

## FROM THE TREASURER



**We owe it to future generations to think deeply about the challenges that face us now and over the next 40 years.**

We are fortunate to live in the best state in Australia. The NSW economy is the strongest in the country and is leading the nation. Recent government policies have ensured that New South Wales has been ahead of the nation in the key areas of jobs growth, building activity, infrastructure investment and retail trade. And, we have achieved all this while running a series of budget surpluses and reducing debt.

Today the people of New South Wales are living longer and healthier lives — we have a higher standard of living and are better educated than ever before. However, we know this is not the case for everyone. We owe it to future generations to think deeply about the challenges that face us now and over the next 40 years. We must lay the foundations for a future that ensures the citizens of New South Wales have the best opportunities and quality of life no matter where they live or their background.

The detailed modelling and analysis presented in this Report identifies a number of significant demographic and economic trends which, if ignored, will challenge our ability to provide the future services and quality of life the community expect. Fortunately, we understand the size of the challenge and we are already implementing and planning clever solutions.

A great deal will change in 40 years and, more likely than not, in unpredictable ways. In 1976, an Apple was something you ate and smoking was allowed in planes and cinemas. What we do know is that without flexible innovative and thoughtful interventions, we cannot deliver a higher standard of living for future generations.

I am confident that we will achieve this, but we need to push the boundaries to ensure that Government not only moves with the times, but is ahead of the game.

The following chapters outline projections of our economic future and the challenges and opportunities that may arise from these projections.

### **CHAPTER 1: HOW THE POPULATION IS CHANGING**

The future population of New South Wales will be driven by a combination of natural growth and migration. However, population growth will be slower than it has been in the past. By 2056, 11.2 million people are expected to be living in this state, compared to 7.6 million today. The ageing of the baby boomers, longer life expectancy and past declines in the fertility rate mean that, on average, our population will be older.

### **CHAPTER 2: THE SHAPE OF OUR FUTURE ECONOMY**

This chapter presents modelling that links population growth and trends in workforce participation, leading to a somewhat slower rate of economic growth. By 2055-56 the NSW economy is nevertheless expected to be 2½ times the size of today, with considerably higher living standards. The services sector is likely to continue to be the key driver of jobs growth.

### **CHAPTER 3: OUR GROWING DEMAND FOR SERVICES**

This chapter discusses the drivers of expense growth. Expenses are expected to grow at a faster rate than the economy because of the ageing population as well as other cost pressures. The tendency for households to expect more and better government services as their incomes rise is a key driver of expense growth.

### **CHAPTER 4: HOW WILL WE MEET OUR INFRASTRUCTURE NEEDS?**

This chapter explores how we can deliver the right housing and infrastructure to meet the needs of the community.

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**CHAPTER 5: HOW WILL WE FUND OUR SERVICES?**

Our modelling shows that, without action, state revenue growth is likely to fall well below expected growth in services and infrastructure expenditure. This chapter looks at revenue drivers and trends over the next 40 years.

**CHAPTER 6: OUR FISCAL CHALLENGE**

The main challenge outlined in this Report is that service delivery and infrastructure costs are projected to rise at a faster rate than revenue. This opens up a fiscal gap. If that gap isn't closed then state debt and interest repayments will surge. The fiscal gap can be addressed by lifting housing supply, encouraging participation and improving both public and private sector productivity.

**CHAPTER 7: OPPORTUNITIES AND CHOICES**

This final chapter outlines the options available to government to close the fiscal gap over the next 40 years. Strengthening the economy, greater innovation in service delivery and creating a more sustainable revenue base are essential. Government must also be a greater enabler for economic growth and innovation. A lighter touch regulatory environment and better collaboration with the private and community sectors will support the delivery of both services and infrastructure.