

NSW Budget 2013/14

Local Government NSW (LGNSW) Analysis

June 2013

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1. Budget Overview

The NSW Budget 2013/14 focuses on infrastructure spending, particularly in the public transport sector, stimulating the housing and business sector, and continued public expenditure control. Existing programs affecting Local Government have largely been maintained.

Results

The NSW Budget 2013/14 is impacted by a fragile global economic outlook, uncertainties associated with Australia's transition from mining investment growth to growth through exports and in the domestic non-mining sectors, and associated, lower than expected, revenues.

The estimated budget result for 2013/14 is a deficit of \$329 million, \$94 million less than was forecast in the Half-Yearly Review (adjusted to exclude the impact of an superannuation accounting change that affects the budget result by \$1.6 billion on the expenditure side – see below Budget Information – General Results). The budget is expected to reach a surplus position in 2014/15. The revised budget result for 2012/13 is a deficit of \$374 million, compared with an estimate of \$824 million in last year's budget and \$776 million in the Half-Yearly Review.

Housing sector stimulus – *Building the State*

The budget continues the NSW Government's comprehensive package to stimulate the housing sector - the *Building the State* package. The Building the State package is to provide funding for additional infrastructure to significantly boost housing supply in NSW.

The NSW 2013/14 Budget extends NSW's first homebuyers scheme with the aim to further boost new housing supply. The budget extends the First Home Owners Grant of \$15,000 for new homes costing up to \$650,000 announced under the Building the State package of last year's Budget for a further two years until January 2016. The grant was due to drop from \$15,000 to \$10,000 in 2014.

Business stimulus – Changes to payroll tax

The NSW Government will raise the payroll tax threshold for business from \$689,000 to \$750,000 on 1 July 2013, raising the tax to around the level that would be achieved by three years of indexation. Indexation will cease, also from 1 July 2013, broadening the base of payroll tax and making it more efficient. As a result, around 1300 businesses that would have paid payroll tax in 2013/14 are expected not to be liable for the tax. Furthermore, businesses that continue to pay the tax are expected to be more than \$3,000 better off as a result of the one-off increase to the threshold. The measure will cost \$96 million in the three years to 2015/16, before becoming revenue positive in 2016/17. Councils that have operations subject to payroll tax may also benefit from this.

The budget also includes an increase in the payroll tax rebate from \$4,000 to \$5,000 for each new job supported under the Jobs Action Plan.

Infrastructure spending

Infrastructure expenditure in NSW will total \$59.7 billion over the forward estimates to 2016/17, including \$15.5 billion in 2013/14. The four year program to June 2017 is 3.4% lower than the

four years to 2016 published in the 2012/13 budget. This is due to reductions in the public trading enterprise capital program; i.e. mainly a decrease in capital expenditure in the electricity sector.

The budget allocates funding for a range of significant infrastructure projects. There is a \$1.8 billion commitment over the forward estimates for WestConnex, \$165 million for Bridges for the Bush, \$4.1 billion for North West Rail link, \$5.1 billion for the Pacific and Princes Highways upgrades, around \$4 billion for health and \$2 billion for education.

2. Budget Information – Local Government Focus

Funding for programs directly affecting Local Government has generally been maintained, but not increased. The budget does not appear to contain any new taxes or other financial impositions on Local Government.

The budget provides for an expanded \$99 million Local Infrastructure Growth Scheme to fund gap between what councils can charge developers in infrastructure levies and what it actually costs councils to build necessary local infrastructure. No new allocation has been made for the Local Infrastructure Renewal Scheme (LIRS) as round 2 disbursements are still ongoing. The Minister for Local Government, the Hon Dan Page MP announced that a third round of LIRS assistance would be available later in the year.

Notable budget measures for Local Government are as follows:

Local Infrastructure Growth Scheme

The budget allocates \$99 million through the Local Infrastructure Growth Scheme to fund the gap between what councils can charge developers in infrastructure levies and what it actually costs councils to build infrastructure such as new local roads and stormwater drainage.

The Local Infrastructure Growth Scheme is to mainly benefit councils with new land releases, due to the greater costs associated with providing infrastructure to previously undeveloped land, but is also available for new housing developments in existing urban areas. To be eligible for funding, a council must have its contributions plan reviewed by IPART, showing that a gap exists between what it is able to charge and what the reasonable infrastructure cost will be.

The Minister for Planning, the Hon Brad Hazzard MP said he anticipated that most of the \$99 million would go to councils in the western Sydney growth areas especially in the Blacktown and Hills areas.

Local Government Infrastructure – Local Infrastructure Renewal Scheme

No new allocation has been made for the Local Infrastructure Renewal Scheme (LIRS) as there are still \$31.5 million to disburse for projects from round 2. However, the Minister for Local Government, the Hon Don Page MP announced that a third round of LIRS assistance would be available later in the year.

The scheme continues to be valued at \$100 million over five years from 2011/12.

While the funding allocation is welcome, it is not sufficient to make significant inroads into NSW Local Government infrastructure needs including a \$7.4 billion infrastructure renewal backlog. LGNSW would like to see further funding allocated in future.

Local Government Infrastructure – Local and Regional Roads

Regional Road Block Grant funding for 2013/14 has largely been maintained in real terms (slightly below inflation). Combined Regional Road Block Grants and Repair program funding has been increased by 2.5% to \$170.8 million, which is within normal expectations.

Bridges for the Bush

The budget allocates \$165 million over the four years to 2016/17 for the Bridges for the Bush program; a program to replace and upgrade bridges on key freight routes in regional NSW. LGNSW welcomes the extension of this program

Local Government Infrastructure – Resources for the Regions

The budget make available up to \$120 million in 2013/14 under the *Resources for Regions* program for eight communities eligible for assistance – Cobar, Lithgow, Mid-western Regional, Muswellbrook, Narrabri and Singleton, Newcastle and Wollongong. Around \$40 million will now be allocated to successful project applications made before 11 June 2013, and around \$80 million will be available for successful applications received by 25 October 2013.

During the election, the NSW Government promised to implement the Resources for the Regions program worth \$160 million as an alternative to a “Royalties for Regions” program to help meet the local infrastructure needs arising from the growth of the mining industry. LGNSW welcome the funding but continue advocating for a broader scheme that would benefit all regional councils while providing additional support to councils impacted by mining.

Local Government Infrastructure – Country Towns Water Supply and Sewerage Program

The budget allocation for 2013/14 is \$56 million. This is in line with the NSW Office of Water's works schedule for 2013/14. The allocation does not include any funding for additional projects.

Aboriginals Communities Water Supply and Sewerage Program (ACWSP)

\$18 million have been allocated for this program in 2013/14. This program commenced in 2008/09 and is actively supported by LGNSW and participating councils. The ACWSP aims to obtain support from and provide funding for councils/local water utilities to provide operational, maintenance and monitoring services of water supply and sewerage systems in selected Aboriginal communities.

Land Use Planning and Housing

The budget continues the NSW Government's comprehensive package to stimulate the housing sector - the *Building the State* package. The Building the State package is to provide funding for additional infrastructure to significantly boost housing supply in NSW and provide continued benefits for NSW first homebuyers (see below Budget Information – Key Measures).

As mentioned above, the budget allocates \$99 million through the Local Infrastructure Growth Scheme to fund the gap between what councils can charge developers in infrastructure levies and what it actually costs councils to build infrastructure such as new local roads and stormwater drainage.

Other relevant measures in 2013/14 include:

- \$20.9 million to implement a new planning system focussed on sustainable growth, by engaging with stakeholders and the community to receive feedback on the government's White Paper and developing the cultural and legal components of a new system;
- \$8 million under the Precinct Support Scheme to assist local councils to upgrade local infrastructure and provide high quality urban environments for selected Urban Activation Precincts; and
- \$5.3 million for the Planning Assessment Commission and Joint Regional Planning Panels to deliver a robust and independent system for assessing state and regionally significant developments during the transition to a new planning system.

Older people - HACC and Aged Care Reforms

HACC services for older people (over 65) are to be consolidated into the Commonwealth Home Support Program from 2015. The main impact on Local Government will be on transfer of HACC services for older people to the Commonwealth and how that affects services councils offer.

The budget allocates \$3.7 million for projects from the NSW Ageing Strategy, including expanding Elder Abuse Helpline, education activities for people in middle years to prepare for retirement, tech savvy seniors and encouraging private sector solutions and economic opportunities for a growing ageing population.

Early Childhood Education Services

The budget provides \$301 million on early childhood education and care, continuing the focus on universal access. LGNSW is encouraged by this investment which is understood to be spread across national partnerships, universal access, and aligning services with the reform agenda under the National Quality Framework.

Public Libraries

Funding in 2013/14 to local libraries through the State Library has not been increased compared to 2012/13 and remains at \$26.5 million.

Council libraries constitute an important community facility for the wider community often reaching beyond council boundaries. Funding provided to local libraries through the State Library has not been increased in recent years. NSW Government expenditure on public libraries has decreased as a proportion of total public library expenditure from 23.6% in 1980 to 8% in 2010/11.

Local Government NSW is concerned about the continuous decline in real terms of NSW Government support for council libraries. This decline is one of the biggest items in our annual cost shifting survey of NSW councils. To ensure council libraries can fulfil their important social role in the community, we suggest that Local Government and the NSW Government together find a more adequate funding arrangement for council libraries.

Noxious Weeds Funding

The budget allocation for the control of noxious weeds is \$11 million, which is the same as in 2012/13. This is contrary to the NSW Government's election commitment to increase funding by \$1.5 million each year over four years (2011/12 to 2014/15).

Despite costing the state over \$1.2 billion in lost production and control costs every year, the NSW Government funding continues to be grossly inadequate and contrary to the NSW Government's election commitment to increase funding by \$1.5 million each year over four years (2011/12 to 2014/15).

According to the NSW Government election promise, funding for 2011/12 should have been \$10.2 million (\$1.5 million increase of the base of \$8.7 million in 2010/11). Even though the 2011/12 budget announced funding of \$11 million, only \$9.5 million was actually provided in 2011/12; i.e. a shortfall of \$0.7 million. Funding for 2012/13 should have been \$11.7 million (\$10.2 million in 2010/11 plus \$1.5 million), but actual funding was only \$10.8 million; a shortfall of \$0.9 million. Funding in 2013/14 should have reached a level of \$13.2 million (\$11.7 million in 12/13 plus the \$1.5 million increase) but the budget allocation is only \$11 million; i.e. \$2.2 million short. This represents an accumulated shortfall of \$3.8 million over the first three years.

In their 2011 election priorities, the LGNSW have called for an increase in funding allocated to weed management to \$20 million per annum.

Coastal, floodplain and estuary management

The budget includes \$23 million to help councils prepare and implement coastal, floodplain and estuary management plans.

Waste Levy and Waste Less, Recycle More (WLRM) initiative

The budget papers do not specify any estimated payments in 2013/14 to Local Government for waste avoidance and recycling initiatives sourced from the waste levy.

Local Government NSW's estimates show that about 36-40% of waste levy payments by councils are to be returned to Local Government under the WLRM initiative. While this represents a slight increase compared to the previous two financial years (32% hypothecation rate), it is down from a hypothecation rate of 54% between 2006 and 2010 (including the Urban Sustainability Program).

LGNSW call for full hypothecation of the waste levy to fund and enable councils to use alternative waste technologies, joint ventures and education to reduce the waste stream.

Fire and Emergency Services

The 2013/14 budget allocations for the three emergency services (Fire and Rescue NSW, Rural Fire Service, and State Emergency Services) are as follow:

- The Fire and Rescue NSW budget is \$709.7 million; an increase of 2% compared to the \$695.5 million allocation in the 2012/13 budget and an increase of 0.7% compared to the revised 2012/13 figures of \$704.8 million.
- The NSW State Emergency Service budget is \$94.6 million; an increase of 9.4% compared to the \$86.5 million allocation in the 2012/13 budget and an increase of 4.2% compared to the revised 2012/13 figures of \$90.8 million.
- The Rural Fire Service budget is \$343.1 million; an increase of 9.6% compared to the \$313 million allocation in the 2012/13 budget, however a decrease of 14.9% compared to the revised 2012/13 figures of \$403 million.

Compared to the budget for 2012/13, the budget for all three services is to increase by 4.8%. However, compared to the revised figures for 2012/13 (as set out in the budget for 2013/14),

the budget for all three services is to decrease by 4.3%. This is due mainly to the over budget spending by the Rural Fire Service of \$90 million in 2012/13.

LGNSW maintains its position that the Emergency Service Levy needs to be replaced by a broad based property levy and notes that the NSW Government was reviewing the funding arrangements for fire and emergency services with a view to introducing a broad based property levy.

NSW Police Force

LGNSW encouraged by a total increased capital investment of \$47 million in 2013/14 to continue upgrades of NSW Police stations and properties. LGNSW also welcomes funding of \$192 million in recurrent funding over four years to employ additional police, as part of the Government's commitment to increase the authorised strength of the NSW Police Force by a further 489 officers to 16,665 in August 2015.

Aboriginal Affairs

The budget for the Aboriginal Housing Office (AHO) has increased to \$163.5 million; up from \$140.3 million in 2012/13 (revised figures). AHO is to invest \$26 million for the repair and maintenance of dwellings in the Aboriginal community housing sector, and \$11 million to reform and strengthen the sector under the NSW Build and Grow strategy. A further \$49 million will be allocated to deliver 103 new dwellings under the National Partnership Agreement on Remote Indigenous Housing and through the AHO's own capital works program.

The budget also provides for a total of \$4.7 million for a new plan that includes reforms to support more Aboriginal children to stay at school, transition to work and builds local decision making skills (OCHRE (Opportunity, Choice, Healing, Responsibility and Empowerment)).

\$69 million will support Aboriginal communities, young people, volunteers, veterans and our vibrant multicultural communities. This includes \$10 million to the Community Relations Commission (CRC) to foster continued multicultural harmony in NSW and maximise the social and economic benefits of living in a diverse society.

The NSW Government is to provide \$1.35 million a year over three years for prevention, early intervention and awareness programs in Aboriginal communities including initiatives aimed at increasing the availability of Aboriginal problem gambling counsellors.

3. Budget Information – Key Measures

The budget includes the following key measures:

Housing Sector Stimulus – *Building the State*

The budget continues the NSW Government's comprehensive package to stimulate the housing sector - the *Building the State* package. The Building the State package is to provide funding for additional infrastructure to significantly boost housing supply in NSW and provide continued benefits for NSW first homebuyers. Measures in 2013/14 include:

More Homebuyer Support

The NSW 2013/14 Budget extends NSW's first homebuyers scheme with the aim to further boost new housing supply. The budget extends the First Home Owners Grant of \$15,000 for

new homes costing up to \$650,000 announced under the Building the State package of last year's Budget for a further two years until January 2016. The grant was due to drop from \$15,000 to \$10,000 in 2014. The stamp duty concessions for first homebuyers of new homes will remain in place.

More Housing Infrastructure

The budget allocates additional \$302 million through the Housing Acceleration Fund, for critical infrastructure needed to support more housing across NSW including \$141 million for 11 critical projects to support the delivery of up to 42,900 new homes in Sydney and the Hunter region. This builds on the \$181 million allocated in last year's budget across 10 projects to support 76,000 new homes. In total, this is to help to deliver almost 120,000 new homes across the State. A further \$70 million has been allocated to upgrade Old Wallgrove Road, which is to unlock 1,200 hectares of land in the Western Sydney Employment Area, supporting jobs close to homes in new growth areas.

The budget also allocated \$99 million to assist councils to fund the gap between the amount developers contribute in infrastructure levies, and what it actually costs to build the infrastructure necessary to increase housing supply. Over 20,000 homes in The Hills and Blacktown communities are among those which are to benefit from the scheme.

Business stimulus – Changes to payroll tax

As announced in the budget, the NSW Government will raise the payroll tax threshold for business from \$689,000 to \$750,000 on 1 July 2013, raising the tax to around the level that would be achieved by three years of indexation. Indexation will cease, also from 1 July 2013, broadening the base of payroll tax and making it more efficient.

As a result, around 1300 businesses that would have paid payroll tax in 2013/14 are expected not to be liable for the tax. Furthermore, businesses that continue to pay the tax are expected to be more than \$3,000 better off as a result of the one-off increase to the threshold. The measure will cost \$96 million in the three years to 2015/16, before becoming revenue positive in 2016/17.

Councils that have operations subject to payroll tax may also benefit from this.

The budget also includes an increase in the payroll tax rebate from \$4,000 to \$5,000 for each new job supported under the Jobs Action Plan.

Infrastructure – general

The budget allocates funding for a range of significant infrastructure projects. There is a \$1.8 billion commitment over the forward estimates for WestConnex, \$165 million for Bridges for the Bush, \$4.1 billion for North West Rail link, \$5.1 billion for the Pacific and Princes Highways upgrades, around \$4 billion for health and \$2 billion for education.

Infrastructure expenditure in NSW will total \$59.7 billion over the forward estimates to 2016/17, including \$15.5 billion in 2013/14. The four year program to June 2017 is 3.4% lower than the four years to 2016 published in the 2012/13 budget. This is due to reductions in the public trading enterprise capital program; i.e. mainly a decrease in capital expenditure in the electricity sector.

Roads

Total expenditure on roads program for 2013/14 is \$6.7 billion, an increase of about \$700 million on what was budgeted for 2012/13 in last year's budget papers.

Key components include:

- Continued significant investment towards key regional highways including: \$285 million for the Pacific Highway, \$222 million for the Hunter Expressway, \$134 million for the Princes Highway; \$48 million for the Great Western Highway; and \$151 million to the Hume Highway.
- Continued investment to increase capacity and improve travel times on roads in Sydney, including upgrading roads such as Camden Valley Way (\$62 million), initial works on the WestConnex Motorway (\$140 million), and works on Old Wallgrove Road, Schofields Road and Richmond Road (\$211 million).

Transport

Total NSW Government budget for Transport for NSW's transport portfolio (excluding roads) in 2013/14 has been budgeted at \$13.9 billion, an increase of about 16.5% on the revised 2012/13 budget, mainly reflected by an increase in capital expenditure of 75.9% to \$2.618 billion.

NSW budget includes investment of \$6.4 billion over the four years to 2016/17 on the 'big six' public transport infrastructure projects including:

- \$4 billion for construction of the 36km North West Rail Link (the North West Rail Link is to have total cost of \$8.3 billion and be open to customers by the end of 2019);
- \$782 million for the 11.4km South West Rail Link between Glenfield and Leppington, due for completion in 2016;
- \$423 million for a 12km light rail line connecting Circular Quay and Central via George Street, the Moore Park sporting and entertainment precinct, Randwick Racecourse, the University of NSW and Prince of Wales Hospital at Randwick which will allow the removal of up to 220 buses an hour from the city's streets;
- \$885 million for the Northern Sydney Freight Corridor*, which will improve freight access, take 200,000 trucks off the road each year, and improve the reliability of commuter services from the Central Coast, inner west and northern Sydney;
- \$224 million for Wynyard Walk, a vital pedestrian link under the city to link up to 20,000 public transport commuters an hour with Barangaroo; and,
- \$76 million for the Inner West Light Rail Extension, a 5.6 kilometre new line from Lilyfield to Dulwich Hill with nine new stops, due to open next year.

Health

For 2013/14, total spending in health services is budgeted at just above \$19 billion (\$17.87 recurrent expenditure and \$1.17 capital expenditure); i.e. an increase from 18.3 billion or revised \$18.6 in the 2012/13 budget.

Relevant key measures include:

- \$220 million for increased activity (an extra 69,000 emergency department attendances, an extra 34,000 patients admitted to hospital including surgery for an extra 3000 patients, extra outpatient clinic appointments and new sub-acute services) as well as additional intensive care services for babies, children and adults; and
- \$1.2 billion in capital funding to upgrade and redevelop hospitals and health facilities across the state, including Blacktown Mount Druitt, Campbelltown, Lismore, Muswellbrook, Kempsey, Port Macquarie, Parkes, Forbes, Northern Beaches Health Service, St George,

Prince of Wales, Royal North Shore, John Hunter, Hornsby Ku-ring-gai, Tamworth, Wagga Wagga, South East Regional Hospital (Bega), Dubbo, Westmead, Shoalhaven, Hillston, Peak Hill, Yamba, Wollongong and Nepean.

In a similar manner to the previous budget, the key focus appears to be on health services and capital works with only minimum attention to preventive health at the community and council level. Preventive Health initiatives include:

- \$9.2 million for the Healthy Children Initiative to improve nutrition and physical activity of children;
- \$7.6 million for the Healthy Workers Initiative including piloting workplace support services and health checks for at risk workers; and
- \$3 million on the community pharmacies program to identify people with chronic disease early.

\$15 million have been allocated to implement the reform plan for the Ambulance Service of NSW, including recommendations relating to aeromedical retrieval.

Education

Total expenditure for 2013/14 is budgeted at \$14.76 billion; an increase from \$14.3 billion in the 2012/13 budget.

Relevant key measures include:

- \$10.24 billion for government schools, including \$320 million on school maintenance;
- \$995 million to support non-government schools;
- \$2.3 billion is allocated for vocational education and training through TAFE NSW Institutes and other registered training providers to improve skills and increase higher qualification levels in NSW and to regulate apprenticeships and traineeships;
- \$301 million on early childhood education and care, continuing the focus on universal access; and
- \$4 million to commence consultation and development of interactive NSW senior secondary syllabuses.

Police

Total expenditure of the NSW Police Force is budgeted at \$3.54 billion, an increase from \$3.37 billion in 2012/13 (revised figures).

Key initiatives in 2013/14 include:

- \$192 million in recurrent funding over four years to employ additional police, as part of the Government's commitment to increase the authorised strength of the NSW Police Force by a further 489 officers to 16,665 in August 2015; and
- \$47 million to continue works on new or refurbished police stations in Riverstone, Coffs Harbour, Lake Macquarie, Liverpool, Tweed Heads, Walgett, Moree, Manly and Parkes.

Family and Community Services

Total expenditure for the Department of Family and Community Services is budgeted at \$5.35 billion, and increase from just below \$5 billion in 2012/13 (revised figures).

Disability and Ageing

The budget provides a total of \$2.82 billion (including capital) for disability and ageing services in 2013/14 through the agency Ageing, Disability and Home Care (ADHC) – an increase of 4.6% from last year's budget. Key initiatives include:

Disability - DisabilityCare Australia (NDIS)

The Hunter Launch Site is to begin on 1 July 2013 for 3000 people in Newcastle in the first year. Costs over 3 years are estimated at \$550 million plus \$35 million over 4 years for the entire launch site for 10,000 people including Lake Macquarie & Maitland. The full roll out of *DisabilityCare* in NSW is to start from 1 July 2016 for a total 140,000 NSW residents. A transition strategy to be developed (this will be important for Local Government, e.g. how Local Government can prepare for introduction of *DisabilityCare* and what that means for services like libraries and leisure centres).

Disability - Stronger Together Two

This program is fully funded to the amount of \$440 million in 2013/14 but realigned towards *DisabilityCare*. Highlights include:

- \$54 million over 4 years (\$16 million in 2013/14) to retrofit fire safety measures and sprinklers to 330 ADHC supported accommodation homes & facilities; and
- 900 supported accommodation places, 2,800 places for flexible respite, and 300 places for support networks for families, parents & people with disabilities.

Disability - Community Care Supports Program (previously Home and Community Care)

This program provides support for non-Aboriginal people with disability under the age of 65 and for Aboriginal people with disability under the age of 50. The budget allocated funding of \$208 million for 2013/14 for services for 51,000 people – a reduction of \$23 million from previous year; or 12.7% in real terms.

Arts

Funding for arts programs has been reduced by \$6 million from \$57 million in 2012/13 to \$51 million. The reduced investment coincides with the review of the current structure and administration of the NSW Government Arts Funding Program (to take effect the in the next budget).

4. Budget Information – General Results

The NSW Budget 2013/14 is impacted by a fragile global economic outlook, uncertainties associated with Australia's transition from mining investment growth to growth through exports and in the domestic non-mining sectors, and associated, lower than expected, revenues.

The estimated budget result for 2013/14 is a deficit of \$329 million, \$94 million less than was forecast in the Half-Yearly Review (adjusted to exclude the impact of an superannuation accounting change that affects the budget result by \$1.6 billion on the expenditure side – see below). The budget is expected to reach a surplus position in 2014/15. The revised budget result for 2012/13 is a deficit of \$374 million, compared with an estimate of \$824 million in last year's budget and \$776 million in the Half-Yearly Review.

Revenues on a no policy change basis are almost \$700 million lower across 2012/13 and 2013/14 than forecast in the 2012/13 budget. Lower Commonwealth Government payments -

both lower GST transfers associated with a weaker than anticipated national economy and lower National Partnership payments - are a major contributor. Weaknesses in royalty receipts and State taxes also contribute to the 2012/13 result.

The budget continues exercising expenditure restraint, particularly with respect to employee related expenses (public service). On top of the labour expense cap introduced in last year's budget, which requires agencies to reduce staff cost by 1.2% annually, the budget extends an efficiency dividend of 1% per year on government activities until 2016/17 expected to generate savings of \$10.4 billion in the period 2011/12 to 2016/17. In total including procurement reform and other program savings, the public sector is to generate savings of \$18.9 billion over the six years to 2016/17.

For the third consecutive year, expenses are expected to come in under budget in 2012/13. Expenses are now anticipated to grow by only 2.7% in 2012/13, compared with the 2012/13 Budget forecast of 3.0%. Although 2013/14 expenses are expected to be 7.5% above the 2012/13 estimate, once the impact of the accounting change is removed (see below), expense growth in 2013/14 will be 4.9% and average expense growth will be 3.7% per year over the four years to 2016/17. Across the four years, expense growth will be kept below revenue growth.

The budget is impacted by amendments to *Accounting Standard AASB119 Employee Benefits* that come into effect in 2013/14 and affecting around \$30 billion in superannuation assets. Higher superannuation expenses significantly worsen the budget result by around \$1.6 billion compared to the previous AASB 119 approach. Budget aggregates include the impact of these amendments. However, to enable comparison with previous budgets, the NSW government also reports budgets results adjusted to exclude the impact of the amendments – termed “traditional” aggregates (see below).

Budget results and forecasts include:

Table 1.1: Budget Aggregates

	2011-12 Actual	2012-13 Estimate	2013-14 Budget	2014-15 Forward Estimates	2015-16 Forward Estimates	2016-17 Forward Estimates
Revenue (\$m)	59,054	59,599	62,573	65,731	68,615	71,001
Revenue growth (per cent pa)	3.3	0.9	5.0	5.0	4.4	3.5
Expenses (\$m)	58,394	59,973	64,462	66,295	68,459	70,466
Expense growth (per cent pa)	4.6	2.7	7.5	2.8	3.3	2.9
Budget result (\$m)	660	(374)	(1,890)	(563)	157	535
Per cent of GSP	0.1	(0.1)	(0.4)	(0.1)	0.0	0.1
Net Capital Expenditure (\$m)	2,704	2,596	2,637	3,239	2,468	1,989
Per cent of GSP	0.6	0.6	0.5	0.6	0.4	0.3
Net lending/(borrowing) result (\$m)	(2,043)	(2,970)	(4,527)	(3,803)	(2,311)	(1,454)
Per cent of GSP	(0.4)	(0.6)	(0.9)	(0.7)	(0.4)	(0.3)
ABS GFS CASH SURPLUS/(DEFICIT) - including finance leases (\$m)	(5,801)	(4,268)	(3,174)	(2,845)	(1,932)	(798)
Per cent of GSP	(1.3)	(0.9)	(0.6)	(0.5)	(0.4)	(0.1)

Table 1.2: Traditional Aggregates ^(a)

	2011-12 Actual	2012-13 Estimate	2013-14 Budget	2014-15	2015-16	2016-17
				Forward Estimates		
Traditional Aggregates (pre AASB 119 results)						
Revenue (\$m)	59,054	59,599	62,573	65,731	68,615	71,001
Revenue growth (per cent pa)	3.3	0.9	5.0	5.0	4.4	3.5
Expenses - (\$m) ^(a)	58,394	59,973	62,901	64,903	67,311	69,475
Expense growth (per cent pa)	4.6	2.7	4.9	3.2	3.7	3.2
Budget result - (\$m) ^(a)	660	(374)	(329)	829	1,305	1,526
Per cent of GSP	0.1	(0.1)	(0.1)	0.2	0.2	0.3
Net Capital Expenditure (\$m)	2,704	2,596	2,637	3,239	2,468	1,989
Per cent of GSP	0.6	0.6	0.5	0.6	0.4	0.3
Net lending/(borrowing) result - (\$m) ^(a)	(2,043)	(2,970)	(2,966)	(2,411)	(1,163)	(463)
Per cent of GSP	(0.4)	(0.6)	(0.6)	(0.5)	(0.2)	(0.1)
ABS GFS CASH SURPLUS/(DEFICIT) - including finance leases (\$m)	(5,801)	(4,268)	(3,174)	(2,845)	(1,932)	(798)
Per cent of GSP	(1.3)	(0.9)	(0.6)	(0.5)	(0.4)	(0.1)

(a) Adjusted to exclude the impact of the amended AASB 119 from 2013-14 for estimating superannuation interest expense

Capital expenditure

- Infrastructure expenditure in NSW will total \$59.7 billion over the forward estimates to 2016/17, including \$15.5 billion in 2013/14. The four year program to June 2017 is 3.4% lower than the four years to 2016 published in the 2012/13 budget. This is due to reductions in the public trading enterprise capital program; i.e. mainly a decrease in capital expenditure in the electricity sector.
- In 2013/14, general government capital expenditure will be \$9.1 billion, representing a 13.4% increase on the \$8 billion spent in 2012/13. Total spending over forward estimates will be \$36 billion.
- In 2013/14, capital expenditure in the public trading enterprise sector will be \$6.45 billion, just below the spending level in 2012/13 of \$6.5 billion. Total spending over forward estimates will be \$23.7 billion.

Net debt

Net debt of the general government sector is estimated at \$13.0 billion in June 2013 and \$15.7 billion in June 2014 and is expected to increase to \$20.3 billion in June 2017. Net debt figures are now expected to be \$4.5 billion lower in June 2013 and \$4.8 billion lower in June 2014 compared with forecasts in the 2012/13 budget.

Improvements to the balance sheet in the medium term and the improved net debt position are related to successful asset transactions such as the long-term leases of Port Botany and Port Kembla (which also allow for funding from Restart NSW for key infrastructure priorities over coming years).

5. Budget Information – Economic Outlook

Real economic growth (gross state product) for 2012/13 is estimated at 2.5%, which is slightly higher than the estimated 2.25% in last year's budget. For 2013/14, real economic growth is estimated at 2.75%. The average unemployment rate is expected to remain at low levels at 5.25% in 2012/13 and 5.5% forecast for 2013/14.

Further economic projections can be found in table 1 below:

Table 1: NSW Economic Projections until 2014/15

	Outcomes 2009/10 in %	Outcomes 2010/11 in %	Outcomes 2011/12 in %	Forecast 2012/13 in %	Forecast 2013/14 in %	Forecast 2014/15 in %
Real state final demand	3.4	3.1	2.1	2.25 (2.75 forecast in budget 12/13)	3.0 (3.5 forecast in budget 12/13)	3.0
Real gross state product growth	1.7	2.2	2.4	2.5 (2.25 forecast in budget 12/13)	2.75 (3.0 forecast in budget 12/13)	2.75
Unemployment rate	5.7	5.1	5.2	5.25 (5.5 forecast in budget 12/13)	5.5 (5.5 forecast in budget 12/13)	5.5
Inflation (Sydney CPI)	2.9	3.0	2.5	2.5 (2.5 forecast in budget 12/13)	2.0 (2.5 forecast in budget 12/13)	2.5
Wage price index	3.2	3.7	3.6	3.25 (3.5 forecast in budget 12/13)	3.25 (3.5 forecast in budget 12/13)	3.5

Further Information

NSW Government Budget Papers 2013/14: www.budget.nsw.gov.au