand what drove the review on Cross City Tunnel and why but the baby’s not being thrown out with the bath water.

And as a lot of you would know in the audience here Axiom Education Number 2 has won the second round of school PPPs, $149M schools contract which will build on the success and it was a very successful pilot of those schools in the first round of the PPPs. And that was breaking new ground. The private sector’s been involved in delivering maintenance and cleaning in our schools for some time, but the first school PPP
pilot was very successful. It was breaking new ground for this state and we’re proceeding with the second round and as you’d be aware the near $130M contract’s been won by Axiom Education Number 2. And we’ve also announced the short list of tenderers for the contract to manage the police’s massive property portfolio and the three short listed are United, Transfield and CVRD Multiplex with the winner to be announced next year. So there are going to be opportunities and they will be in the social policy area of government. There’s the housing PPPs that are under consideration at the moment with proponents. There’s the police property portfolio to come with the announcement of the winner next year and we’re proceeding with the second round of schools building on the ones that we have successfully completed, so there will be opportunities and Richmond was very important in dealing with issues over one motorway and also changing the way that we will procure motorways into the future, building on some lessons that were learnt in Victoria. And that’s the reference I made earlier about borrowing one of Steve Brack’s senior officials, Al Smith, the Deputy Head of Infrastructure in Victoria and borrowing from the Victorians on some aspects of motorway projects.

I just want to come now to our budget and our finances and outline to you what is happening in those areas and we come from a very strong record, a strong record of 9 successive budget surpluses with a triple A credit rating that’s been reinforced year in, year out and what is an outstanding legacy that is passed onto me from Mike Geegan and Bob Carr of financial management of reduction in state debt of nearly $10B and of those cumulative surpluses, those 9 surpluses adding up to, in a cumulative sense, of some $4.9B. Over that time we’ve seen the state’s net worth nearly double from $70B to $120B. The triple A was confirmed just last month and that’s something which needs to be put into context because of the 60 states and provinces in North America only 11 have triple A credit ratings. It is a rare achievement for a state government and it’s something that we are not about to lose. Confirmed just a month ago by Standard & Poors but something that we are not about to lose.

There are pressures on our budget and they come from a number of areas. There is the GST rip off, $13B out, $10B back. That’s a rip off that shows that the tax payers of this state are not getting their fair return from Canberra. There’s no prospect of any short term change in that, but nevertheless it is an important factor. The GST has given other states and territories an extra $108 per capita. For NSW we have been continually ripped off. There has been, as I mentioned earlier, that the housing and the property market and what’s impacted on them and 5 interest rate rises since May of 2002, particularly those of November 2003 and our own decisions, the mini budget of 2004 with the vendor duty and they’ve had an affect on state revenues.

Of course there’s also the other area of significant pressure, has been to deliver wages and wage justice. For example, frontline workers in health and education and in policing to enable them to meet the costs of living in a global city like Sydney. They are the significant pressures, the wages pressure that we’re faced in Sydney the global city is entirely justified that workers, particularly in health and education and in policing with the pressures that they face in living in a global city, further been the wage pressures. There’s been the pressures on us as a result of the downturn in the property market and the housing industry. That’s impacted on state revenues and there’s the GST rip off. With all of that we’re faced with these financial pressures. I can confirm with you that the half yearly budget review to be released next year will indicate that there are going to be significant and challenging times ahead for us. But this financial year our operating budget is expected to be broadly in balance and in 2006-7 we expect a deficit exceeding $500M that from there on the trend will improve. In 2007-8 we will see a return to balance and in 2008-9 we expect to regain a healthy surplus.

Getting from here to that surplus is what’s going to be tough but we have made a commitment in our Financial Responsibility Act to maintain general government operating surpluses and allow net debt to increase no faster than the growth of the economy and the reduced net financial liabilities gradually as a percentage of gross state product. And we are equally
determined to ensure that in doing that we still commit the maximum possible resources to health, to education, to police and to transport and that’s a very significant challenge for us given what I’ve just outlined. We want to make sure that those investments that we do undertake in those 4 key policy areas that I’ve just outlined, that we get best value for those investments. That will mean some very hard decisions taken on government expenditure and those hard decisions will start in our own backyard and I will also announce some of the interim results of the audit that I commissioned in my first days as premier. The full audit of state government expenditure and programs will be complete at the end of January and the results of the audit will be released backed with an economic statement in February, but today I can announce some, and I do underline some, of the recommendations of the audit and recommendations that we’ll accept fully and commence implementation.

From 2007-8 we will start with a reduction of approximately $300M a year to non essential services. Already we are implementing a similar cut this year and next financial year so it will continue beyond those two years that I’ve just mentioned. To achieve this latest cut we will further target our back office costs whilst maintaining our front line services. Some of the key measures will include placing billions of additional dollars of procurement spending under the oversight of the state contracts control board to ensure one, we get better value and secondly, that we save money. Accelerating new supply chain management techniques that will deliver up to 5% of procurement savings. Requiring all major government agencies to take up electronic procurement by June 2007 and further reducing average government office accommodation. Streamlining public sector recruitment to match private sector best practice and these measures represent just some of the ways that we’ll achieve the $300M target.

In addition, another element of the audit is a new approach to purchasing information and communications technology. In the coming state budget we will establish a single capital fund for ICT. Funding will follow priorities laid down in the state wide ICT plan currently being developed by the government. The objectives of the plan are straight forward. Fewer software applications, shared infrastructure, common processes and aggregated purchasing. By year 4 of implementation this plan will provide $125M a year in capital savings and $80M a year in recurrent savings. In addition to these measures we will also move to reform government property management and this will involve the establishment of new agency to manage our property assets. This statutory authority will be responsible to the Treasurer and it will measure what are known as generic assets, things like government offices and shopfronts excluding specialised assets such as schools and hospitals. The authority will help achieve a faster and cheaper purchase of the sale of properties, getting them ready onto the market, cheaper leasing and maintenance costs, better planning and zoning outcomes including the outcomes in the area of health and housing and better use of existing properties. By 2009 this strategy is expected to save up to $300M a year including $80M a year in recurrent savings.

These are all measures that we’re going to commence implementation on but we won't be leaving it there. What we want to do is take the agenda even further and the public sector doesn’t just need to save money; it needs to serve the people better and today I'll be committing the government to a new performance management and budgeting system focused on how the public sector can achieve better outcomes instead of the traditional focus on how many dollars we put and how many numbers we've got when it comes to nurses, teachers, police, railway drivers, etc. The new system will be developed over the next 12 months and this approach will compel us to seek new and innovative ways to deliver services and to look at what is being achieved in other jurisdictions, principally in the United Kingdom through the cabinet office delivery unit. The philosophy will be a simple one - serving the public better and that means refining our strategic objectives to set out clearly what we expect agencies to deliver, focusing our public services on the needs of those who need them and use them, rewarding good performance by agencies, building the public sector’s capacity to lead and manage the change. This approach will cascade from ministers and CEOs and then onto managers and to the front line staff. It will be
driven and monitored by a team drawn from the central agencies who will report to me directly on progress. And this is not about achieving short term results. This is a long term plan to change the culture of the NSW public sector in the way that it does business.

As the nation’s biggest economy what happens in NSW matters when it comes to the nation. We don’t have the resource richness of Western Australia and Queensland. We don’t have the luxury of a GST windfall. When the Commonwealth treasurer talks about the states being awash with GST money and a bonus is saying the truth, he’s telling us the truth, that there is some $4.8B of GST revenues over and above what was estimated when the GST was implemented. NSW’s share of that $4.8B is a miserable $300M or 6%. There is a GST boom but it is not with NSW.

In addition, the pressures on our budget with the downturn in the property and the housing sectors have meant that our revenues have gone down and there will be some very hard decisions for the NSW economy. The measures I’ve outlined today are some, are interim measures from the audit. The full and comprehensive audit will be released at the end of June, as I’ve mentioned, backed with a statement in February that will involve significant and hard decisions for government when it comes to programs and expenditure. We’ve already announced in the area of voluntary redundancies up to 4,000. What happens in NSW matters to the nation and we are absolutely determined to ensure that the NSW economy remains the leading economy in the nation and that NSW continues to be an economic powerhouse. That will mean tough decisions on our budget. It will mean tough decisions and discipline on our expenditure, but it is something that we are not going to back away from. A tough approach to our recurrent expenditure to the size of the public sector is fundamental to ensuring that we remain the nation’s leading economy and to ensure that we are going to be able to continue to attract and drive and encourage jobs, investment and growth for NSW. There are significant challenges ahead for us but the government is absolutely determined to ensure that we meet those challenges to meet our economic objectives of growth, investment and prosperity. Thank you.

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