

Review of the 2013-14 New South Wales Government Budget

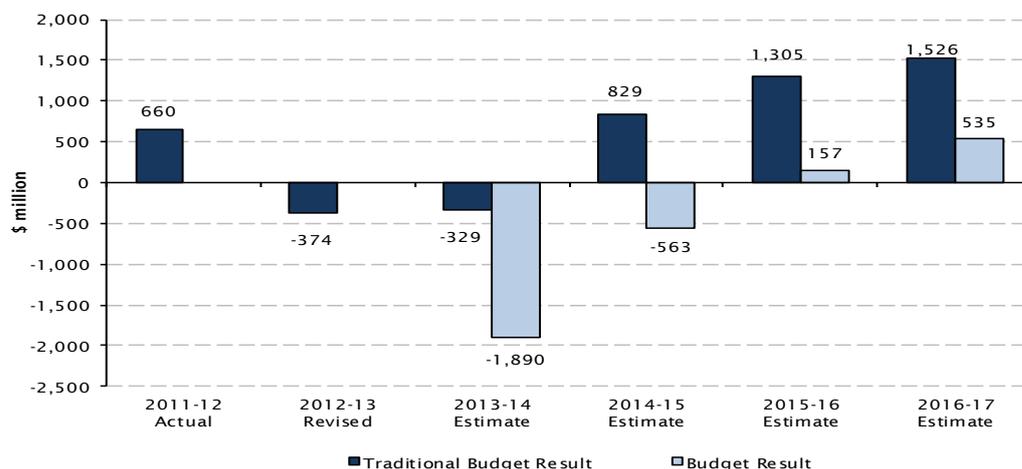
The 2013-14 NSW budget was handed down on Tuesday 18 June 2013. The budget delivers a General Government deficit of \$1,890 million in 2013-14. The deficit is projected to reduce to \$563 million in 2014-15 before a return to surplus of \$157 million in 2014-15 and \$535 million in 2016-17. However, changes to accounting standards account for \$1.6 billion of the 2013-14 budget deficit and detract around \$1.3 billion a year from the budget result over the forward estimates. Measures to restrain expenditure growth; improve the net debt position and; invest in new infrastructure were key features of the budget. The Government also confirmed its fiscal strategy as focusing on maintaining the State's current triple-A credit rating. The NSW economy is expected to return to trend growth of 3% p.a. in 2013-14 (from an estimated 2.25% p.a. in 2012-13) with this higher level of growth forecast to be sustained in 2014-15.

The NSW budget position for 2013-14 and the forward estimates is materially affected by the impact of changes to accounting standards which substantially increases non-cash expenses relating to the State's defined benefit superannuation scheme. As a result of this accounting change, a budget deficit of \$1,890 million is forecast for 2013-14. On a comparative basis with previous years the result is a deficit of \$329 million, and on a like-for-like basis compares with a projected deficit of \$374 million in 2012-13.

As shown below, NSW Budget results are expected to improve over the forward estimates period under the new accounting standard regime and when measured on a traditional basis (as indicated by the figures in brackets):

- 2013-14: \$563 million deficit (\$829 million surplus)
- 2014-15: \$562 million surplus (\$1,305 million surplus)
- 2015-16: \$1,172 million surplus (\$1,526 million surplus)

Budget Results 2011-12 to 2016-17



The improvement in the Budget results reflects projected growth in revenues in excess of expenses, with revenue forecast to increase at an average of 4.5% p.a. and expenses at 4.1% p.a. over the next four years.

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 increases in State-funded infrastructure in the general government and public transport sectors.

The NSW Government also announced its intention to proceed with a long term lease of Newcastle Port, subject to a scoping study, to fund priority infrastructure projects. This is in response to the positive outcomes of the Port Botany and Port Kembla lease processes which underpin a broader strategy of recycling assets that are not part of core public service delivery so as to finance new infrastructure without adversely impacting on debt levels.

Budget Analysis

Revenue is forecast to grow by 5.0% p.a. in 2013-14 to an estimated \$62.6 billion and expand by an average of 4.5% p.a. over the four years to 2016-17.

Taxation revenue is forecast to be \$23.5 billion in 2013-14, 7.7% higher than in 2012-13. It is estimated that taxation revenue will grow by an average of 6.6% p.a. over the four years to 2016-17 with improving economic growth expected to support a cyclical upturn in transfer duty and payroll tax receipts, in particular.

Expenditure in 2013-14 is projected to be \$64.5 billion or \$62.9 billion after removing the impact of changes to the accounting standards. Expenses increase by 7.5% p.a. in 2013-14, although traditional expenses growth is lower at 4.9% p.a. in 2013-14. Over the four years to 2016-17, expenses are forecast to increase at an average annual rate of 4.1% p.a. and by 3.7% p.a. on a traditional basis.

Infrastructure expenditure will total \$59.7 billion over the four years to 2016-17. This includes \$15.5 billion of expenditure in 2013-14 which is 7.2% (or \$1.04 billion) above the revised estimate for 2012-13. The program ranges from the construction of major infrastructure such as roads, railways, hospitals and schools to the maintenance and replacement of state owned assets and electricity transmission networks upgrades. The program is mainly funded from the Budget and public transport entities with Federal Government grants contributing around 8.7% of total funding in 2013-14, declining to 5.6% in 2016-17.

General government **net debt** is forecast to increase from \$13.0 billion in June 2013 to \$20.3 billion by June 2017 reflecting funding requirements for the Government's capital program. As a percentage of Gross State Product (GSP), net debt is forecast to rise from 2.8% in June 2013 to a peak of 3.6% in June 2016. This is 0.5 percentage points below the previous peak of 4.1% of GSP estimated in the 2012-13 budget for the years 2013-14 and 2014-15. Net debt as a percentage of GSP is forecast to ease slightly to 3.5% in the final year of the forward estimates (June 2017).

The **net financial liabilities** of the State (which includes the full range of general government sector financial obligations) are estimated at \$69.2 billion in June 2013, and are expected to decrease by 10.4% to \$59.8 billion by June 2017 reflecting the

benefits of the leasing proceeds from ports as well as the valuation benefit of higher interest rates on superannuation liabilities.

Key Initiatives Affecting Business

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

- The Government will increase the **payroll tax threshold** to \$750,000 from \$689,000 on 1 July 2013 after which indexation will not continue. This will remove 1,300 businesses from payroll tax liabilities in 2013-14 and ease the tax burden for all other businesses.
- The Jobs Action Plan **payroll tax rebate**, introduced from 1 July 2011, will increase from \$4,000 per new employee to \$5,000 per new employee from 1 July 2013 and be extended for two further years to 30 June 2015.
- The establishment of almost 60 Small Biz Connect experts across NSW to provide expert **business advisory services**.
- A \$15.5 billion **infrastructure expenditure program** in 2013-14 (7.2% above the 2012-13 revised budget level) with the program being sustained at around \$14 - \$15 billion per year over the forward estimates to 2016-17. Major investments over this four year period will include:
 - **Transport:** \$27.9 billion of capital works, including expenditure of \$8.5 billion in 2013-14, an increase of 9.5% on 2012-13. Key areas of expenditure over the four years to 2016-17 incorporate major upgrades to the Pacific Highway (\$4.4 billion); North West Rail Link (\$4.1 billion); Waratah passenger and rail rolling stock upgrades (\$3.6 billion); South West Rail Link (\$2.1 billion); WestConnex Motorway project (\$1.8 billion); Western Sydney Growth Roads (\$725 million); Bus fleets (\$453 million) and; Greater Western Highway and Bell Line of Road (\$402 million).
 - **Health:** \$4.0 billion of capital works, including \$1.3 billion for health sector upgrades and redevelopments in 2013-14. Major projects underway or due to commence over the four years to 2016-17 include the redevelopment of Wagga Wagga Base Hospital (\$270 million); redevelopment of Blacktown/Mt Druitt Hospital (\$270 million); redevelopment of Tamworth Hospital (\$220 million); reconfiguration of the Hornsby Ku-ring-gai hospital (\$120 million), redevelopment of Lismore Hospital (\$80 million) and; redevelopment of Kempsey Hospital (\$80 million).
 - **Education:** \$2.0 billion for education infrastructure including a TAFE construction program (\$330 million), information technology works (\$270 million), the provision of new schools at Spring Farm, The Ponds and Lower North Shore and upgrades to eight existing schools (\$103 million) and additions and upgrades at existing colleges and campuses to support students (\$74 million).

- The Government will inject \$340 million of the proceeds from the long term lease of the Port of Newcastle towards the **revitalisation of Newcastle**, including the CBD's renewal, the removal of the railway line between Wickham and Newcastle and delivery of a light rail network.
- Expenditure of \$141 million (building on last year's commitment of \$181 million via the Housing Acceleration Fund) will be directed to support infrastructure for **41,900 new homes** in Sydney and the Hunter Region.
- The budget allocates funding of \$13.8 million for the **Small Business Commissioner** in 2013-14 to enhance support for small business in navigating government legislation and regulation, easing the red tape burden and in the provision of dispute resolution services.
- An allocation of \$120 million to the **Resources for Regions Program** to enable grant funding to communities experiencing pressures on their infrastructure and services as a result of mining activity.
- Funding of \$983 million or an allocation of 30% of funding from the state's infrastructure fund for **priority regional infrastructure**.
- \$165 million to be directed to the **Bridges for the Bush** program to improve road freight productivity.

Key Economic Forecasts

The NSW Government forecasts that Gross State Product (GSP) in 2012-13 will grow by a below trend 2.25% p.a. per cent, up by ¼ percentage point on NSW Treasury's Mid-Year Review. Economic growth is forecast to return to trend growth of 3% p.a. in 2013-14 with this rate of growth forecast to be sustained in 2014-15 due to an anticipated improvement in the global economy and stimulatory monetary policy settings. Over this period dwelling investment growth is expected to pick-up with support also anticipated from increasing population growth; a stronger net export performance; on-going strong firm household consumption growth and; a gradual improvement in non-mining investment.

Economic Performance and Outlook

Year average per cent change, unless otherwise indicated

	2011-12 Outcomes	2012-13 Forecasts	2013-14 Forecasts	2014-15 Forecasts
New South Wales				
Real state final demand	2.1	2¼	3	3
Real gross state product	2.4	2½	2¾	2¾
Employment	0.7	1½	1¼	1¼
Unemployment rate ^(b)	5.2	5¼	5½	5½
Sydney CPI – through the year to June quarter ^(c)	1.3	2½	2½	2½
Sydney CPI ^(c)	2.5	2½	2	2½
Wage price index	3.6	3¼	3¼	3½

(a) Year average, per cent

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

Source: NSW Budget Statement, Budget Paper No. 2, 2013-14

- **NSW employment** is expected to grow at a rate of 1.5% p.a. in 2012-13 in year average terms. However, growth is expected to ease slightly to a rate of 1.25% p.a. in 2013-14 and 2014-15 consistent with leading indicators which point to a softening in labour demand.
- **Inflation** is expected to remain contained within the lower half of the RBA's 2-3% p.a. target range in the current financial year with the Sydney Consumer Price Index expected to increase at a rate of 2.5% p.a. in the year to June 2013. In 2013-14, the Sydney CPI is expected to increase at a slower rate of 2.0% p.a. reflecting low underlying inflation pressures and the pass through of the impact of the carbon tax before picking-up to 2.5% p.a. through the year to the June quarter 2015 in line with trend growth in output.
- **Wages growth**, as measured by the Wage Price Index, is expected to rise from 3.25% p.a. in 2012-13 and to be sustained at this level in 2013-14 before a slight pick-up to a 3.5% p.a. rate of growth in 2014-15 reflecting the moderate inflation outlook.

The key risks to the outlook for the NSW economy centre on downside global risks, particularly around the outlook for Europe, and the timing and degree of the transition from mining to non-mining related business investment.