

Review of the 2010-11 New South Wales Government Budget

OVERVIEW

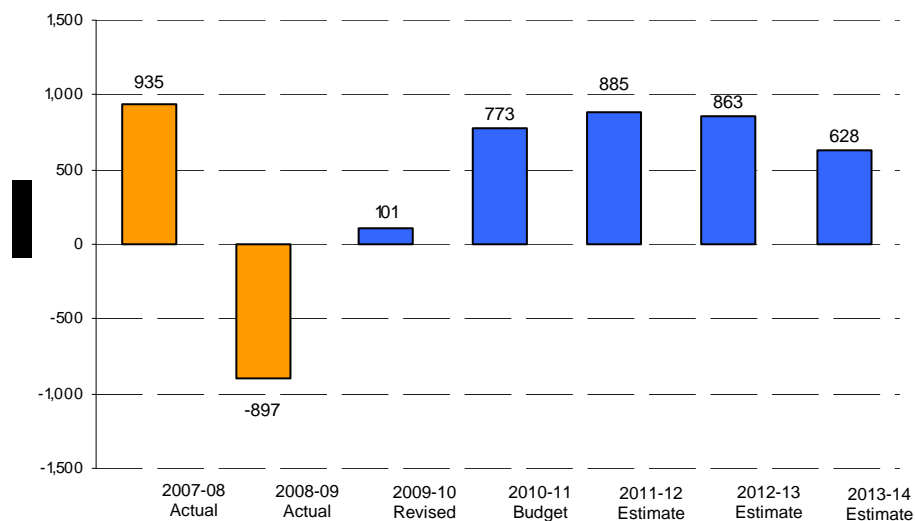
The 2010-11 NSW Budget was handed down on Tuesday 8 June 2010. The Budget delivers a General Government surplus of \$773 million in 2010-11 with Budget surpluses worth a combined \$2.38 billion projected over the three years to 2013-14 at an average of around \$792 million a year. A strong public works and investment program; payroll tax reform and; cuts to stamp duty for newly constructed homes and off-the plan home purchases were key features of the Budget. An improvement in State growth is forecast over the next two years from 2.5% in 2009-10 to 3.0% in 2010-11 and 3.5% in 2011-12.

The NSW Budget result for 2010-11 is a forecast surplus of \$773 million. This follows a better than expected result for 2009-10 (estimated to be a surplus of \$101 million compared with an originally projected deficit of \$990 million), representing a turnaround of \$1,091 million. The improved 2009-10 result is driven by growth in revenues (4.8% higher than budget) exceeding expenses growth (2.7% higher than budget).

Surpluses are forecast throughout the forward estimates period:

- 2011-12: \$885 million surplus
- 2012-13: \$863 million surplus
- 2013-14: \$628 million surplus

Budget results 2007-08 to 2013-14



Source: NSW Budget Statement, Budget Paper No. 2, 2010-11

As a consequence of the early return to surplus, general government net debt is expected to peak at 2.7% of Gross State Product in 2010-11, rather than 3.9% forecast last year, and decline thereafter. Net State Debt is nevertheless expected to rise from \$36 billion to \$55 billion in 2014.

While the Government's Budget Strategy remains directed towards a return to sustained budget surpluses and lowering the general government net debt as a share of the economy, it has provided for strong capital works expenditure and increases in spending on health services, transport, defence and community services.

The Budget includes cuts to payroll tax and cuts to stamp duties delivering \$180 million in new tax cuts in 2010-11. In addition, the Budget provides \$129.8 million for investment attraction and industry development; \$95.3 million for small business and regional development and; a \$140 million investment in the State's property sector as part of a two-year strategy to boost housing construction.

BUDGET ANALYSIS

The NSW Government's total **operating surplus** in 2010-11 is forecast to be \$773 million. The Budget result for 2010-11 follows a \$101 million estimated surplus in 2009-10, which represents a return to surplus two years earlier than was expected in the 2009-10 Budget.

Revenue is forecast to grow by 3.9% to \$2.2 billion and expand by an average of 3.6 % over the four years to 2013-14.

Taxation revenue is forecast to be \$20.2 billion in 2010-11, 7.7% higher than in 2009-10. The principal reason for taxation revenue growing faster than total revenue is the expected recovery in the property market and its positive impact on revenue derived from land transfer duties and land tax.

Expenditure is projected to grow by 2.7% to \$56.9 billion in 2010-11 and increase at an average 3.4% per annum over the four years to 2013-14. The projected growth in expenses in 2010-11 largely reflects a 6.0% rise in employee expenses due mainly to increased services and front line staff in the health sector and additional expenses under the COAG National Health and Hospital Network reforms program; a 20.2% increase in interest expenses and; a 5.5% increase in current grants and other transfers.

Infrastructure Expenditure will total \$62.2 billion over the four years to 2013-14, including \$16.6 billion in 2010-11. The program, incorporating major infrastructure such as roads, rail, housing hospitals and schools, is expected to support up to 155,000 full-time equivalent jobs each year over the four-year Budget and forward estimates period.

General Government Net debt is forecast to increase from \$10.4 billion (2.5% of GSP) in June 2010 to \$13.5 billion (2.5%) in June 2014. This increase of \$3.1 billion will be used to help fund the general government infrastructure investment program of \$25.9 billion over the four years to 2013-14. General government net financial liabilities are expected to decline as a share of GSP from their recent peak of 12.0% in 2008-09, to 11.0% in 2010-11, continuing on a downward trajectory across the forward estimates to 10.0% in 2013-14.

The **Net Financial Liabilities** of the State are estimated at \$48.2 billion in June 2010, and are expected to increase through to June 2014 as a result of an increase in net debt and higher liabilities for Government insurance and employee provisions, including superannuation.

KEY INITIATIVES AFFECTING BUSINESS

The Government has announced a range of initiatives that will support NSW business. These include:

- A reduction in the payroll tax rate from 5.65% to 5.5% (previously scheduled to take effect from 1 January 2011) to be brought forward to 1 July 2010, with a further reduction to 5.45% to take effect on 1 January 2011. In addition, the payroll tax threshold will be increased from \$638,000 to \$658,000 on 1 July 2010.
- A two year housing supply strategy for boosting housing construction. This involves the introduction of zero stamp duty for off-the-plan purchases of new homes; a 25% stamp duty cut on newly constructed homes for purchases of new dwellings costing up to \$600,000 where construction has already started; benefits of up to \$29,490 for first home buyers purchasing off-the-plan in the pre-construction stage and; zero stamp duty for over-65's who sell their family home and down-size to a newly constructed home worth up to \$600,000.
- An extra \$40 million for the Major Investment Attraction Scheme over two years to 2011-12 to attract large "footloose" projects and bring jobs and investment to NSW.
- An allocation of \$47.4 million for the Regional Development Assistance Package which incorporates funding for a number of programs including the Building the Country Program, the Western Sydney Employment Fund and the Regional NSW Employment Fund.
- A defence industry investment package worth \$75 million, comprising \$25 million to help NSW companies secure new defence projects and build defence capability in the State, and provision of a \$50 million parcel of Government land at Macquarie Park in Sydney to develop a defence high-technology-related business hub.
- Abolition of the insurance protection tax from 1 July 2011.
- \$1.8 million for the State's trade development program to help NSW companies win business in overseas markets and create local jobs.
- An allocation of \$1.7 million to support the Industry Capability Network (ICN) in NSW to help match major projects to local products and services that might otherwise be imported.
- \$5 million for the National ICT Australia (NICTA) to assist in the continued promotion of investment in world class information and communications technology (ICT).
- Support for innovation in business through a \$1 million allocation to the Australian Technology Showcase program to help grow markets for innovative technology-based products, and a further \$1.4 million allocation to the new Innovation Pathways program which provides growth assistance for NSW technology companies.
- \$23 million to support small and medium businesses, including \$2.7 million on Business Advisory Services; \$2.31 million on mentoring and networking services and \$1.7 million for the Retail Tenancy Unit to provide mediation services to help small businesses and their landlords negotiate leases and end disputes.

- Support for a range of regional industry initiatives, including:
 - \$19.3 million for the NSW Government's Building the Country Package, part of a total \$85 million commitment over five years to foster innovation, jobs and investment in regional NSW;
 - \$12.2 million for Regional Development Assistance, which provides a range of funding and other support to ensure the continued sustainability and growth of rural communities; and
 - \$7.6 million towards the Western Sydney Business Employment Fund and \$4.4 million for the Regional Business Employment Fund to encourage business growth and new employment creation.
 - \$22.3 billion over the next four years for the Metropolitan Transport Plan, including the start in 2010-11 of the \$4.5 billion Western Express rail service, and investment of \$278 million to continue construction of the South West Rail Link; \$303.9 million in funding for Rail Clearway projects; \$55 million to start the construction on the Lilyfield to Dulwich Hill Light Rail extension and; \$167 million on the Computer Car Park Program involving the creation of 7,000 extra car spaces at stations across the rail network.
 - \$4.7 billion in 2010-11 to build and maintain critical road infrastructure across NSW, including \$2.2 billion to build new roads; \$1 billion for maintenance of the state's existing roads; \$336 million in improvements to the traffic network; and \$871 million on the Pacific Highway upgrade between Hexham and the Queensland border.
 - More than \$2 billion to upgrade NSW schools and TAFEs including new halls, gyms, classrooms and science laboratories.
 - \$27 million for the Learn or Earn Initiative to provide extra training opportunities for young people and boost apprenticeships, including delivering five trade schools as part of a five year program delivering 26 trade schools by 2011.

Other significant, broader policy initiatives include:

- \$16.4 billion in the delivery of NSW health's services and provision of infrastructure, an increase of \$1.3 billion or 8.6% on 2009 -10.
- \$17.4 billion over the next four years to upgrade and maintain the electricity network, including \$13.5 billion on distribution systems, \$2.2 billion on the transmission network and \$1.8 billion for generator capacity.
- \$4.7 billion over the next four years for water and sewerage including \$619 million on growth works to service urban development and \$113 million on recycled water projects in the Sydney region, and \$358 million towards the construction of Tillegra Dam.
- \$152.1 million for the upgrade of the Sydney Opera House.

KEY ECONOMIC PARAMETERS

- The NSW Government forecasts that gross state product (GSP) will strengthen from a year average of 2.5% in 2009-10 to 3% in 2010-11 and 3.5% in 2011-12, although NSW growth is expected to be slightly below the national average reflecting higher mining investment growth in the resource-based states in 2010-11 and 2011-12.
- The key underpinnings of growth in 2010-11 are expected to be an improving labour market, household consumption growth and a continued recovery in dwelling investment. Planned declines in business investment will detract from growth during the year.

Economic Performance and Outlook

Year average per cent change, unless otherwise indicated

	2008-09 Outcomes	2009-10 Estimates	2010-11 Forecasts	2011-12 Forecasts
New South Wales				
Real state final demand	1.9	3¾	3½	3½
Real gross state product	0.2	2½	3	3½
Employment	0	1	1¾	1¾
Unemployment rate ^(a)	5.6	5¾	5½	5¼
Sydney CPI ^(b)	1.3	3¼	2¾	2¾
Wage price index	3.8	3¼	3½	3¾
Australia				
Ten year bond rate ^(a)	5	5½	6	5¾

(a) Year average, per cent

(b) Per cent change through-the-year to June quarter

Source: NSW Budget Statement, Budget Paper No. 2, 2010-11

- NSW employment is expected to grow at an above average trend rate of 1.75% in 2010-11 and 2011-12 in line with improved economic output. The unemployment rate is forecast to decline from 5.75% in 2009-10 to 5.5% in 2010-11 and 5.25% in 2011-12.
- Inflation is expected to remain contained within the RBA's 2-3 per cent target range with the Sydney Consumer Price Index expected to increase at a rate of 2.75% in the year to June 2011 and in the year to June 2012.
- Wages growth, as measured by the Wage Price Index, is expected to increase in response to strengthening labour market conditions, rising from 3.25% in 2009-10 to 3.5% in 2010-11 and 3/75% in 2011-12.

The key risks to the improved outlook for the NSW economy include a slower recovery in the world economy and the possible adverse impacts from deteriorating fiscal positions overseas. Upside risks include faster global growth and higher commodity prices leading to stronger than expected national domestic demand growth in the short term.