

Overview

This afternoon, the NSW Treasurer, the Hon. Mike Baird MP released the O'Farrell Government's second Budget.

The Budget is designed to maintain the State Government's triple-A credit rating, curtail public expenditure, and maintain the level of service provision. [According to the Treasurer](#), "This Budget takes the necessary decisions to restore this State's finances, return the Budget to surplus and maintain our triple-A credit rating. The future surpluses provide an increased capacity to fund services, build infrastructure and provide a buffer for economic shocks."

NSW Economic Outlook

Economic Performance and Outlook

	2010-11 Outcomes	2011-12 Forecasts	2012-13 Forecasts	2013-14 Forecasts
New South Wales				
Real state final demand	3.1	2%	2%	3%
Real gross state product	2.2	1%	2%	3
Employment	3.1	½	1	1%
Unemployment rate ^(a)	5.1	5%	5½	5½
Sydney CPI – through the year to June quarter ^(b)	3.8	1%	3	2%
Sydney CPI ^(c)	3	2%	2%	2%
Wage price index	3.7	3%	3%	3%

(a) Per cent change, year average, unless otherwise indicated

(b) Year average, per cent

(c) 2012-13 forecasts include the ¼ percentage point impact of the introduction of the carbon tax

Source: [NSW Budget Statement 2012-13 Table 2.2 "Economic Performance and Outlook"](#)

Fiscal Position for 2012-13 and the Forward Estimates

	2010-11 Actual	2011-12 Revised	2012-13 Budget	2013-14 Forward Estimates	2014-15 Forward Estimates	2015-16 Forward Estimates
Revenue (\$m)	57,144	58,452	59,727	62,636	64,916	68,074
Revenue growth (per cent pa)	1.4	2.3	2.2	4.9	3.6	4.9
Expenses (\$m)	55,804	58,788	60,552	62,347	64,353	66,902
Expense growth (per cent pa)	0.8	5.3	3.0	3.0	3.2	4.0
Budget result (\$m)	1,340	(337)	(824)	289	562	1,172
Per cent of GSP	0.3	(0.1)	(0.2)	0.1	0.1	0.2

Source: [NSW Budget Paper No.2 Chapter 1 2012-13, Table 1.1](#)

The Budget result for 2012-13 is forecast to be a deficit of \$824 million, as against a forecast surplus of \$292 million for the same fiscal period in last year's Budget.

Deteriorating GST revenue significantly impacted on the bottom line and expenses growth has been tightened to track below revenue growth in order to deliver future surpluses over the forward estimates.

The better than expected result for FY 2011-12, a deficit of \$337 million, is in measure due to early payments of Commonwealth road funding as well as Economic Stimulus payments and also greater than expected cuts in government spending.

Government expenditure is expected to rise to \$60.55bn in 2012-13, or 3.3 per cent over the four year period to 2015-2016. Government Revenue is expected to rise to \$59.7bn in 2012-13 or 3.9 per cent over the four year period to 2015-16. Net debt in June 2012 is estimated at \$13.9bn and forecast to be \$17.5bn in June 2013.

Budget Expenditure and Cost Savings

Total [general government sector expenses](#) are budgeted to be \$60.6bn in 2012-13. The key expenditure priorities of the 2012-13 Budget are:

- Development of productive infrastructure
- Major reform to housing planning and supply, and
- Service delivery

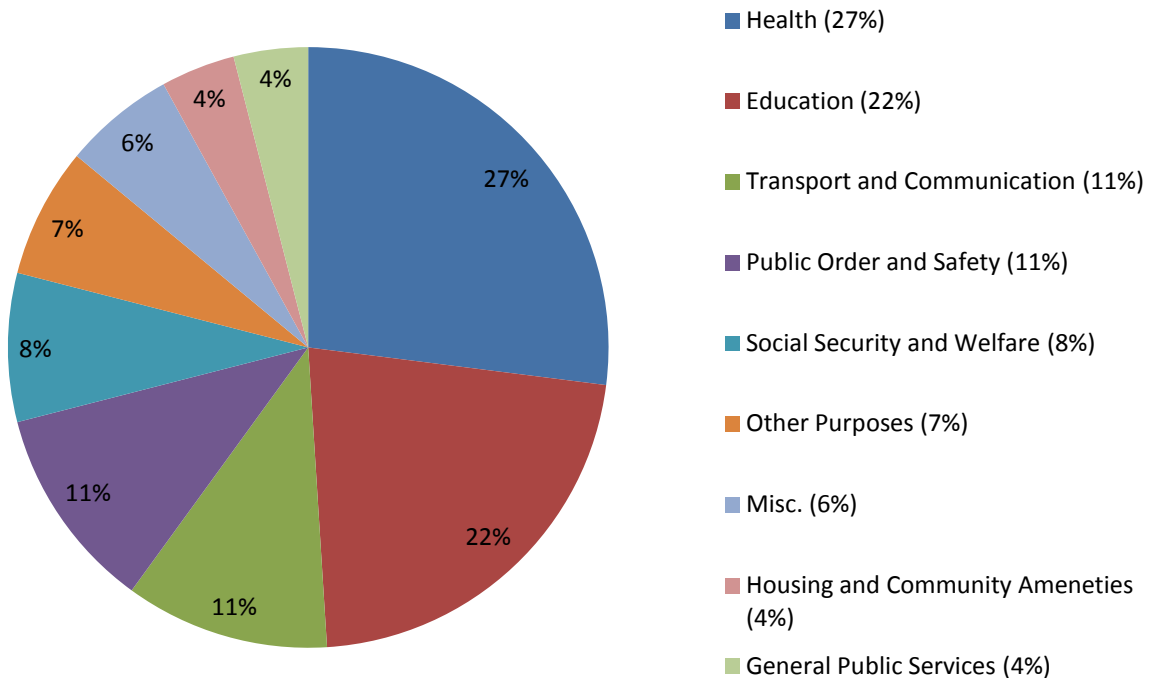
Expense growth was curtailed by savings measures including tighter financial management and accountability frameworks, delivery of efficiency dividends and procurement savings and the closure of surplus correctional facilities and restructured transport agencies.

The 2012-13 Budget imposes a labour expense cap of 1.2% projected to deliver \$2.2bn over four years and a cap on annual leave accruals to deliver \$220m over three years. Savings measures to 2015-16 will see expected total cumulative savings of \$13.6bn.

Headline Expenditure

- \$16.5bn Budget Expenses in the Health Sector
- \$13.6bn on Education Budget Expenses
- \$6.8bn on Roads and Transport Budget Expenses
- \$6.7bn on Public Order and Safety
- \$5bn for Social Security and Welfare
- \$2.4bn on Housing and Community Amenities

Total Expenses by Policy Area



Efficiency Dividends and Savings

The previous Budget outlined measures to deliver \$8bn in efficiency dividends and other savings over four years. Total Government savings were expected to be \$11.2bn over five years from 2011-2012. In 2011-2012 the NSW Government realised savings totalling \$542m in the previous fiscal year. A \$426m efficiency dividend was created through:

- Integrating the State transport Authorities into Transport for New South Wales (TfNSW)
- Closure of Correctional Centres at Parramatta, Kirconnell and Berrima
- Service improvement strategies implemented by NSW Health
- Procurement savings from improved purchasing strategies

In the 2012-2013 Budget the NSW Government has committed to an additional \$2.4bn in savings to assist in meeting the goal set in 2011-2012.

Strategies to deliver additional savings over the forward estimates period include:

- Efficiency dividends and periodic expenditure reviews
- Whole of Government procurement reviews including ICT, Telecommunications and Fleet Efficiency
- Program savings through cutting ineffective, inefficient and non-priority programs

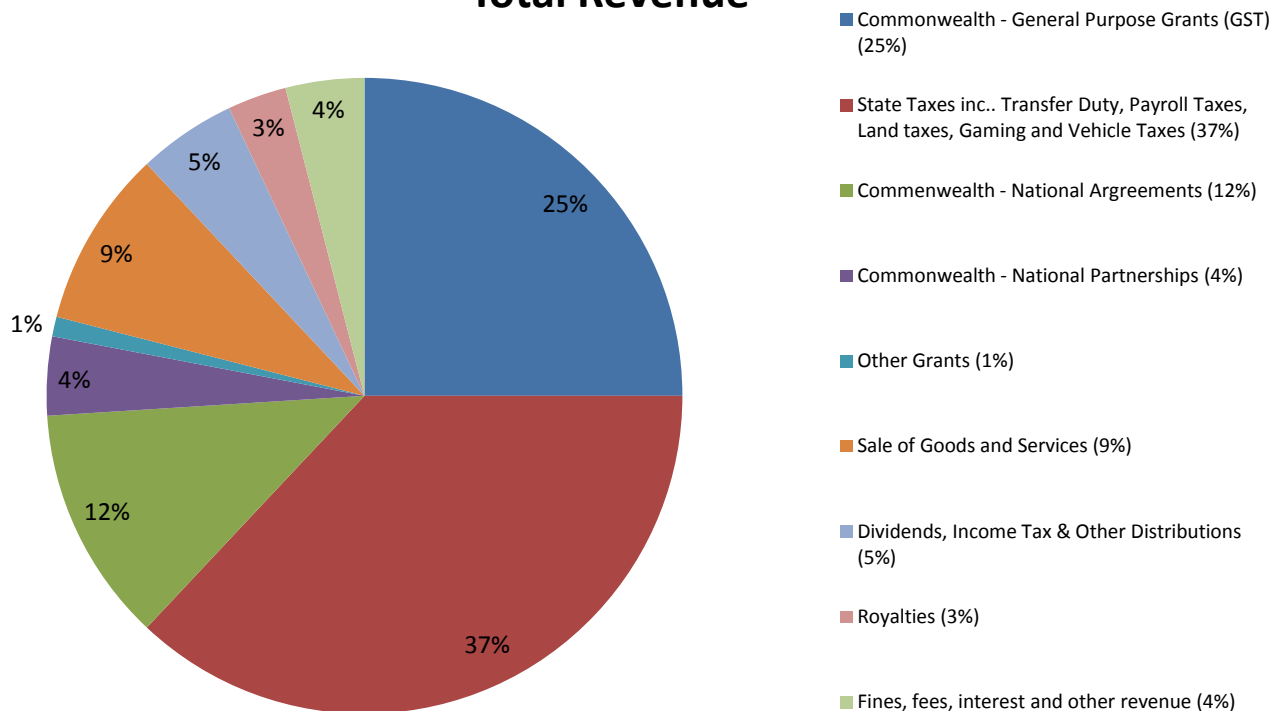
Revenue Measures

[General Government revenue](#) is projected to reach \$59.7bn, a \$1.3bn increase compared to the 2011-2012 fiscal year. In the four years to 2015-2016, revenue is expected to grow at an annual average rate of 3.9%.

New Revenue Policy Changes

- Mining royalty measures to offset the fiscal impact of the carbon tax will commence on 1 July 2012
- The first home buyer stamp duty concessions in new properties valued up to \$650,000 from \$600,000 from 1 July 2012
- A one-year deferral to 1 July 2013 of taxes to be abolished under the Inter-Governmental Agreement will save \$326m in the 2012-2013 fiscal year. The State government plans to delay the abolition of mortgage duty on business transactions, unquoted marketable securities duty and duty on transfers of non-land business assets such as patents, trademarks and other intellectual property. The one-year deferral of these taxes will remain consistent with the requirements of the Intergovernmental Agreement on Federal Financial Relations
- An increase in speeding and other road fines consistent with other states will produce an additional \$45m per year from 2012-2013 extending over the forward estimates period
- The State Government, from 2013-2014 will reduce its contributions to the Climate Change Fund and require that retailers contribute to the Solar Bonus Scheme from 1 July 2012

Total Revenue



- The long term lease of Kurnell Desalination Plant will provide a higher income tax equivalent payment from Sydney Water

Previously Announced Revenue Measures

- Supplementary Coal Royalties are expected to generate \$235m in the year 2012-13 increasing to \$244m in 2013-14 and \$465m in 2014-2015. The Federal Government's Mineral Resource Rent Tax (MRRT) see royalties paid to State Governments deducted from a company's overall MRRT liability. The increases in NSW Royalties will not alter the tax burden of mining companies

Tax Reform

The New South Wales Government has agreed to work with the Commonwealth and other States on proposed reforms to State tax regimes. The three main areas of reform are:

1. Harmonisation of taxes, with the [focus now on payroll tax harmonisation](#)
2. A single portal for tax lodgement
3. Broader tax reform with a particular focus on removing the inefficient State based taxes

Revenue Risks

GST revenue represents is a material component of revenue of the State's Budget and represents a quarter of total revenue for the NSW State Government.

The uncertainty over the timing of a recovery in the residential property market and the amount of revenue the Commonwealth Government is expected to gain from the Minerals Resource Rent Tax represent additional revenue streams subject to fluctuations.

Health

The [NSW Health capital works program in 2012-13 is \\$1.2bn](#), this is \$82 million or 8 per cent higher than the capital works program announced in the 2011-12 Budget. The capital investment for 2012-13 includes capital expenditure of \$1bn and \$160 million in recurrent expenditure on the capital works program, including a capital grant totalling \$55 million for the Westmead Millennium Institute.

\$81 million is allocated to major new investments in Metropolitan Sydney:

- stage 1 of the Blacktown/Mount Druitt Hospital expansion
- redeveloping Hornsby Ku-ring-gai Hospital
- building the new Missenden Mental Health Unit at Royal Prince Alfred Hospital
- developing ambulance infrastructure including ICT and radio network

A further \$70 million provides for local initiatives programs to meet locally identified infrastructure needs such as minor refurbishments and equipment upgrades.

\$52 million has been set aside to rural and regional health services. New investments include:

- redeveloping Tamworth hospital
- providing a new South East Regional Hospital at Bega
- upgrading Parkes and Forbes hospitals; and,
- upgrading Cessnock Hospitals emergency departments

Transport and Roads

The [total Budget for Public Transport and Roads in New South Wales](#) for 2012-2013 is \$13.2bn.

Public Transport and Rail Infrastructure

The total spend for Public Transport in the 2012-2013 Budget is estimated at \$6.8bn which is an increase of 8.3% on 2011-2012 estimated expenses. The major driver to this growth is additional grant funding to public transport providers – particularly Rail Corporation.

The major infrastructure programs which are provided for in this Budget are:

- \$360m to fund the preparation of major construction sites, property acquisition and a second Environmental Impact Statement for the North West Rail Link
- \$397m to fund construction on the South West Rail Link
- \$116m to begin construction of the Inner West Light Rail Extension from Lilyfield to Dulwich Hill,
- \$84.5m to the Northern Sydney Freight Corridor Program
- \$61m to the Wynyard Walk – the pedestrian link which will link Wynyard Station with the Western CBD
- \$127m for the acquisition of 269 more buses for Sydney and the outer Metropolitan area and \$32m for the purchase of 99 outer suburban “Oscar” trains
- \$95m for infrastructure upgrades to prepare for the rollout of Waratah Trains
- \$215m on maintenance and safety upgrades across the RailCorp Network
- \$117m for network maintenance throughout the Country Regional train track network

Major administrative programs which are funded for implementation in the 2012-2013 Budget include:

- the establishment of the State’s first integrated transport authority, Transport for NSW
- commencing the process to create the State’s first Long Term Transport Master Plan to drive future investment and service planning
- establishing dedicated project teams for major infrastructure delivery, including the North West Rail Link, South West Rail Link, Inner West Light Rail Extension and Wynyard Walk
- establishing the Fixing the Trains program, which will see Rail Corporation split into two new customer-focused entities, Sydney Trains and New South Wales Trains
- implementing the new Transport Access Program, to make public transport more accessible
- implementing a contract with Harbour City Ferries to operate Ferries from the end of July 2012

- \$124m for the delivery of the Opal Card electronic ticketing system to be rolled out for ferries, trains, buses and light rail at the end of 2012
- \$114m for the Clearways Program for CityRail including for the Kingsgrove-Revesby quadruplication
- \$148m for the new Transport Access Program
- \$50m to both the Automatic Train Protection program and the State Digital Train Radio program

Roads and Ports Infrastructure

The State Government has [set aside \\$5bn to build and maintain critical road and maritime infrastructure](#) in New South Wales as part of the 2012-13 State Budget. Including:

- \$2.2bn for new roads
- \$1.3bn for maintenance of existing roads
- \$311m for improvements to the traffic network
- \$270m for road safety, and;
- \$17m for commuter wharf upgrades

The major projects in road building are:

- \$530m to continue building the Hunter Expressway between the F3 and the New England Highway
- \$240m to start work on the Pacific Highway Upgrade between Tintenbar and Ewingsdale
- \$180m to continue work on the dual carriageway upgrade of the Pacific Highway between Coffs Harbour and Woolgoolga
- \$90m to start major work on the Gerringong upgrade of the Prince's Highway
- \$70m to continue planning the upgrade of the Pacific Highway between Woolgoolga and Ballina
- \$100m to complete the Holbrook bypass as the final stage of the Hume Highway duplication between Sydney and Melbourne
- \$59m to complete the dual carriageway upgrade of the Pacific Highway at Bulahdelah
- \$30m is set aside in the Budget for Sydney's next motorway to allow the State Government to react quickly upon the release of the Infrastructure NSW report on State Priority Projects

Planning and Housing

The NSW 2012-13 Budget provides \$561 million of new funding to boost housing construction, [including \\$481 million to fast track critical infrastructure](#) needed to support housing across the state, particularly in Greenfield areas through the Housing Acceleration Fund.

It is estimated that this will accelerate the delivery of up to 76,000 new housing lots across the State. The fund will enable an accelerated start on a list of 10 identified infrastructure projects in major housing growth areas across NSW including Sydney, the Illawarra, Wyong and Port Macquarie.

Other measures include:

- An additional \$30 million, on top of \$70 million previously committed, to the Local Infrastructure Renewal Scheme. This will provide subsidised loans to local councils and encourage councils to apply the scheme which is expected to unlock more than \$1bn investment in local infrastructure opportunities
- [\\$50 million for a new Urban Activation Precinct Program](#) to deliver a long-term pipeline of urban renewal and infill development sites
- From 1 October 2012, the First Home Owner Grant will more than double to \$15,000 and then continue at \$10,000 from 2014 for first time homebuyers of new properties
- Existing first homebuyer stamp duty concessions will apply to new properties up to \$650,000 and
- A \$5,000 New Home Grant to all non-first homebuyers of new properties

The NSW 2012-13 Budget allocates a total of \$2.2bn to provide better social housing, including \$331 million for capital works and an additional \$210.2 million for routine maintenance for public and community housing.

Other measures in this area include:

- \$141 million to build 852 new social housing homes and to complete 773 units that were started in previous years. This includes \$77 million to be spent across sites in Bonnyrigg, Minto, Glebe, Riverwood North and Rosemeadow
- \$195 million to upgrade public and community housing, including crisis accommodation such as women's refuges and emergency accommodation for homeless people

Education

In the NSW 2012-13 Budget, the Department of Education and Communities' [total recurrent expenditure is budgeted at \\$14.2bn](#). This is an increase of \$466 million on the 2011-12 Budget.

The main increases include:

- \$115 million for National Partnerships (NPs), mainly the Early Childhood Education, Smarter Schools, Empowering Local Schools, Skills Reform and More Support for Students with Disabilities NPs
- \$47 million for the Assisted School Travel program
- \$21 million for additional school maintenance works and training of general assistants
- \$14 million for the Literacy and Numeracy Action Plan

In 2012-13, the Department of Education and Communities will invest an estimated \$447 million in school education services infrastructure, including the development of 6 new schools.

The NSW 2012-13 Budget allocates \$377 million to support and regulate the early childhood education and care sector. This is an increase of \$98 million from the 2011-12 Budget, focused on universal access to a quality early childhood education program in the 12 months prior to starting school.

Police and Emergency Services

Police

The 2012-2013 Budget includes a total budgeted spend for the NSW Police Service of \$3.3bn with an additional \$178m in recurrent funding over four years to employ more Police.

The Budget provides for an [expansion of police numbers](#) to 16,356 by June 2014 and will see additional officers in Traffic and Highway Patrol Command as well as the establishment of the Police Transport Command which has a funding commitment of \$115m over four years.

The government is also providing \$34m to works on new or refurbished police stations in rural and regional NSW as well as an additional \$16m to a \$61m project to construct and upgrade police properties.

The government has also funded an additional \$14m towards injury management for officers on active duty.

State Emergency Service

The SES will receive [an additional \\$96m over five years](#) as part of the Strategic Disaster Readiness Package to allow them to prepare for, prevent and respond to natural disasters.

NSW Fire Service

The NSW Rural Fire Service will receive \$16m to continue upgrade its private mobile radio network. In addition, the NSW Fire Service will receive \$15m under the Personal Protective Clothing Replacement Program.

Corrective Services

The Budgeted spend for Corrective Services will decrease to an estimated \$1.27bn in 2012-13 due to a declining number of custodial inmates in corrections centres and efficiency and organisational reforms being implemented.

Family and Community Services

The 2012-2013 Budget provides funding to boost accommodation and respite places for people with disabilities. The [key initiatives in the 2012-13 Budget](#) include:

- \$336 million to deliver the second year of Stronger Together Two, a five year commitment to expand disability services, including 9,125 new places for people with a disability in 2012-13
- \$232 million for home and community care services, including home-based assistance and support for people with a disability to continue living in their communities

The Minister for Family and Community Services the Hon. Pru Goward announced that this years Budget will continue the transfer of out-of-home services to the non-government sector, which was a key election commitment.

Key areas of expenditure in 2012-13 include:

- \$723 million for out-of-home care services to protect vulnerable children and young people who cannot live safely at home. This includes \$6.9 million for the Teenage Education Payment
- \$411.6 million for Statutory child protection, including the provision of services to children at risk of significant harm and risk families under the new Strengthening Families Program

