

## Review of the 2011-12 New South Wales Government Budget

### OVERVIEW

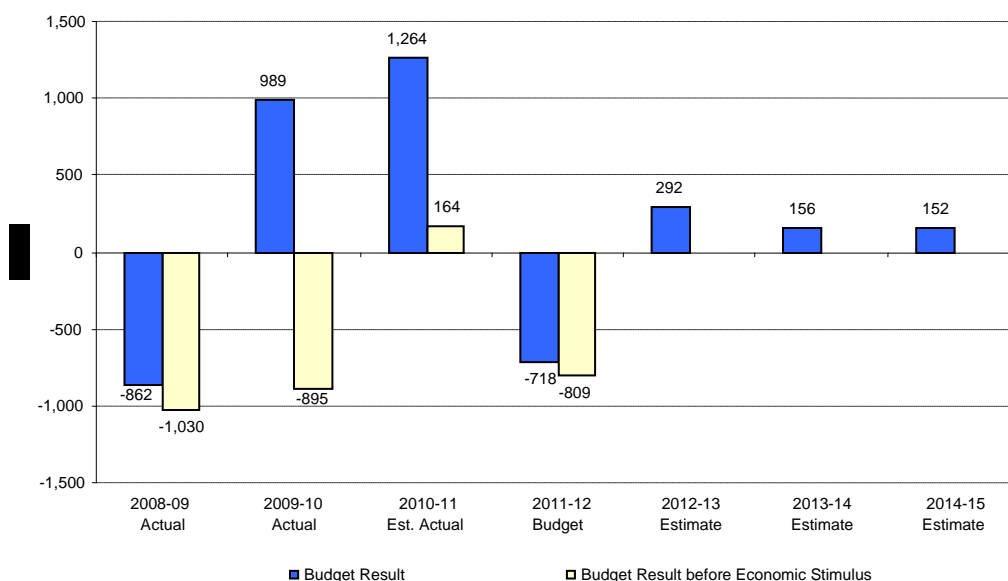
**The 2011-12 NSW Budget was handed down on Tuesday 6 September 2011. The Budget delivers a General Government deficit of \$718 million in 2011-12 with a return to surplus of \$292 million in 2012-13 and average surpluses of \$200 million over the three years to 2014-15. A strong infrastructure spending program, public sector efficiency savings and a plan to privatise Sydney's Port Botany were key features of the Budget. An improvement in State growth is forecast over the next two years from 2.25 per cent in 2010-11 to 2.5 per cent in 2011-12 and 3.0 per cent in 2012-13.**

The NSW Budget result for 2011-12 is a forecast deficit of \$718 million as compared with a surplus of \$1,264 million in 2010-11. The 2011-12 projected deficit result reflects growth in expenses (7.1% higher than in 2010-11) exceeding revenue growth (3.4 per cent higher than in 2010-11).

Surpluses are forecast throughout the forward estimates period:

- 2012-13: \$292 million surplus
- 2013-14: \$156 million surplus
- 2014-15: \$152 million surplus

### Budget Results 2008-09 to 2014-15



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

With strong growth in Public Trading Enterprise Investment, General government net debt is expected to rise as a ratio of Gross State Product from 1.8 per cent in 2010-11 to a peak of 2.8 per cent in 2013-14 before easing in the final year of the forward estimates to 2.7 per cent in 2014-15.

While the Government's Budget Strategy is 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, education and disability services.

The Budget includes a payroll tax rebate for the first 100,000 new full-time jobs created after 1 July 2011 and the delivery of major transport projects, including the North West Rail Link, South West Rail Link, and the upgrade of the Pacific and Princes Highway. In addition, the Budget provides \$130 million for investment attraction and industry development and \$350 million over four years (commencing 2011-12) to establish the Hunter Infrastructure and Investment Fund (HIIF) to upgrade infrastructure in the Hunter Region.

The NSW Government also announced plans to refinance State-owned assets at Port Botany (estimated to realise between \$1.8 and \$2.2 billion), in addition to the leasing of the Sydney Desalination Plant, to fund priority infrastructure projects. The Port Botany facility will be refinanced under a 99-year lease with a view to completing the transaction in the first half of 2013. Expressions of Interest for the refinancing transaction for the desalination plant would be sought from prospective interested parties by late 2011, with the aim of completing the transaction by mid-2012.

## **BUDGET ANALYSIS**

The NSW Government's total **operating surplus** in 2011-12 is forecast to be \$718 million. The Budget result for 2011-12 follows a \$1,264 million estimated surplus in 2010-11, a result underpinned by a net benefit of \$1.1 billion in the Economic Stimulus payments from the Federal Government. Excluding the federal stimulus used to fund capital works, the actual budget result for 2010-11 would have been a deficit of nearly \$200 million.

**Revenue** is forecast to grow by 3.4 per cent in 2011-12 to an estimated \$59 billion and expand by an average of 3.7% over the four years to 2014-15.

Taxation revenue is forecast to be \$20.6 billion in 2011-12, 1.5 per cent higher than in 2010-11. The principal reason for taxation revenue growing slower than total revenue is the weakness in the property market and its negative impact on revenue derived from land transfer duties. Taxation revenue is forecast to grow by an average of 5.1 per cent per annum over the four years to 2014-15 with improving economic growth expected to lead to a cyclical upturn in transfer duty and payroll tax receipts, in particular.

**Expenditure** is projected to grow by 7.1 per cent to \$59.7 billion in 2011-12 and to increase at a lower average rate per annum of 4.2 per cent over the four years to 2014-15. The slower projected growth in expenses over the forward estimates reflects efficiency saving measures including new procurement reforms; agency-specific savings plans; and saving on programs following a detailed analysis of programs to identify activities which are ineffective, inefficient or no longer a Government priority.

**Infrastructure Expenditure** will total \$62.6 billion over the four years to 2014-15, including \$15.3 billion in 2011-12. The program ranges from the construction of major

infrastructure such as roads, railways, hospitals and schools to the acquisition and maintenance of minor plant and equipment. Adjusting for the economic stimulus plan, the underlying infrastructure investment program is expected to increase by \$1.9 billion, or 14.3 per cent compared with 2010-11. The \$1.9 billion increase comprises \$1.2 billion in the public trading enterprise sector and \$661 million in the general government sector.

**General Government Net debt** is forecast to increase as a ratio to Gross State Product (GSP) from 1.8 per cent in 2010-11 to a peak of 2.8 per cent in 2013-14 before easing in the final year of the forward estimates (2014-15). With strong growth in Public Trading Enterprise investment, which is financed to a large extent by borrowing, the ratio of state net debt to GSP is projected to rise, although at a gradually moderating pace, over the four years to 2014-15. The total state debt to GSP ratio will increase from 7.5 per cent in 2010-11 to 10.3 per cent in 2014-15.

The **Net Financial Liabilities** of the State are estimated at \$51.9 billion in June 2011, and are expected to increase by \$6 billion through to June 2015 as a result of an increase in net debt (due to continuing high levels of capital expenditure) and outstanding liabilities for Government insurance. Despite the increased borrowing requirement, net financial liabilities are forecast to fall from a peak of 12.8 per cent of GSP in June 2010 to 10.8 per cent in 2015. This reflects the receipt of electricity funds in 2011 and a forecast fall in unfunded superannuation liabilities in 2012.

## **KEY INITIATIVES AFFECTING BUSINESS**

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

- From 1 July 2011, businesses that are liable to payroll tax and that employ new staff may apply for a \$4,000 payroll tax rebate for each additional employee. The rebate will be paid in two equal parts from the first and second anniversary of the hiring of a new employee. For part time employees, the rebate will be paid as a proportion of full time equivalent hours. The rebate will be available for the first 100,000 new payroll tax-paying jobs, with 40 per cent of the new jobs in regional areas and 60 per cent of the new jobs in metropolitan areas. Metropolitan New South Wales includes metropolitan Sydney, including Gosford and Wyong, and the local Government areas of Newcastle and Wollongong.
- An allocation of \$350 million over four years commencing from 2011-12 to establish the Hunter Infrastructure and Investment Fund (HIIF). This fund will be directed to upgrading infrastructure in the Hunter Region including, \$12.5 billion in 2011-12 (a total of \$62.5 million over four years) for grants to Local Government for road improvements and \$4 million (a total of \$33 million over four years) for various health infrastructure projects.
- A capital works program incorporating 2011-12 financial year estimated investments in transport projects (\$6.3 billion); health infrastructure (over \$1 billion); electricity (\$4 billion) and; education and training (over \$750 million).
- A plan by the Government to introduce greater contestability in the provision of public sector services, for example, through the franchising of Sydney Ferries. It was also flagged by the Treasurer that road maintenance could be an area of future reform by promoting increased contestability. The Government also confirmed that it was examining the possibility of road maintenance outsourcing.

- \$130 million to attract industry and develop business through the State Investment Attraction Scheme and the Regional Industries Investment Fund.
- To help stimulate the housing construction sector, transfer duty exemptions to first home buyers will be limited to the purchase of newly constructed homes (including “off the plan”), from 1 January 2012. In addition, the Home Builders’ Bonus will be expanded meaning that people aged over 55 and over who buy a home costing up to \$600,000 will not pay stamp duty on the purchase before 1 July 2012. Currently, the transfer duty concession applies to purchasers aged 65 or over.
- The development of Industry Action Plans focusing on specific high performance and high potential industry sectors. These plans will outline long-term strategies for the specific sectors, including implications for small and medium sized businesses, and proposed actions by industry, government and other relevant agencies to promote growth and to enable the sectors’ to capitalise on opportunities.
- The appointment by the NSW Government of a Cross Border Commissioner to investigate, monitor and support the resolution of cross border issues that adversely impact on service delivery to NSW businesses and residents.
- Support for innovation in business through a \$10 million allocation to the Science Leveraging Fund aimed at attracting Federal funding and the development of research nodes.
- \$1.9 million to maintain the operations of four trade offices in China (Shanghai and Guangzhou), India (Mumbai) and the United Arab Emirates (Abu Dhabi)
- \$1.8 million for a range of exporter services covering education, market entry and expansion to grow exports from New South Wales.

## KEY ECONOMIC PARAMETERS

- The NSW Government forecasts that gross state product (GSP) in 2011-12 will grow by a below trend 2.5 per cent – considerably less than the 3.5 per cent growth forecast in the 2010-11 Budget. By 2012-13, economic growth is forecast to be slightly above trend at 3.0 per cent, reflecting a projected strengthening across all areas of private spending, including business investment, dwelling investment and household consumption.

## Economic Performance and Outlook

Year average per cent change, unless otherwise indicated

	2009-10 Outcomes	2010-11 Estimates	2011-12 Forecasts	2012-13 Forecasts
<b>New South Wales</b>				
Real state final demand	3.4	2½	2¾	3½
Real gross state product	1.7	2¾	2½	3
Employment	1.2	3.1	1	1¾
Unemployment rate <sup>(a)</sup>	5.7	5.1	5¼	5¼
Sydney CPI <sup>(b)</sup>	2.9	3.8	2½	3¾
Wage price index	3.2	3.8	4	4

(a) Year average, per cent

*(b) Per cent change through-the-year to June quarter*  
*Source: NSW Budget Statement, Budget Paper No. 2, 2011-12*

- NSW employment is expected to grow at a slightly above trend rate of 1.0 per cent in 2011-12 in year average terms. However, line with an expected improvement in economic output, employment is forecast to grow strongly by 1.75 per cent over the course of 2012-13. The unemployment rate is forecast to remain stable at 5.25 per cent during 2011-12 and 2012-13.
- Inflation is expected to remain contained within the RBA's 2-3 per cent target range in the current financial year with the Sydney Consumer Price Index expected to increase at a rate of 2.75 per cent in the year to June 2012. In 2012-13, the Sydney CPI is expected to increase at a rate of 3.75 per cent as capacity utilization increases and the deflationary effects of the stronger Australian dollar fade.
- Wages growth, as measured by the Wage Price Index, is expected to rise from 3.8 per cent in 2010-11 to 4.0 per cent in 2011-12 and 2012-13 as the labour market and capacity utilisation gradually tighten.

The key risks to the outlook for the NSW economy include the recent intensifying of Euro area sovereign debt concerns and heightened volatility in global financial markets. Another significant risk is that the more recent decline in consumer confidence is sustained and translates into slower consumer spending.