Mini-Budget

2008-09

New South Wales

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OVERVIEW

This Mini-Budget details a range of policy decisions taken by the Government to strengthen the State's fiscal outlook. This was a necessary response to developments since the 2008-09 Budget, including the lack of parliamentary support in August for the Government's electricity reforms, a significant deterioration in the economic outlook, increased risks to the State's revenues and expenses and the downward revision to the State's credit rating outlook. Left unaddressed, these developments would have placed in jeopardy the Government's ability to continue delivering essential services and put the State's Triple A credit rating under increased pressure.

Expenses have increased relative to Budget time. This is the result of higher superannuation expense provisions, higher revenues and expenses arising from the Commonwealth Government's First Home Owners Grant Boost program and the Commonwealth-State and Territories Disability Agreement. The Government has also re-evaluated service delivery cost and demand pressures in key policy areas. The Mini-Budget forward estimates reflect a more conservative estimate of the likely financial impact of these risks. However, the increase in expenses has been curtailed to a large extent by a number of cost-cutting measures which will reduce expenses by around $3.3 billion over the four years to 2011-12.

Revenues have also increased over the forward estimates period relative to Budget time. Weaker economic conditions have reduced revenues by around $3 billion over the four years to 2011-12. However, other revenues, including base coal royalties and additional Commonwealth funding have increased. Revenue policy changes in the Mini-Budget will increase revenues by around $3 billion over the four years to 2011-12.

Expense and revenue decisions in the Mini-Budget will allow a trend improvement in the Budget result to a surplus of $900 million in 2011-12.

The State capital program has been reprioritised to provide increased policy flexibility, a reduction in aggregate capital expenditure (around $890 million in the forward estimates) and lower risks to the Budget going forward. The Mini-Budget has also identified over $1 billion in asset sales that will provide support for the capital program. The revised electricity strategy aims to encourage private investment (particularly for the first tranche of baseload requirements) by withdrawing the government from electricity retailing, and transferring to the private sector power station development sites and the right to trade the output of publicly-owned generators.

The Mini-Budget has addressed the deterioration in Budget results, reduced the level of risk in the State's capital program, and reduced the level of State net debt by 2011-12 relative to Budget time.

1. ECONOMIC OUTLOOK

At the time of the 2008-09 Budget, the contractionary effect of higher domestic interest rates and slower global growth were expected to more than offset the stimulus from ongoing increases in the terms of trade and federal income tax cuts. Growth in the Australian and NSW economies was therefore expected to slow in 2008-09. Risks to that outlook were predominantly on the downside[1].

In recent months, several of these risks (credit market, global growth, commodities markets, oil prices) are having an increasingly significant influence on the outlook. The global financial crisis is leading to steep downward revisions in global growth prospects and consequent declines in commodity prices, including world oil prices.

In Australia, monetary policy has been eased aggressively back to or below neutral levels, and a pre-emptive federal fiscal stimulus has been announced. The revised economic forecasts in the Mini-Budget assume that further monetary and federal fiscal stimulus will be forthcoming. At present global credit concerns persist, notwithstanding concerted international efforts to ease them. The key uncertainty in the forecasts is the length of time it will take for credit markets to function more normally. The longer the process takes, the greater will be the impact on global and hence Australian economic activity.

The transmission from the credit crisis to the broader economy is through investment, consumer spending, exports, and general confidence. For business it means higher cost and reduced availability of capital for both operations and investment. For households it means wealth losses, higher interest expenses, less access to credit, and heightened uncertainty about future prospects. Therefore, households reduce or defer dwelling investment and discretionary consumption. For exporters it means falling overseas demand and steeply lower commodity export prices in foreign currency terms. Most important is a general erosion of confidence that contracts will be respected, jobs will be protected, and prospects will improve.

Australia is better placed than many other OECD economies to weather the downturn. Nonetheless, growth in national output and employment will be lower than expected in the Budget. Consequently, prospects for the NSW economy have weakened.

WORLD ECONOMY

The world economy is entering a major growth slowdown from which recovery is expected to be moderate and gradual, dependant upon the return to more normal functioning in financial and credit markets. The global economic outlook is therefore uncertain and subject to considerable risks.

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[1] *2008-09 Budget Paper No. 2, Chapter 9, p9-16*

In its November 2008 *World Economic Outlook Update*, the International Monetary Fund projects that world growth will slow substantially from 5.0 per cent in 2007 to 3.7 per cent in 2008 and 2.2 per cent in 2009 (the 2009 projection has been revised down from 3.8 per cent in their April 2008 Outlook). The United States, the Euro area, the United Kingdom and Japan are forecast to be in recession during 2009. The moderate recovery expected later in 2009 is likely to be gradual, as it will be held back by financial market stress and a structural repricing of risk. Emerging and developing economies also have begun to slow, after initial resistance to the global financial turmoil. Slowing export demand from advanced economies, falling commodity prices and growing strains in regional financial markets have dampened 2009 growth prospects. Cost and availability of financing to these economies has become more difficult and their equity markets have corrected sharply. Growth in China and India is expected to slow in 2008 and 2009 though remaining strong in comparison to the advanced economies.

Table 1.1: Projected World Output [(a)]

	2007 Actual	*2008 Projected*	*2009 Projected*
World Output	**5.0**	**3.7**	**2.2**
United States	2.0	1.4	-0.7
Euro area	2.6	1.2	-0.5
Japan	2.1	0.5	-0.2
United Kingdom	3.0	0.8	-1.3
China	11.9	9.7	8.5
India	9.3	7.8	6.3
Australia [(b)]	4.2	2.5	2.2

(a) *Per cent change in real GDP, by calendar year*

(b) *Estimates from the IMF's October outlook. In their November Update briefing, the IMF commented that they now expect Australia's economic growth to be 1.8 per cent in 2008-09.*

Source: IMF, World Economic Outlook, October and November 2008

World growth has slowed as a result of the deepening crisis in financial markets. This crisis has entered a heightened phase since September 2008, as evidenced by non-functioning credit markets and further declines in global stock markets amidst major corrections in US and European housing markets. Inflation pressures are expected to ease due to lower global growth and commodity prices, giving central banks more scope to lower interest rates and stimulate growth.

AUSTRALIAN ECONOMY

Australia has fared comparatively well in recent past global slowdowns, including the Asian financial crisis of 1997 and the bursting of the dot-com bubble in 2001. The Australian economy is less directly exposed than other OECD countries to the present global financial crisis. Compared to other countries, Australia benefits from:

- a relatively robust and well regulated banking sector with strong balance sheets and little direct exposure to the troubled US mortgage securities market

- an absence of excess supply in the housing sector

- less direct trade exposure to the US and European economic cycles, given stronger trade ties to Asian economies
- a relatively strong national fiscal position and
- interest rate settings providing more scope for monetary policy to respond to the downturn.

Although well placed and with fiscal and monetary policy in a better position to respond, Australia is being affected by the global downturn. The world financial crisis directly raised the cost and reduced the availability of credit to households and businesses. Australian shares followed the downturn in global equity markets, further affecting business access to capital as well as household wealth and consumer sentiment. The worsening outlook for world growth led to steep falls in commodity prices, weakening the prospects for Australia's resource sector. The worsening outlook also impacted significantly on the value of the Australian dollar, which declined by more than 30 per cent from a peak of 97.9 US cents in mid-July 2008 to just over 60 US cents in late October 2008.

Prospects

Australian economic growth is expected to slow in 2008-09, broadly in line with Commonwealth Mid Year Economic and Fiscal Outlook (MYEFO) forecasts, followed by a moderate pick-up in growth in 2009-10.

The slowdown in 2008-09 is expected to include significant reductions in the growth of dwelling investment, business investment and household consumption, stabilised in part by the Commonwealth's recent stimulus package. Employment growth will slow and the unemployment rate will be higher. Although remaining above the Reserve Bank of Australia's (RBA) 2 to 3 per cent target range, inflation will trend lower. Monetary policy is assumed to remain proactive in counteracting the economic slowdown, further reducing the cash rate from 5¼ per cent in November 2008 during the rest of the financial year.

Improved growth in 2009-10 should be led by modest recoveries in household consumption, dwelling investment and exports, although growth in business investment may ease further. While employment growth may improve a notch, the unemployment rate is likely to continue rising. With economic growth remaining below trend and inflation continuing to ease downward, the RBA is assumed to keep monetary policy on hold in 2009-10.

The Commonwealth MYEFO forecasts for 2008-09 that GDP growth will be 2 per cent and employment growth will be 1¼ per cent. At June 2009, the national unemployment rate will be 5 per cent and CPI growth will be 3.5 per cent.

Risks

Risks to the outlook for the Australian economy are substantial:

- World financial markets remain unsettled, and a further round of more widespread stress is possible.
- Australian growth is reliant in part on the ability of developing markets (China in particular) to maintain strong domestic expansion in the face of probable recessions in the US, Japan and Europe.
- Faltering consumer confidence could push Australian households to sharply cut back on spending, leading to further softening in consumption, aggregate demand, and output.

NEW SOUTH WALES ECONOMY

Following strong growth through late 2007, the NSW economy has slowed considerably during 2008. While slower growth was anticipated at Budget-time, the slowdown has been steeper than expected.

Sharply increased world interest rates and tighter credit conditions added to initially tight RBA policy settings. Spending by households and businesses in 2008-09 to date has been constrained by higher borrowing costs, weaker order books and high petrol prices. Confidence came under pressure from a continuing flow of negative news on the national and world economies, as well as steep losses in equity markets and reduced activity in property markets. These factors intensified caution in consumer spending, further weakening prospects for business and employment. While recent strong monetary and fiscal policy measures will help restore confidence, the short run outlook remains subdued. The slowdown is expected to continue through the remainder of 2008-09. While the finance and property and business sectors should remain subdued, the recent falls in exchange rates should help improve NSW manufacturing and services international competitiveness over time.

Table 1.2: NSW Economic Performance and Outlook [(a)]

	Actual 2007-08 Outcome	*Budget 2008-09 Forecast*	*Revised 2008-09 Forecast*	*2009-10 Forecast*	*Medium Term Projection*
State Final Demand	4.3	2½	1½	1¾	
Gross State Product [(b)]	2½	2	1¼	1½	3¼
Employment	2.4	1	½	½	1¼
Unemployment Rate	4.6	4¾	5¼	5¾	
Sydney CPI (June qtr on June qtr)	4.3	3	3¾	3	2½
Wage Price Index	3.8	4	3¾	3½	3½

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

(b) GSP growth for 2007-08 is estimated (the actual outcome will be released on 14 November 2008).

NSW economic output (GSP) growth is expected to slow from 2½ per cent in 2007-08 to 1¼ per cent in 2008-09 (lower than the 2 per cent expected at Budget-time) and to strengthen to 1½ per cent in 2009-10. State final demand growth is expected to slow more significantly from 4¼ per cent in 2007-08 to 1½ per cent in 2008-09, recovering to 1¾ per cent in 2009-10. Household consumption and business investment growth will be more subdued, though significant interest rate cuts by the RBA should provide support. Net exports will improve due to reduced equipment imports for business investment and slower household consumption. The recent boost to the First Home Owner Grants Scheme and RBA interest rate cuts should help support dwelling investment.

Private consumption growth will remain subdued through 2008-09 and into 2009-10. Although income growth will remain solid, low consumer sentiment and high uncertainty about the future means households are more likely to use additional income to save and retire debt. Consumption will also be affected by anticipated slower employment growth. Countering this are easing pressures on household budgets through lower, though still high, petrol prices and interest expenses, recent and announced future income tax cuts and the Federal Government’s recent fiscal stimulus package.

The outlook for *dwelling investment* is mixed. Housing demand should be supported by strong population growth, low rental vacancy rates and improving rental yields. Substantial RBA interest rate cuts, easing house price growth and the boost to the First Home Owner Grant mean affordability should improve, further stimulating demand. Demand will be affected negatively by greater economic uncertainty, job security concerns and tighter bank lending standards. Overall, dwelling investment is expected to remain subdued through the rest of 2008-09 but should begin to improve in the first half of 2009-10.

Business investment growth is expected to slow through the rest of 2008-09 and into 2009-10. Slowing economic conditions have dampened the outlook for profit growth. Lower equity values and elevated borrowing costs are constraining business finance. Even if credit markets return to a more normal level of functioning, access to credit could remain more restrictive than has been the case the past few years. These factors will make it harder for businesses to fund their investment plans. While longer term projects already locked in should provide some support, private sector business surveys suggest that the short-term outlook for investment is deteriorating, with projects likely to be postponed or cancelled.

Public sector investment will continue to expand strongly, as foreshadowed in the Budget.

Net exports are still expected to improve in 2008-09, although this improvement may be limited. A lower Australian dollar will help make NSW export oriented industries more competitive while farm exports are also expected to make a positive contribution as NSW recovers from drought. Restraining this improvement will be lower world prices for commodities as well as slower global demand. Thermal coal export prices are expected to moderate although income growth should remain high until early 2009 due to previously negotiated contracts. Slower growth in consumer spending and business investment will moderate import growth.

Slower demand and output growth will see a continued easing in employment conditions. *Employment growth* is expected to slow below trend to ½ per cent in 2008-09 and to remain at ½ per cent in 2009-10. The *unemployment rate* is expected to rise modestly, averaging 5¼ per cent in 2008-09 and 5¾ per cent in 2009-10.

Easing employment conditions and inflationary pressures, along with recent and planned income tax cuts should also lead to more moderate *wage growth*. The Wage Price Index is expected to grow by 3¾ per cent in 2008-09, slowing to about 3½ per cent in 2009-10.

Consumer price inflation is expected to slow from recent highs through the second half of 2008-09 and into 2009-10. Slower demand growth and economic activity should see the inflation rate, as measured by the Sydney CPI, move back within the RBA target range over time, although the recent sharp depreciation in the Australian dollar will slow the decline. Over the year to the June quarter 2009, inflation is forecast to rise by 3¾ per cent before easing to 3 per cent by the June quarter 2010.

2. FISCAL DEVELOPMENTS

The Government announced a Mini-Budget would be delivered in November 2008 because of the urgent need to respond to developments since the 2008-09 Budget, which include:

- The lack of parliamentary support in August for the Government's electricity reforms required changes to the Government's capital program to accommodate additional electricity generation investment.
- The outlook for global economic growth being revised downward substantially. Monetary policy responses include the Reserve Bank of Australia lowering official cash rates by 200 basis points since September. Fiscal policy responses include the Commonwealth Government announcing a $10.4 billion fiscal stimulus package in October.
- Increased risks to the State's budget operating results emerging, due to pressures on both State revenues and expenses.
- The State's credit rating outlook being revised down in August from stable to negative by Standard & Poor's, implying a one-in-three chance of a credit rating downgrade. Retaining the Triple A credit rating is a top priority for the Government and so a policy response was required as a matter of urgency.

2008-09 BUDGET

The 2008-09 Budget and the 2008 State Infrastructure Strategy included:

- An estimated Budget surplus of $268 million for 2008-09, followed by surpluses averaging around $800 million over the forward estimates period.
- A 58 per cent increase in the Government's capital expenditure plans for the total state sector over the four years to 2012 compared to the preceding four years, for a total program of $57.6 billion. This focused heavily on the public trading enterprise (PTE) sector, where planned investment totalled $36.4 billion, compared to $21.3 billion in the general government sector.
- A 10-year $140 billion program designed to ensure that capital expenditure plans are focused on meeting the State's infrastructure needs over the medium term, and that they are delivered on time and on budget.
- The Government's policy for addressing the future energy needs of the State. This was based on the private sector building new electricity generation capacity following the leasing of the existing electricity generators and transferring of retail operations to private operators. The 2008-09 Budget and SIS did not contain either the additional generation capacity expenditure nor the possible proceeds from the transfer of electricity generation and retail activities to the private sector.

NSW CREDIT RATING

In July 2008, the international credit rating agencies, Standard & Poor’s (S&P’s) and Moody’s, conducted their annual reviews, based on the outlook contained in the 2008-09 Budget, and both agencies reaffirmed New South Wales Triple A credit rating.

In mid-August 2008, Standard & Poor’s stated that the fiscal outlook was consistent with a Triple A credit rating provided the legislation authorising the long-term lease of the State’s electricity generators and sale of retail companies was passed[1]. When the legislation was not passed in late August, S&P’s subsequently revised the State’s credit rating outlook down from stable to negative, saying:

> … the sale of the assets was an important factor underpinning the ‘AAA’ rating because it provided flexibility to manage infrastructure priorities to maintain state competitiveness and satisfy electoral needs.
>
> … the negative outlook will be returned to stable if … the state can reprioritise its capital program without a significant deterioration in finances or crowding out essential capital spending.[2]

Moody’s affirmed their top rating, with a stable outlook, commenting:

> Moody's expects that the state will offset some of the lost revenue through sound policy response that could include a reprioritisation of capital projects and a variety of cost saving measures.[3]

The credit rating agencies were concerned that the State’s balance sheet would not support further increases in capital expenditure, whether it was to fund additional investment in electricity generation and retail or meeting other community expectations, on top of an existing large capital program. The concern derived from the fact that the 2008 SIS capital program had an associated large increase in State debt, with net debt projected to almost double over the four years to 2012.

2007-08 BUDGET OUTCOME

The 2007-08 Budget outcome, released in October, was a surplus of $73 million, compared to $700 million estimated in the 2008-09 Budget.

Total revenue in 2007-08 was $93 million higher than estimated in the 2008-09 Budget. Investment income (including valuation adjustments) was $367 million lower than the 2008-09 Budget estimates, reflecting the negative returns from managed fund investments following the downturn in global financial markets. Transfer duty revenues were $160 million lower as a result of a weaker than expected property market, principally in June 2008. Weakness in these two revenues was offset by stronger PTE dividends, payroll tax, mining royalties and sales of goods and services.

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[1] *Standard & Poor’s, 22 August 2008, “Ratings on New South Wales and TCorp Affirmed on Balance Sheet Strength and Fiscal Discipline”, press release, Melbourne.*

[2] *Standard & Poor’s, 28 August 2008, “Outlooks on New South Wales and TCorp Revised to Negative from Stable; Ratings Affirmed At ‘AAA/A-1”, press release, Melbourne.*

[3] *Moody’s Investors Service, 3 September 2008, “Moody’s Affirms New South Wales’ Aaa Rating”, Global Credit Research Announcement, Sydney.*

The impact of the larger than expected fall in transfer duty which emerged late in 2007-08 was not so much on the 2007-08 result, but rather what it implies for 2008-09.

With revenues marginally higher than expected, the weaker budget outcome reflected an unexpected increase in expenses, with a $320 million net cost overrun in Health and an additional $150 million grant to RailCorp to repay debt representing some of the larger variances.

2008-09 BUDGET DEVELOPMENTS

Slower economic activity since the Budget, as discussed in Chapter 1, has lead to revisions in tax revenue.

- In the Budget, the property market was expected to slow and transfer duty was expected to decline by $300 million compared to 2007-08. The property market has slowed more than anticipated, with transfer duty $346 million lower than expected in the first four months of 2008-09.

- The Commonwealth has revised GST revenue down, which is forecast to lower Commonwealth general purpose grants by $450 million.

These will be offset to some extent by substantial increases in expected coal royalties, resulting from a combination of the lower Australian dollar coupled with strong, although falling, US dollar coal prices, additional funding to the State for Commonwealth initiatives and additional revenues arising from Mini-Budget revenue initiatives.

These variances in revenues and changed expense forecasts since the Budget are discussed in Chapter 4.

APPROACH TO THE MINI-BUDGET

The Mini-Budget process involved an examination of government activity across all portfolios in both the general government and public trading enterprise sectors. It also included a review of the budget risks posed by major agencies.

The criteria against which Government programs were measured included:

- Is the program a core NSW Government responsibility?

- Is the program providing value for money and achieving objectives?

- Will curtailing the program deliver significant savings?

- What are the impacts of curtailing the program?

The resulting decisions are listed in Appendix A. The revised financial position is reported through high level fiscal aggregates in Chapter 4. The Half-Yearly Review will provide a full set of financial statements for the general government, public trading enterprise and total state sectors. The Half-Yearly Review will be released in mid-December.

3. FISCAL STRATEGY

The Government's fiscal strategy is designed to keep the State's finances on a path that is sustainable over the medium to long term. The objective is to maintain the State's finances in such a condition that they support a consistent growth in services through time, in the face of any economic and fiscal shocks that may arise. That means having a balance sheet structurally strong enough to withstand the effects of cyclical downturns in revenue. It means allowing expenses to grow in a sustainable way, in line with revenue growth over the long run.

The balance sheet is now much stronger than it was in the mid-1990s with net debt and net financial liabilities in the general government sector better placed to support service delivery. Application of the fiscal strategy and the assessment of credit rating risk are by necessity forward looking processes. The Mini-Budget is not so much a response to the condition of the State's balance sheet today as a response to the implications for the State's capacity for service delivery in the future.

An important distinction to bear in mind in understanding how the fiscal strategy operates is that, although it provides a medium-term framework for policy setting, ongoing monitoring and responses are required in order to stay on that medium-term path. Action taken early in response to a change in circumstances is likely to involve a smaller than otherwise adjustment in order to keep on a sustainable path. If the policy response is delayed there will be a larger impact on service delivery.

EXPENSE AND REVENUE TRENDS

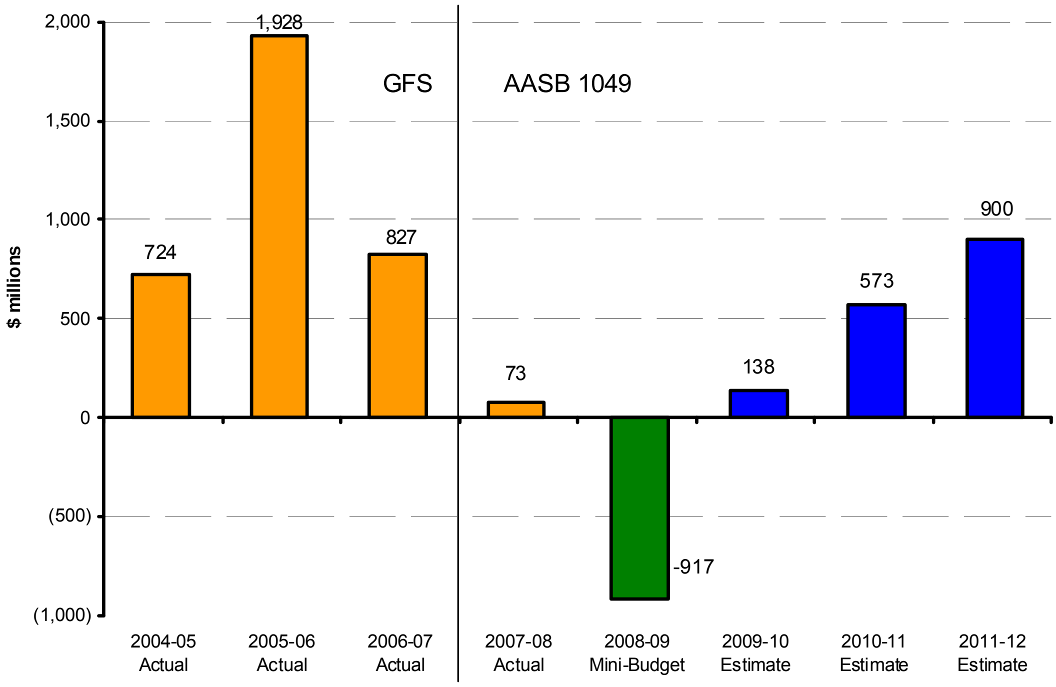
Over the past four years the growth in expenses has exceeded the growth in revenues by around one percentage point per year, resulting in a weakening of the Budget result. Expenses in 2008-09 are estimated to be higher than expected at Budget time. This is the result of higher superannuation expense provisions, higher revenues and expenses arising from the Commonwealth Government's First Home Owners Grant Boost program and the Commonwealth-State and Territories Disability Agreement.

The Government has also re-evaluated service delivery cost and demand pressures in key policy areas. The Mini-Budget forward estimates reflect a more conservative estimate of the likely financial impact of these risks.

The Mini-Budget will result in the growth in expenses over the next four years being 4.9 per cent per annum – bringing it into line with the long-run average growth of revenue (5.0 per cent). This includes the effects of expenditure reduction decisions in the Mini-Budget such as: a 25 per cent reduction in government advertising, removal of the Back to School Allowance, a 20 per cent reduction in the size of the Chief Executive and Senior Executive Services and refinements to the School Student Transport Scheme.

Savings measures will curtail the growth in expenses by $3.3 billion over the four years to 2011-12. In conjunction with revenue decisions in the Mini-Budget, this will allow a trend improvement in the Budget result, from a deficit of around $900 million in 2008-09 to a surplus of $900 million in 2011-12.

Chart 3.1: General Government Budget Result



Note: On a GFS basis the 2007-08 Budget result was a surplus of $386 million.

REPRIORITISED CAPITAL PROGRAM

Capital expenditure has to be funded from operating surpluses, asset sales or borrowing. For any given balance sheet constraint, increased expenditure on capital needs to be weighed up in terms of expenditure forgone on other services. The State's fiscal strategy is designed to manage the balance between expenditure on capital and operating expenses.

The Mini-Budget has resulted in significant changes to the Government's capital program over the forward estimates period and, importantly over the next decade. The reprioritisation that has occurred within the capital program will reduce the aggregate level of State capital funding within the forward estimates period by around $890 million, with larger gains in the period beyond the forward estimates.

Transport has been a major area of reprioritisation, due to the substantial demands and risks in this sector. For example, the decision to indefinitely defer the North West metro project and approve the allocation for a Sydney metro system offers a direct budget saving of almost $1 billion over the forward estimates, and will save $8 billion over 10 years. The reprioritisation of the capital program has also resulted in a substantial reduction in risk, with a number of transport projects submitted to Infrastructure Australia identified as only proceeding before 2012 if they are substantially funded by the Commonwealth.

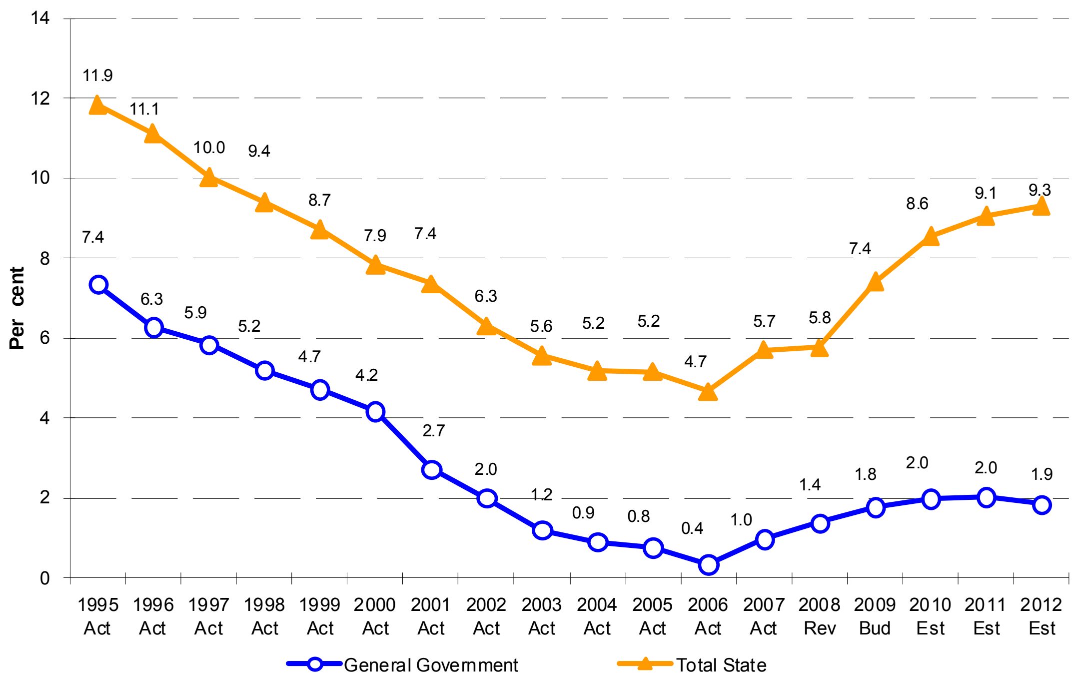
The Mini-Budget has also identified asset sales of over $1 billion which will support the capital program. These changes will provide increased flexibility in addressing infrastructure requirements and will ensure a fiscally sustainable capital program. In addition, the Mini-Budget has reduced a number of previously unbudgeted capital expenditure risks by an estimated $1.6 billion, in areas including health, transport and electricity (discussed further in Chapters 5 and 6).

NET DEBT PROFILE

With a large part of the capital program to be debt funded, total State net debt was projected to increase strongly over the coming four years. Despite an underlying increase in expenses and cyclical weakness in revenues, the Mini-Budget decisions are projected to achieve a small reduction in total state net debt relative to Budget time ($1.1 billion lower in 2012). The ratio of net debt to gross state product, however, is higher than at Budget time as a result of downward revisions to economic growth projections, discussed in Chapter 1. That is, net debt is being compared against a lower level of gross state product.

Chart 3.2 illustrates how net debt in the general government sector is now expected to increase to 2.0 per cent of GSP in 2010, compared to the Budget-time profile of net debt plateauing at 1.7 per cent. The profile for total state sector net debt continues to rise over the forward estimates period, rising to 9.3 per cent of GSP by 2012.

Chart 3.2: Net Debt as a share of Gross State Product



SUPERANNUATION LIABILITIES

The most significant balance sheet change has been a substantial increase in unfunded superannuation liabilities resulting from the global financial market turmoil. Large reductions in asset values have inflated estimates of unfunded superannuation liabilities by around $5 billion over the forward estimates period. In 2008-09 the estimate has also been inflated because a lower liability valuation discount rate has been applied, pushing the increase in total liability to around $7 billion.

FISCAL TARGETS

The Government's fiscal strategy is in a series of fiscal targets and fiscal principles in the *Fiscal Responsibility Act 2005* (FRA). The key objectives in the Act are to align the growth in general government expenses with a rate of growth in revenues that is sustainable in the long run, and to keep general government net debt and net financial liabilities at low and sustainable levels. Although not explicitly targeted in the Act, the fiscal strategy is also concerned with the strength of the balance sheet for the total state – that is, including developments in the PTE sector.

With regard to the growth in expenses, the forward estimates in the Mini-Budget project that expense growth will moderate over the coming four years to 4.9 per cent per annum, bringing it into line with the long-run average growth of revenue of 5.0 per cent.

Net debt in the general government sector is projected to be 2.0 per cent of GSP in 2010 – 1.2 percentage points above the FRA target of net debt as a share of GSP as at June 2005 (0.8 per cent). As discussed in the 2008-09 Budget, this increase in net debt is largely attributable to the increase in general government capital spending since the fiscal targets were set.

Net financial liabilities in the general government sector are expected to be 10.5 per cent of GSP in 2010 compared to the FRA target of 7.5 per cent or less. Around one percentage point of the gap between the target and the revised estimate is due to the increase in the size of the capital program since targets were set, half of one percentage point is due to the lower projected level of gross state product reducing the ratio's denominator, and most of the remaining gap is attributable to the increased estimates for unfunded superannuation liabilities, as a consequence of the substantial fall in asset values that have occurred over the past year.

The third fiscal target in the Act relates to total state superannuation liabilities. The Government remains committed to its fiscal strategy of fully funding superannuation liabilities by 2030. Crown employer cash contribution levels will be reviewed once the 2009 Triennial Superannuation Actuarial Review, prepared by State Super actuaries Mercers, becomes available.

The importance of a Triple A Credit Rating

Maintaining the highest possible credit rating is important for a number of reasons. Firstly, it influences the interest rate at which the State can borrow to fund important infrastructure. The higher the rating, the lower are interest costs for a given level of debt. It has been estimated that a drop of one notch in the Triple A credit rating would mean that interest payments on new debt would be higher by around 20-25 basis points. These higher costs accumulate over time, reaching $100 million annually within 3-4 years, based on the level of proposed new borrowing and maturities over this period. This is money that could otherwise be used to provide service delivery.

A Triple A credit rating means the State's securities will be attractive to the largest possible pool of investors. This is particularly relevant this year given the high degree of risk aversion and uncertainty in global financial markets. Many institutional investors are prevented by mandate from holding debt securities rated below a specified grade. Losing the Triple A credit rating would therefore make raising capital more difficult as the potential pool of investors would be reduced.

Perhaps the largest cost of a credit rating downgrade would be its effects on business confidence. This would reduce the relative attractiveness of the State as a destination for investment with resultant negative effects on economic activity and employment in the State. States generally do not influence economic cycles, except through their demonstrated ability as managers of the State's finances. At times of economic uncertainty and lower business and consumer confidence a decline in perceived abilities to manage State finances would have a detrimental impact on confidence and hence the NSW economy.

Having to retain a Triple A credit rating also provides a discipline for the fiscal strategy. There is a substantial risk that once an attachment to holding the highest credit rating is lost, it could slip more than one notch. This was the experience in Victoria in the early 1990s, where it suffered two double downgrades, took severe remedial policy action but waited for nearly a decade before its Triple A rating was restored. In reality, therefore, losing a Triple A rating could mean having to fund interest costs that have increased by more than one notch and continue to be a drain on the budget for many years.

4. FISCAL AGGREGATES

The Budget Result for 2008-09 is expected to deteriorate from an estimated surplus of $268 million at Budget time to a deficit of $917 million.

A range of initiatives in the Mini-Budget will return the Budget to a surplus in 2009-10 and back to the levels estimated in the 2008-09 Budget by the end of the forward estimates period.

Table 4.1: Budget results 2008-09 to 2011-12

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	268	792	775	779
Mini-Budget (November 2008)	-917	138	573	900

Table 4.3 provides an operating statement for the general government sector for the period 2008-09 to 2011-12. The 2008-09 Half-Yearly Budget Review, which will be published in December 2008, will provide the full operating statements, balance sheets and cash flow statements for the general government, public trading enterprise (PTE) and total state sectors.

Movements in the expected Budget Results have been driven by changes in estimates of revenues and expenses. Over the four years to 2011-12, expenses are expected to increase at an average annual rate of 4.9 per cent compared with 4.5 per cent at Budget time while revenues will increase by an average 5.3 per cent compared with 4.4 per cent at Budget time (See Table 4.2).

The measures developed as part of the Mini-Budget widen the gap between the growth in revenues and expenditures from negative 0.1 per cent at Budget time to positive 0.4 per cent. The widening of this gap will drive the improved Budget Result over the period.

Table 4.2: Projected growth in revenues and expenses

	Four year average growth from 2008-09 to 2011-12		*Difference*
	Revenues	*Expenses*	
Budget Time (June 2008)	4.4%	4.5%	-0.1%
Mini-Budget (November 2008)	5.3%	4.9%	0.4%

Table 4.3: General Government Sector Operating Statement - 2008-09 to 2011-12

	2008-09 Budget $m	2008-09 Latest Projection $m	2009-10 Estimate $m	2010-11 Estimate $m	2011-12 Estimate $m
State Revenues					
Taxation	18,533	17,827	19,344	20,270	21,270
Grant revenue					
- Commonwealth - general purpose	13,020	12,570	13,700	14,738	15,547
- Commonwealth - specific purpose	7,249	7,594	8,201	8,801	9,129
- Other grants and contributions	782	882	865	852	834
Sale of goods and services	3,620	3,736	3,908	4,046	4,126
Interest income	706	670	704	739	774
Dividend and income tax equivalent income form other sectors	1,796	1,703	2,041	2,184	2,330
Dividends from associates			58	58	87
Fines, regulatory fees & other revenue	2,176	2,854	3,051	3,492	3,110
Total Revenues	**47,882**	**47,836**	**51,872**	**55,180**	**57,207**
Expenses from Transactions					
Employee expenses	21,065	21,383	22,771	23,899	25,104
Superannuation expenses					
- Superannuation interest cost	598	702	867	881	892
- Other superannuation expenses	1,916	1,952	1,994	2,011	2,035
Depreciation and amortisation	2,603	2,643	2,817	2,954	3,072
Interest expenses	1,440	1,398	1,572	1,710	1,811
Other property expenses	3	1	1	1	1
Other operating expenses	10,064	10,172	10,737	11,153	11,490
Grant expenses					
- Current grants and subsidies	7,963	8,212	8,307	8,670	8,957
- Capital grants	1,962	2,290	2,668	3,328	2,945
Total Expenses	**47,614**	**48,753**	**51,734**	**54,607**	**56,307**
BUDGET RESULT - SURPLUS/(DEFICIT)	**268**	**(917)**	**138**	**573**	**900**
CAPITAL EXPENDITURE	**5,477**	**5,499**	**5,373**	**5,596**	**4,976**

BUDGET REVENUES

Total revenue is projected to be $47.8 billion in 2008-09. After allowing for tax policy adjustments and additional Commonwealth funding under the First Home Owners Scheme and other programs, revenues are expected to be $753 million below Budget time estimates. Changes to aggregate revenue estimates are outlined in Table 4.4.

Table 4.4: Budget revenues 2008-09 to 2011-12

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	47,882	50,665	53,223	55,186
Mini-Budget (November 2008)	47,836	51,872	55,180	57,207
Change since Budget				
- Revenue Measures	362	752	934	991
- Commonwealth FHOS[(a)]	300	…	…	…
- Other SPP Commonwealth Funding[(a)]	45	326	606	783
- Other	-753	129	417	247

(a) These additional revenues are mirrored in higher Budget expenditures.

Over the four year period to 2011-12, weaker economic activity, compared with that assumed at Budget time, is expected to reduce revenues by around $3 billion.

Transfer Duty

At Budget time, transfer duty in 2008-09 was expected to decline by $300 million compared to 2007-08 to $3.8 billion. Reflecting the stronger than expected slowdown in transfer duty revenue since mid-2008, revenue has been revised down to $3.1 billion. This is $710 million lower than the original 2008-09 Budget estimate.

Revenue from residential and small commercial transfers is likely to remain subdued in the December quarter 2008, due to uncertainty in financial markets and the impact of slower economic activity.

The Reserve Bank of Australia began cutting interest rates in September 2008. Housing market activity is forecast to begin to stabilise over the first half of 2009 as lower interest rates begin to have effect. This is in line with the pattern in previous cyclical recoveries.

However, the cyclical upturn is expected to be subdued because of the high level of mortgage debt outstanding. The recovery in the forward estimates period is not expected to fully compensate for the loss of revenue experienced in 2008-09. The level of transfer duty receipts is forecast to remain below the 2007-08 level until 2010-11.

Royalties

The 2008-09 Budget estimate for coal royalties, which now make up about 95 per cent of total royalty revenue, was $840 million for 2008-09. This has now been revised up by $454 million to $1.3 billion, principally because of higher export coal prices but also because of the fall in the value of the Australian dollar. Export coal accounts for about 72 per cent of NSW total production.

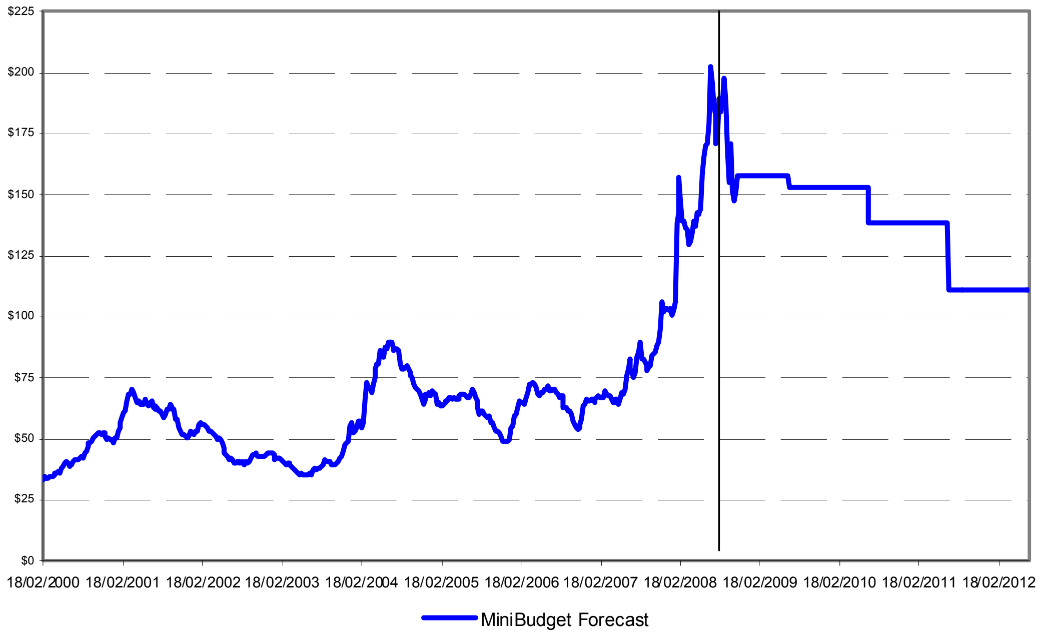
Most export sales of coal are denominated in US dollars (USD) and are covered by one year contracts. Contract prices had not been finalised for 2008-09 at Budget time. The USD contract prices for export thermal coal were finalised above the Budget time forecast. Higher USD prices for export coal have contributed around $360 million to the revised estimate for royalty revenue in 2008-09. USD prices for coal contracts are expected to fall over the next few years. Over time, falling coal prices will lead to lower royalty revenue.

Movements in the Australian dollar can also have a major impact on revenues as a lower Australian dollar results in higher revenue for any given USD coal price. The Budget time revenue estimate was based on an average exchange rate of USD0.85 in 2008-09. The currency has recorded large falls since then to less than USD0.70, leading to higher AUD prices.

Given the large recent movements and volatility in the currency, the current forecasts for coal royalties have been calculated based on the assumption that the currency averages USD0.72, which is its long term average over the period since its float in 1983. Using this exchange rate increases the royalty revenue estimate by about $90 million in 2008-09.

Thermal coal prices in USD terms are expected to ease somewhat over the four years to 2011-12, in light of the weaker world economic growth outlook now expected. Combined with the currency assumption, this leads to a decline in the AUD prices over the forward estimates as shown in Chart 4.1.

Chart 4.1: Thermal Coal Spot Price AUD $/tonne

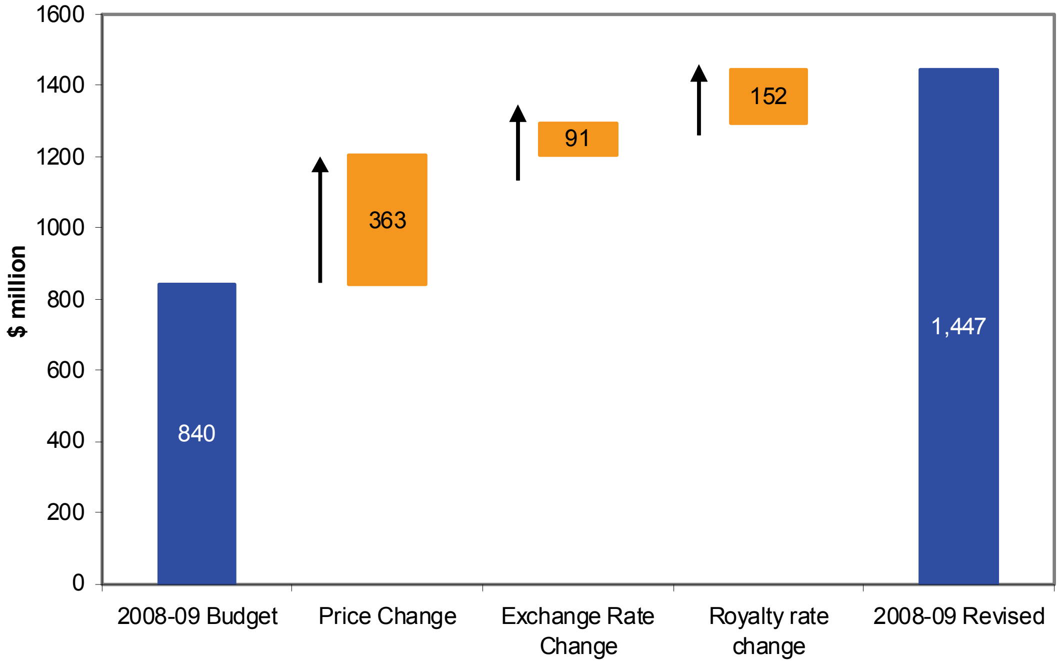


The incremental removal of supply bottle-necks, including the expansion of the Kooragang coal terminal, will significantly increase coal export volumes from 2010-11. Royalty revenues are expected to peak in 2010-11 and then taper off as the effect of lower USD coal prices are realised.

Given coal prices are likely to remain above historic levels for the foreseeable future and the impact of this on industry profitability, coal royalty rates have been increased from 1 January 2009 and transport costs will no longer be an allowable deduction for the purposes of calculating coal royalties. Further details of the changes to coal royalty arrangements are provided in Appendix B.

Chart 4.2 provides a estimated breakdown of the increase in revenue between the 2008-09 Budget estimate and the current forecast. The higher coal royalty rates are expected to increase revenue by $152 million in 2008-09.

Chart 4.2: Coal Royalties 2008-09



Commonwealth Grants

The Commonwealth has revised GST revenue down which will lower Commonwealth general purpose grants by $450 million in 2008-09 and $272 million in 2009-10.

New South Wales will also receive an additional $300 million in specific purpose payments (SPP) in 2008-09 following the introduction of the Commonwealth's First Home Owners Boost scheme.

Other Revenues

Payroll tax in 2008-09 is expected to be $136 million, or 2.1 per cent, lower than the Budget estimate. The majority of this reduction is due to a one-off payroll tax refund. The growth in payroll tax in the forward estimates period should remain subdued reflecting the softer employment outlook set out in Chapter 1 and the introduction of the payroll tax cuts announced in the 2008-09 Budget.

Land tax has been revised up by $170 million since the 2008-09 Budget reflecting the Mini-Budget decision to introduce a 2 per cent marginal tax rate on land holdings valued at more than $2.25 million. Details of changes to tax rates are provided in Appendix B.

Other stamp duties have been revised down by a total of $20 million in 2008-09. Motor vehicle registration duty has been revised down by $60 million. This has been partly offset by an extra $40 million from Mini-Budget policy changes, including $36 million from delaying the abolition of unquoted share transfer duty from 1 January 2010 to 1 January 2012.

Other major revenue variances in the forward estimates since Budget time are:

- Additional revenue of $752 million in 2009-10, $934 million in 2010-11 and $991 million in 2011-12 arising from the Mini-Budget revenue measures. These are described in detail in Appendix B.

- Additional SPP and National Partnership Payments (NPP) revenue from the Commonwealth Government arising from the COAG reforms. This revenue is more than matched by additional expenses incurred by the State.

BUDGET EXPENSES

Total expenses are projected to be $48.8 billion in 2008-09, which is $1.1 billion higher than estimated in the 2008-09 Budget. Expenses will average $2.0 billion per annum higher in the forward estimates period.

Table 4.5: Budget expenses 2008-09 to 2011-12

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	47,614	49,873	52,448	54,407
Mini-Budget (November 2008)	48,753	51,734	54,607	56,307
Change since Budget	1,139	1,861	2,159	1,900

The major expense variances in 2008-09 since Budget time are:

- Higher revenues and expenses arising from the Commonwealth Government's First Home Owners Grant Boost program ($340 million) and additional funding under the Commonwealth-State and Territories Disability Agreement ($56 million).

- Increased superannuation expenses of $140 million due to significantly lower investment returns arising from the downturn in global equity markets.

- Additional expenses in a range of core government activities: Health (Health Immunisation Agreement); Police (additional expenses for Death and Disability scheme); Roads and Traffic Authority (additional road maintenance); Corrective Services (additional overtime due to delays in Way Forward Reforms); Environment and Climate Change (higher spending through Climate Change Fund); Water and Energy (increase in Groundwater Structural Adjustment payments delayed from 2007-08); State and Regional Development (additional funding to Illawarra Medical Research Institute and tourism promotion); Education and Training (higher school costs); and Community Services (additional Out-of-Home Care funding).

Beyond 2008-09, expenses have been revised upwards by around $2 billion per annum. This reflects a number of influences including:

- Superannuation expenses are higher by between $300 million and $400 million per annum due to the significant reduction in the value of financial assets. At Budget time, investment returns on superannuation assets were estimated to be minus 3.8 per cent in 2007-08 and positive 7.9 per cent in 2008-09. The outcome for 2007-08 and the estimated return for 2008-09 are minus 7.3 per cent and minus 6.0 per cent, respectively.

- The Mini-Budget has seen a re-evaluation of the likely levels of Commonwealth funding both from SPP and NPP based on further work by Commonwealth and State officials. By 2011-12, Commonwealth SPP and NPP funding is expected to be nearly $800 million higher than at Budget time with this funding flowing through to higher Budget expenses.

- The Expenditure Review Committee of Cabinet has re-evaluated service delivery cost and demand pressures in key functional areas. The estimates provided for in the Mini-Budget reflect a more conservative estimate of the likely financial impact of these risks.

- Measures included within the Mini-Budget will reduce expenses by around $3.3 billion over the four years to 2011-12. Appendix A outlines in detail the measures contained in the Mini-Budget.

- The Mini-Budget also includes expenditure on a number of new initiatives including recurrent funding for new buses (see below), regional development and low Socio-Economic Status (SES) schools.

TOTAL STATE CAPITAL EXPENDITURE

The Mini-Budget has seen a thorough review of the State's capital program. Total State capital expenditure over the four years to 2011-12 is projected to total $56.8 billion compared with a Budget time estimate of $57.6 billion.

While the Mini-Budget has resulted in a relatively small change to the aggregate level of total state capital expenditure over the forward estimates, there have been significant changes to the makeup of the program, with substantial associated reductions in risks, particularly in health, transport and electricity (discussed in more detail in Chapter 5).

Over the forward estimates period, capital expenditure has been reassessed to:

- focus on key Government priorities
- increase the level of program flexibility and
- reduce the potential for a blow out in total capital program costs.

Table 4.6: Capital Expenditure – Total State Sector

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	13,930	14,111	14,587	15,013
Mini-Budget (November 2008)	13,827	14,700	14,443	13,783
Change since Budget	-103	589	-144	-1,230

The Mini-Budget incorporates a significant reprioritisation of public transport capital expenditure including:

- Indefinite deferral of the $12 billion North West Metro and an allocation for a Sydney Metro system. Over the four years to 2011-12, this offers a direct budget saving of almost $1 billion.
- Staging of the South West Rail Link (SWRL) to Leppington in line with transport demand within the region saving $462 million over the four years to 2010-12.
- Deferral of Stage 2 of the Richmond Line from Schofields to Vineyard and cancellation of the Carlingford Passing Loop and the Sydenham to Erskineville 6 Track projects saving around $550 million over the four years to 2011-12.
- 300 additional buses, at a cost of $170 million, plus the bringing forward of the announced acquisition of 150 articulated buses for the State Transit Authority.
- Additional commuter car parks and other interchange facilities across the rail network costing $56 million.
- An additional $370 million has been allocated to support the acquisition of new Outer Suburban Rail Cars (OSCars) and stabling berths.
- Further savings of $400 million to 2012-13 have been applied to RTA's capital program ($245 million to 2011-12), with 90 per cent of this to be achieved by setting NSW's contribution to Pacific Highway upgrades to $500 million as part of the overall Auslink II program with the Commonwealth (noting that to date, NSW contributions since 1996 have exceeded Commonwealth contributions by roundly $1 billion).

Further details of the capital program are outlined in Chapter 5.

TOTAL ASSET SALES

Asset sales for the total state sector are now significantly higher than estimated at Budget time.

Table 4.7: Asset Sales – Total State Sector

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	881	1,249	989	935
Mini-Budget (November 2008)	872	1,570	1,350	1,128
Change since Budget	-9	321	361	193

The Mini-Budget process has incorporated a thorough review to identify surplus assets. The revised estimates incorporate the following asset sales and long term leases:

- 99 year lease of the Australian Technology Park by the Redfern-Waterloo Authority
- 99 year lease of the Sydney Harbour Foreshore Authority's commercial assets and
- Identification of surplus assets by general government agencies including the Department of Health, the Department of Education and Training, NSW Police, the Department of Community Services, the Department of Ageing, Disability and Home Care and the Department of Arts, Sport and Recreation which will free up resources for frontline services.

The estimates do not include the impact of potential business asset transactions i.e. NSW Lotteries, WSN Environmental Solutions, the Superannuation Administration Corporation, the Road and Traffic Authority's non-standard number plates business and the divestments arising from the Government's Electricity Strategy.

A detailed description of the business asset transactions arising from the Mini-Budget process is provided in Chapter 6.

TOTAL STATE NET FINANCIAL LIABILITIES AND NET DEBT

Total state net financial liabilities have increased significantly since the 2008-09 Budget, as set out in the table below.

Table 4.8: Net Financial Liabilities and Net Debt – Total State Sector

	30 June			
	2009	*2010*	*2011*	*2012*
Net Financial Liabilities				
Budget Time (June 2008)				
- $m	64,567	73,045	78,471	83,749
- % of GSP	16.7	17.9	18.2	18.3
Mini-Budget (November 2008)				
- $m	72,459	79,177	84,386	89,027
- % of GSP	19.4	20.4	20.5	20.4
Net Debt				
Budget Time (June 2008)				
- $m	28,243	33,005	37,626	41,698
- % of GSP	7.3	8.1	8.7	9.1
Mini-Budget (November 2008)				
- $m	27,786	33,276	37,343	40,583
- % of GSP	7.4	8.6	9.1	9.3

The principal reason for the change in net financial liabilities is an increase in unfunded superannuation liabilities of around $7 billion in 2008-09 and between $5 billion and $6 billion per annum in each of the following three years. The increase reflects the significant deterioration in the value of financial assets held by the fund trustees due to the recent significant falls in financial markets. At Budget time, investment returns on superannuation assets were estimated to be negative 3.8 per cent in 2007-08 and positive 7.9 per cent in 2008-09. The outcome for 2007-08 and the estimated return for 2008-09 are now negative 7.3 per cent and negative 6.0 per cent respectively.

Unfunded superannuation liabilities will increase further in 2008-09 because the discount rate used to value the gross liabilities has been reduced from 6.35 per cent at Budget time to 5.85 per cent, which reflects the reduction in government bond rates since Budget time.

Total state net debt in 2011-12 is now estimated to be around $1.1 billion lower than at Budget time. This reflects the impacts of a reduction in the total state capital program and increased asset sales, partly offset by weaker Budget Results over the period.

5. STATE CAPITAL PROGRAM

The Mini-Budget has resulted in significant changes to the Government's capital program over the forward estimates period and, importantly, over the next decade. These changes will provide increased flexibility in addressing infrastructure requirements and will ensure a fiscally sustainable capital program.

The 2008-09 Budget included record levels of infrastructure spending in 2008-09, with total State capital expenditure being 23 per cent above 2007-08 levels, 43 per cent above that in 2006-07 and 66 per cent above that in 2005-06. The increasing capital program was planned to be partially financed by increasing levels of net debt. For the four years to June 2012, $21 billion of new debt was expected to finance 37 per cent of the $57.6 billion capital program, compared to 21 per cent debt financing ($7.4 billion) for the $36 billion capital program over the four years to June 2008.

In the general government sector, the Budget forward estimates projected roughly constant capital expenditure to 2010-11, followed by a reduction of 9 per cent in 2011-12, before growing again at a trend rate of 4.6 per cent per annum through the remainder of the State Infrastructure Strategy (SIS) period to 2017-18.

This profile of constant or declining capital expenditure to 2011-12 implied a need for tighter expenditure control in subsequent Budgets (compared to historic trends of increasing capital expenditure in each successive Budget), which effectively represented a risk of continued growth in capital expenditure (and debt financing). A particular risk in this respect was sustained growth in demand for health services and corresponding infrastructure.

In the public trading enterprise (PTE) sector, the Budget and SIS projected continued growth in capital expenditure from $4.4 billion in 2005-06 to $8.5 billion in 2008-09 and then a peak of $11 billion in 2012-13 (with this increase to 2012-13 entirely attributable to the planned North West Metro), before declining each year until reaching $6.9 billion in 2017-18. As in the general government sector, the flat or declining capital program (excluding North West Metro) effectively represented a risk to future budgets, given the history of continued growth in capital expenditure. The investment needs of the core CityRail network were a key risk in this regard.

ELECTRICITY STRATEGY

The Inquiry into Electricity Supply in NSW (the Owen Inquiry) found that the potential impact of continued involvement in electricity retail and generation would be a requirement for investment of up to $15 billion over the next 10 – 15 years.

The 2008-09 Budget and SIS did not contain additional generation capacity expenditure, in line with the intended strategy of sale and long-term lease of State electricity assets, which, by avoiding an additional $15 billion capital investment, would give greater balance sheet flexibility to manage the above capital program and other recurrent risks to the Budget.

The lack of parliamentary support for the Government's electricity reforms, combined with a downturn in revenues and an increase in other expenditure risks, has required tighter management of capital expenditure priorities and risks.

The revised electricity strategy and its impact on the State Infrastructure Strategy is set out below and in Chapter 6.

MINI-BUDGET RESPONSE

The Mini-Budget is the start of an ongoing process of strategically reprioritising the Government's capital program and ensuring the Government gets the maximum value from its asset portfolio. The outcome will be an investment and asset management program that best serves Government's service priorities.

The State Infrastructure Strategy (SIS) to 2017-18 will be revised in November 2008 to reflect the updated fiscal forecasts developed in the Mini-Budget and provide revised 10-year aggregate capital projections. Further reprioritisation of specific major projects through the SIS period will be undertaken through the 2009-10 Budget process, whilst ensuring sufficient flexibility in the program and budgets to accommodate future capital risks.

The Mini-Budget has reprioritised the capital program in order to:

- reduce budget capital risks, either directly or by bringing them into budget in place of other deferred works,
- reduce the total budgeted capital expenditure and projected debt financing requirements both in the forward estimates period and beyond, and
- thereby provide greater future budgetary flexibility to address future priorities.

Overall the Mini-Budget has reduced capital expenditure by around $890 million over the four years to 2011-12, as well as approving asset sales of over $1 billion (resulting in a net increase of about $870 million after taking into account revisions to 2008-09 Budget estimates). In addition, the Mini-Budget has reduced a number of previously unbudgeted risks by an estimated $1.6 billion. Following normal budget practice, the impact from the business asset transactions set out in Chapter 6 is not included in these numbers.

Transport has been a major area of reprioritisation, due to the substantial demands and risks in this sector.

Table 5.1: Capital Expenditure – Total State Sector

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	13,930	14,111	14,587	15,013
Mini-Budget (November 2008)	13,827	14,700	14,443	13,783
Change since Budget	-103	589	-144	-1,230

The Mini-Budget process has thoroughly reviewed the general government capital expenditure program. While the overall level of the program has been broadly constrained within the levels set out the in the 2008-09 Budget Papers, there has been some reprioritisation within the program. Additional funds have been provided for new buses and for school minor capital works.

Table 5.2: Capital Expenditure – General Government Sector

	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Budget Time (June 2008)	5,477	5,352	5,475	4,976
Mini-Budget (November 2008)	5,499	5,373	5,596	4,976
Change since Budget	22	21	121	0

CAPITAL REPRIORITISATION

Rail sector reprioritisation

The priorities of the rail capital program reflect a refocused rail strategy that will ensure new investments meet the needs of growing demand on the CityRail network, whilst also providing value-for-money service improvements. Rail capital expenditure has been reprioritised.

There is an indefinite deferral of the $12 billion North West Metro and approval of an $1.8 billion allocation over the forward estimates for a Sydney Metro System. Over the four years to 2011-12, this offers a direct budget saving of almost $1 billion. The commencement of a Sydney Metro System also offers a solution to immediate priority congestion issues on the CityRail network (providing a feed into the CBD from extra CityRail services that can connect to it at Central station), thus addressing the budget risk of other investments to meet this need.

The indefinite deferral of the North West Metro provides significantly greater budget flexibility, over the entire ten years of the SIS, to address other priority needs.

A Sydney Metro System could be extended as part of the proposed West Metro project, which has been submitted to the Commonwealth for funding. The money allocated through the Mini-Budget should be viewed as NSW’s contribution to the proposed West Metro to Parramatta, which could provide significant capacity relief to much of the CityRail network whilst supporting the growth of Sydney’s economy.

Other lower cost strategies for addressing CityRail capacity constraints and improving service levels are also under development, based on gradual conversion of network operations to higher-frequency single-deck rolling stock.

The reprioritised rail capital program also includes staging of the South West Rail Link (SWRL) to Leppington in line with transport demand within the region, saving $462 million over the four years to 2011-12.

The Mini-Budget also results in the deferral of Stage 2 of the Richmond Line from Schofields to Vineyard and cancellation of the Carlingford Passing Loop and the Sydenham to Erskineville 6 Track projects, saving around $550 million over the four years to 2011-12.

An additional $370 million has been allocated to support the acquisition of new Outer Suburban Rail Cars (OSCars). This brings into Budget a priority need that was previously a budget risk.

Additional commuter car parks and other interchange facilities across the rail network, costing $56 million, have also been approved.

Other changes in transport capital budgets

The impact of the above changes to rail is a budget saving of $800 million over the forward estimates *plus* a significant reduction in rail sector capital risks. The reduction in rail costs more than offsets funding required for the purchase and operation of previously planned articulated buses, plus 300 new buses including 100 buses for north west Sydney.

Further savings of $400 million to 2012-13 have been applied to RTA's capital program ($245 million to 2011-12), with 90 per cent of this to be achieved by setting NSW's contribution to Pacific Highway upgrades at $500 million as part of the overall Auslink II program with the Commonwealth (noting that to date, NSW contributions since 1996 have exceeded Commonwealth contributions by about $1 billion).

Risks related to ferry capital investment requirements will be managed through the Government's intention to undertake a market testing exercise to seek bids from the private sector for the provision of ferry services under contract, with Sydney Ferries to retain its role if it is assessed as offering superior value for money including service quality. This process is to commence in December 2009. The Government will also discontinue Jet Cat services, subject to ensuring the overall ferry service demand can be met by other vessels.

Infrastructure Australia priorities

The NSW Government has submitted the following priority projects to Infrastructure Australia, seeking substantial funding from the Commonwealth Government's Building Australia Fund:

- M4 extension
- M5 expansion
- West Metro
- Northern Sydney freight rail line

These projects will only proceed before 2012 if they are substantially funded by the Commonwealth. The Government will work with the Commonwealth and Infrastructure Australia to determine relative priorities in this period, including consideration of appropriate funding levels to other priorities submitted by NSW (including the Pacific Highway, Princes Highway, F3 to M2 and F3 to Branxton links, and Aboriginal and Regional water projects).

The Sydney Metro System has also been submitted to Infrastructure Australia.

Other general government capital changes

Remaining changes to the general government capital program give a net increase of $165 million to 2011-12. Within this is a $270 million increase in school minor capital works (to be partly funded by asset sales), offset by capital savings of $103 million in the justice sector, $72 million from a reversal of previously announced investment in Sydney Showground's convention facilities, and a further $60 million saving across a number of other agencies.

Savings in the Justice sector comprise $22 million through deferred court upgrades, plus annual reductions of $15 million per annum from reducing the scope of Police ICT projects and $5 million per annum from reprioritising Police building works.

Each year the Department of Education and Training sells surplus land and property assets to help fund its capital works program. In the next three years the Department will accelerate the sale of surplus land and school and TAFE sites, with half the proceeds from these sales – an estimated $120 million – returned to fund new and additional school and TAFE capital works. A detailed program of new capital works will be developed in the next six months.

On top of this, the Department will also spend an extra $150 million in schools in the next two calendar years to erect security fences, upgrade toilets and sewers, and to fix roofs.

Combined with the Government's existing school building and refurbishment program, these two new initiatives will reduce the on-going cost of maintaining public schools and remove significant financial risk from the Budget.

Significant budget risks have been avoided by reviewing the timing, costs and priorities of the Department of Health's capital program. In 2008-09, a $9.6 million cost increase in the Department of Health's capital program will be offset by a reduction in other Health expenditure. All projects in the department's capital program over the remaining forward estimates years were thoroughly reviewed as part of this Mini-Budget to ensure that the program will be delivered within approved funding limits.

All contractually committed works will proceed as planned and have not been affected by the Mini-Budget. Major projects such as the Orange Bloomfield Hospital redevelopment, Royal North Shore Hospital redevelopment, Auburn Hospital redevelopment and Liverpool Hospital Redevelopment Stage 2 are progressing as planned.

To accommodate these priorities within existing budget limits, some planned capital projects may be deferred. Final decisions on project deferrals will be subject to discussions with the Commonwealth regarding availability of national infrastructure funds for health related projects.

The O'Neill Report into Sydney Convention and Exhibition Space supported the upgrade of Government-owned Sydney Showground's convention facilities at Sydney Olympic Park at a cost of $181 million. The intention was that additional space at Olympic Park would provide further capacity at the Sydney Convention and Exhibition Centre for events that brought economic benefit to Sydney. However, in assessing competing priorities through the Mini-Budget, the Government has decided not to proceed with this expansion.

Commercial PTE sector capital changes

In the commercial PTE sector (excluding public transport), capital expenditure reductions of $1.3 billion have been determined, with much of this to occur in the electricity network businesses (transmission and distribution), particularly through the leasing, rather than purchase, of non-core assets (such as motor vehicles and IT).

The lack of parliamentary support for the long-term lease of the State's electricity generators increased the risk of the State having to finance major new investments in baseload power generation.

In response, the Premier unveiled a new reform package on 1 November 2008, which aims to encourage private investment (particularly for the first tranche of baseload requirements) by withdrawing the Government from electricity retailing, transferring to the private sector power station development sites and the right to trade the output of publicly owned generators.

The Government is confident that these transactions will result in adequate private sector investment, particularly for the first tranche of baseload. However, a provision will be made in the outer years of the SIS to allow the Government to invest in a second tranche of baseload generation in the event that the private sector does not commit to developing subsequent capacity.

The Government will continue to fund the ongoing capital programs of the generation businesses. The forward estimates include $1.6 billion for generator capital expenditure.

Electricity is discussed further in Chapter 6.

ASSET DIVESTMENTS

Over time, the Government has acquired assets that no longer meet service delivery needs or serve a strategic purpose. The opportunity cost of retaining these assets has been reviewed and non-core assets will be divested by either sale or 99 year lease. The funds released will provide flexibility to fund other Government initiatives including the capital program. In total, there will be around an additional $870 million from property divestments than the amount estimated in the 2008-09 Budget.

Major property divestments include the Australian Technology Park, commercial assets managed by the Sydney Harbour Foreshore Authority, office accommodation managed by EnergyAustralia and vacant schools and surplus land managed by the Department of Education and Training. Other minor property divestments include surplus land and buildings managed by the Department of Community Services, the Department of Arts, Sport and Recreation, the NSW Police Service and the Department of Ageing, Disability and Home Care

The Australian Technology Park at Redfern is a commercially operated business park that is a wholly owned subsidiary of the Redfern-Waterloo Authority. The Park is fully tenanted and offering solid commercial returns. Owning and operating a business park is not a core responsibility of government and there is no evidence of market failure. The property will be offered to the market by way of a 99 year lease. The site has development potential that can be better realised by the private sector.

Similarly, commercial property assets managed by the Sydney Harbour Foreshore Authority are more suited to operation and management by the private sector. Transferring these assets to the private sector by way of 99 year leases means that the Authority can concentrate on its core responsibility of precinct management rather than operating commercial assets. Assets include car parks and ground leases at Darling Harbour.

EnergyAustralia owns office accommodation that has significant redevelopment capacity. It is not an efficient use of that corporation's capital to own a central business district redevelopment site. Consequently, the site will be sold with EnergyAustralia relocating to more cost effective premises.

PUBLIC-PRIVATE PARTNERSHIPS (PPP)

The Mini-Budget reiterates the NSW Government's policy to procure capital projects through PPPs, but only when such structures provide the State with value for money relative to public procurement and financing. The Government will continue to adhere to international best practice regarding the accounting treatment of PPPs, and will only consider liabilities associated with a particular PPP transaction to be off the State's balance sheet if demand risk has effectively been transferred to the private party to the transaction.

Since the publication of the 2008-09 Budget there have been updates to the PPP program.

The Rail Rolling Stock PPP contract, signed in December 2006, is a privately financed project to supply 626 new carriages for replacement of ageing non air-conditioned trains on the suburban network.

The Mini-Budget has resulted in the replacement of the $12 billion NW Metro with an allocation for a Sydney Metro System. This project has the potential to be privately financed. The procurement strategy will investigate the value for money drivers that would make PPP procurement viable. If a PPP procurement strategy is adopted then it would likely entail an availability payment from Government, which would be accounted for on the State's balance sheet.

The Government has fully funded $950 million for the capital cost of the redevelopment of the Royal North Shore Hospital complex, of which $721 million will be financed through a privately financed arrangement. This PPP was financially closed on 28 October 2008, during the current global financial crisis. The cost is fully funded in budget allocations, and will be accounted for as a liability in the State accounts when availability payments become due. The project, which will be constructed over the next five years, includes new Acute Care and Community Health facilities, operating alongside the recently opened, state of the art, Research and Education building. The PPP has enabled the hospital to be built at a cost of $1.1 million per bed, which is between 27 per cent and 35 per cent lower than equivalent hospitals delivered in other jurisdictions.

6. BUSINESS ASSET TRANSACTIONS

Several business transactions are being investigated by the Government in both the public trading enterprise and general government sectors. Businesses under consideration are NSW Lotteries, WSN Environmental Solutions, the Superannuation Administration Corporation (trading as Pillar) and the Roads and Traffic Authority's non-standard number plates business.

These measures are in addition to the transfer of electricity retail businesses, generation development sites and the right to trade generation output that were announced by the Premier on 1 November 2008. Information on the electricity sector is outlined below.

BENEFITS

Improvements to the fiscal outlook

Transferring assets to the private sector improves total State sector net financial liabilities, a key measure used by the ratings agencies to assess the State's creditworthiness. Net debt and net financial liabilities are improved by proceeds being:

- used to pay down debt held by businesses that are sold, and the remainder applied to reduce general government debt or
- invested in financial assets which earn a market return.

There are further benefits as future planned capital expenditure that was to be undertaken by the Government business will instead be carried out by the private sector owner. This can reduce net debt and net financial liabilities further. This is particularly relevant in capital intensive sectors where businesses are under competitive pressure to expand or are facing significant reinvestment in their capital asset base.

Proceeds are subject to a degree of uncertainty due to prevailing market conditions and timing. Following normal budget practice, estimates of the net proceeds of these transactions have not been included in the forward estimates and future capital expenditure is still incorporated. There would be benefits to the fiscal position as such transactions are finalised.

Reduced exposure to market risk

Some government businesses operate in a competitive environment and are subject to the business risks that naturally occur in their respective industries.

Dividend and income tax equivalent payments from such businesses would normally be more volatile than most other Budget revenues. Owning and underwriting the financial performance of businesses with higher levels of market risks (or potential future risks) is inconsistent with the need for state budgets to have a reasonably stable revenue stream to match relatively consistent expenditure levels on social and other services.

The private sector may be better placed than taxpayers to accept and manage market and financial risks associated with competitive businesses.

TRANSACTION PROCESS

For each proposed transaction, a Steering Committee or Working Group will be formed to undertake a transaction strategy review and report back to Government.

The transaction strategy review will consider a range of matters including the readiness of the business; issues that need to be resolved to ensure that appropriate value is realised; any activities to be excluded from the transaction; any changes to regulatory settings needed to ensure public policy outcomes are achieved; market conditions; and transaction method.

The reviews will also carefully consider the needs of key stakeholder groups including the customers, staff and business partners.

The value of a business under continued Government ownership, known as the retention value, will also be considered prior to any transaction proceeding. This provides a final safeguard on business transaction proposals and is consistent with recommendations put forward by the Auditor-General in his review of the TAB sale in 1998. [1]

POTENTIAL SALE OF WHOLE BUSINESS AND CONCESSIONS

NSW Lotteries

NSW Lotteries holds seven lottery licences to operate Draw Lotteries, Lotto, Oz Lotto, Lotto Strike, Powerball, Soccer Football Pool and Instant Lotteries products in New South Wales.

The original rationale for Government owning Lotteries was essentially to ensure the integrity of operations and to protect the public from harmful consequences. The Government achieves these social objectives through a well defined regulatory/licensing framework. Lotteries are operated by the private sector in Victoria, Queensland and Tasmania.

NSW Lotteries is experiencing strong competition from other gaming products such as casinos and online interactive games. Transferring the business to the private sector will better position it to compete through product promotion and distribution innovation.

It is envisaged that NSW Lotteries would be transferred to the private sector with a licence to operate lotteries for a defined period. The transaction would include contracts with lottery operators in other states and the right to use the NSW Lotteries brand.

The existing licensing and regulatory framework will be reviewed prior to any transaction to ensure arrangements will continue to deliver public policy objectives and not unduly hinder business operations for a private sector operator.

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[1] *NSW Audit Office,* Performance Audit Report: Sale of the TAB, *1998.*

WSN Environmental Solutions

WSN Environmental Solutions (WSN) has over 30 years experience providing reliable and responsible environmental services to the greater Sydney area and beyond.

WSN's services include:

- kerbside collection of waste and recyclables
- processing, recycling and recovery of resources from waste streams
- waste disposal
- education, advice, industry programs and other related services and
- general contract and transport services related to waste.

WSN operates in an increasingly competitive market along with private sector operators. Additionally, the Government's Waste and Environment Levy on waste disposal to landfill underpins the commercial viability of waste minimisation, recycling and recovery.

Prior to any transfer of WSN to the private sector, there are a range of issues which must be resolved to ensure that the Government can secure the maximum benefit for NSW taxpayers, including the implications for WSN of the Commonwealth's *Carbon Pollution Reduction Scheme*.

The Government has initiated a review process to consider the optimal transaction strategy. The review will consider carefully the needs of key stakeholder groups including the customers, staff and business partners of WSN. During the review process, it will be business as usual for WSN and its continued activities in the market.

Superannuation Administration Corporation (Pillar)

The Superannuation Administration Corporation, trading as Pillar, provides superannuation administration services, including:

- collecting contributions to superannuation schemes
- keeping and maintaining member records
- providing information and advice to members
- preparing financial statements on behalf of trustees and
- processing claims and payments of benefits.

Pillar performs its functions for private and public sector superannuation funds under contract from the fund trustees. However, Pillar does not perform any roles relating to the design and management of funds, such as asset management or product distribution.

Pillar is performing successfully in a competitive market place. Any transfer of Pillar to the private sector would remove NSW taxpayers from exposure to commercial risks. This would provide an avenue for the business to diversify and undertake additional investment in information technology. Any transaction strategy will include mechanisms to safeguard the employment of staff and retain its location in Wollongong.

RTA Non-Standard Number Plates Business

The Government has agreed to create a concession to market non-standard number plates that are issued by the Roads and Traffic Authority (RTA).

The RTA offers motorists customised number plates with different layout, colours, finishes and number/letter combinations. The customised number plates business was developed by the RTA leveraging on its existing business delivery channels (registries and web-sites) and control of car registration.

Marketing customised number plates is not a core function of the State, but it could be a successful business enterprise. The creation of a concession will allow the RTA to transfer the risks associated with future demand to the private sector while retaining management of vehicle registration and the regulation of plates.

A Steering Committee will be established to examine and advise on the transfer of the concession to the private sector, including the structure and term, ongoing relationship with the RTA and any requirements for continuing or new regulation.

ELECTRICITY

Generation

The Government remains committed to securing the State's electricity supply while minimising the cost to taxpayers. The Premier unveiled a new reform package on 1 November 2008, which aims to stimulate private investment in new baseload generation capacity in NSW.

The new package includes previously announced measures of:

- withdrawal of the Government from electricity retailing
- transfer of power station development sites to the private sector and
- retention of the State-owned generators in public ownership.

The new element of the package is that the Government will transfer the right to trade its generation output to the private sector.

The Inquiry into Electricity Supply in NSW (the Owen Inquiry) determined that, "with a risk averse approach, New South Wales needs to be in a position where baseload generation can be operational by 2013-14 if necessary"[2], and that "most of NSW extra baseload needs are likely to be met by coal-fired and/or gas-fired generation".[3]

The Owen Inquiry also found that the potential impact on the State could be a requirement for investment of up to $15 billion over the next 10 to 15 years, comprising new investment in generation capacity in the vicinity of $7 to $8 billion, $2 to $3 billion to maintain the viability of Government owned retail businesses, and $3 to $4 billion to retro-fit some existing power stations with carbon reduction technologies.[4]

The Owen Inquiry found that "the most efficient means of providing for baseload is to improve the commercial and policy signals used by the private sector when investing in generation capacity in New South Wales".[5]

Transferring the right to trade generation output to the private sector will improve commercial and policy signals by addressing private sector concerns about competing directly against Government-owned businesses, and will provide private sector participants with the portfolio benefits cited by the Owen Inquiry as key incentives for private sector baseload investment. [6]

The Government is confident that transferring the right to trade generation output to the private sector and divestment of potential baseload sites (such as Delta Electricity's recently approved Bamarang combined cycle gas proposal) will result in adequate private sector investment, particularly for the first tranche of baseload. However, a provision will be made in the second half of the State Infrastructure Strategy to allow the Government to invest in the second tranche of baseload generation in the event that private sector fails to commit to developing adequate subsequent capacity.

The Owen Inquiry found that Carbon Capture and Storage technology could be in commercial operation from around 2020[7], which is outside the forward estimates and State Infrastructure Strategy projection periods.

Consistent with past practice, the forecasts assume that the Government continues to fund the capital programs of the generation businesses. This includes committed developments such as the construction by Delta Electricity of its 667 megawatt gas fired power station at the Colongra development site. On this basis, the total generation capital expenditure over the four year forward estimates period is forecast to be $1.6 billion.

As with the 2008-09 Budget, the Mini-Budget does not assume any revenue from the potential transactions.

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[2] *pp. 1-7 Inquiry into Electricity Supply in NSW, Professor Anthony D. Owen, September 2007.*

[3] *pp. 1-8 op. cit*

[4] *pp. 1-12 op. cit*

[5] *p. .i, op. cit*

[6] *pp.7-24 op. cit*

[7] *p. 68 op. cit*

Networks

The NSW Government will continue to own the electricity distribution and transmission businesses. Distribution and transmission networks are regulated by the Australian Energy Regulator (AER). The businesses have made submissions to the AER in relation their capital expenditure for the period 2009-10 to 2013-14.

The AER reviews capital expenditure under criteria set in the National Electricity Rules, as part of the network revenue and pricing determination process. The AER engages independent experts to review the capital programs and sets a capital expenditure allowance for the next regulatory period. The AER, based on its expert's advice, may reduce the amount of capital expenditure claimed by the businesses.

The outcomes from the AER's review of network capital expenditure will be incorporated into the AER's draft determination, which is expected around late November 2008 and a final determination in April 2009. The determination will be for the five years commencing on 1 July 2009 and will set a capital expenditure allowance for each of the distribution and transmission businesses.

The AER submissions and determination process have been taken into account in the forward estimates.

Savings in capital expenditure are possible by the electricity business leasing non-core assets (such as motor vehicles and IT equipment) rather than outright purchase.

APPENDIX A: MINI-BUDGET MEASURES[1] (BY PORTFOLIO)

[1] *Positive numbers represent an improvement to the Budget or Net Lending Result.*

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Whole of Government				
• 25 per cent reduction in advertising expenses for all general government agencies and selected public trading enterprises with advertising spending in excess of $100,000.	…	31,000	31,000	31,000
• Revised air travel policy to require lowest cost flights, apply the policy to PTEs and restrict domestic business class travel flights to senior officials and Ministers to Perth and Darwin.	…	2,000	2,000	2,000
• Reduce size of Chief Executive Service/Senior Executive Service by 20 per cent.	17,100	34,200	34,200	34,200
• Establish whole of Government "One Stop Shops" at up to 129 motor registries to provide customer and business services for the whole of Government.	…	10,000	15,000	20,000
Premier, and Minister for the Arts				
Department of Premier and Cabinet				
• Decommission dedicated Ministerial and Parliamentary Services IT systems.	…	700	700	700
• Discontinue Ministers' entitlement to an overseas State visit each term.	180	360	360	360
Department of the Arts, Sport and Recreation				
• Sale of land surplus to requirements.	…	…	…	10,200
Deputy Premier, Minister for Climate Change and the Environment, and Minister for Commerce				
Department of Environment and Climate Change				
• Adjust the levy on electricity distributors under the *Energy and Utilities Administration Act 1987* to fund the Energy Efficiency Strategy.	…	37,700	42,000	28,100
• NSW Energy Efficiency Strategy.	-7,000	-35,950	-40,250	-26,350
• Increase Waste and Environment Levy for the Sydney region and the Hunter, Central Coast and Illawarra by $10 per tonne per annum indexed to CPI, from 1 July 2009 until 2015-16. The $10 increase will replace the $7 per tonne increase previously scheduled for 1 July 2009. Extend Waste and Environmental Levy to cover Wollondilly and Blue Mountains local government areas, and coastal local government areas from the Hunter to the Queensland border. The levy rate will be $10 per tonne from 1 July 2009, with increases of $10 per tonne per annum, plus movements in the consumer price index, to apply from 1 July 2010 until 2015-16.	…	20,500	46,800	80,200
• Provide for new or expanded environmental programs funded by increases in the Waste and Environment Levy on waste disposed of at landfill.	…	-18,767	-10,567	-80,420
• Introduce a levy of $15 per tonne from 1 November 2009 on coal waste disposed other than as part of an approved mine remediation plan. It is anticipated that the levy will stimulate alternative disposal arrangements and consequently revenue is expected to reduce to zero over time.	…	25,000	32,672	28,465
• Discontinue the Forging Partnerships Program (administered by the Natural Resource Advisory Council) as it duplicates programs funded through the Environmental Trust.	1,800	1,800	1,800	1,800

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Environmental Trust				
• Savings from the underspent Native Vegetation Assistance Package designed to assist landholders. The Package which was due to end in June 2009 will now be extended until June 2011 for sustainable farming grants and until June 2012 for farmer exit assistance. Funds not required for this extension will be returned to the Budget.	1,903	4,858	6,839	1,500
Department of Commerce				
• Reduce recurrent costs associated with Better Government Access Project.	…	6,100	8,700	8,700
• Reduce capital investment under the Better Government Access Project.	3,000	8,400	…	…
• One off expense savings across a number of areas.	11,000	…	…	…
• One off capital savings.	1,000	…	…	…
Zoological Parks Board of New South Wales				
• Reprioritisation of the Taronga and Western Plains Zoos capital program to focus on critical projects in the master plan.	2,963	4,879	9,700	5,079
Minister for Ageing, Minister for Disability Services, and Minister for Aboriginal Affairs				
Department of Ageing, Disability and Home Care				
• Rationalisation and sale of various DADHC sites e.g. the recently created surplus site known as Grosvenor. The rationalisation is expected to achieve efficiency improvements in asset use.	…	…	13,800	…
Attorney General, Minister for Justice, and Minister for Industrial Relations				
Attorney General's Department				
• Merge Public Trustee NSW and the Office of the Protective Commissioner. The merger is intended to achieve service improvements and minor operational efficiencies.	100	100	100	100
• Increase cost recovery for commercial civil cases (court fees) from 2009-10.	…	1,000	1,000	1,000
• Increase Victims Compensation Fund levy on offenders and streamline administrative procedures to reduce the amount in legal fees that is paid from the Victims Compensation Fund.	…	5,000	5,000	5,000
• Extend the completion date of the Courts Upgrade program by one year.	…	1,000	10,500	11,000
Office of the Director of Public Prosecutions				
• Employ 14 additional solicitors from 1 January 2009 for two years.	-700	-1,400	-700	…
Department of Corrective Services				
• Further implementation of Way Forward workplace reforms that will contribute to the Department's efficiency savings.	1,000	9,000	16,100	16,100

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Minister for Community Services				
Department of Community Services				
• Introduce license fees for providers of children's services from January 2010. Fees will be set to recover administration costs and will range from $700 per year for small services to $1,100 for large services.	…	3,600	7,200	7,200
• Increased cost of out-of-home care allowances and NGO placement and support, reflecting an increase in the number of children in out-of-home care.	-19,300	-60,000	-60,000	-60,000
• Commence high priority projects to improve effectiveness and efficiency, including: changes to the client information system to release caseworker time to deal with more cases; core system redesign; and a new management system to support reform in purchasing services from non-government organisations.	-9,230	…	…	…
• Sale of surplus property not needed for service delivery.	…	2,626	6,181	14,890
Minister for Education and Training, and Minister for Women				
Department of Education and Training				
• Remove the Back to School Allowance.	57,000	58,000	58,000	58,000
• Increase funding for low Socio-economic Status (SES) Schools, special needs learning support and Student Assistance Scheme.	-20,000	-20,000	-20,000	-20,000
• Rationalise school rainwater tank capital program.	…	6,200	6,200	…
• Fund remaining school water tank capital program from savings elsewhere in the Climate Change Fund. The program will now incorporate water audits for schools, with any necessary action to save water to be funded through the existing Government Energy and Water Efficient Investment Program (GEEIP).	…	3,800	3,800	…
• Additional minor capital works at schools including security fencing, and upgrades to toilets, sewers and roofs.	-10,000	-75,000	-65,000	…
• Additional capital works funded from an Accelerated Asset Sale Program of surplus land and vacant school sites.	…	-4,500	-15,000	-100,000
• Accelerated sale of surplus land and vacant school sites.	…	9,000	30,000	200,000
Minister for Finance, Minister for Infrastructure, Minister for Regulatory Reform, and Minister for Ports and Waterways				
Maritime Authority of New South Wales				
• Introduce a 50 cents per ferry passenger journey charge to meet the costs of increased wharf maintenance and upgrades.	…	7,000	7,000	7,000
• Increase ferry wharf maintenance.	…	-2,500	-2,500	-2,500
• Upgrade ferry wharfs.	…	-4,500	-4,500	-4,500
• Increase mooring fees for Sydney Harbour moorings east of the Sydney Harbour Bridge.	…	200	200	200

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Newcastle Port Corporation				
• Defer dredging around Mayfield berths 5, 6 and 7.	200	-200	5,000	…
• Defer dredging around Walsh Point berths K1, W3, W2 and W1.	250	-250	5,000	…
• Defer indefinitely construction of General Cargo Distribution Shed.	…	2,000	…	…
• Defer Channel Improvement.	…	…	…	1,000
• Defer Stockton Coastal Processes project.	…	…	…	5,000
Minister for Health, Minister for Central Coast, and Vice President of the Executive Council				
Department of Health				
• Update private practice infrastructure fees for specialists to better reflect existing medical practice, current equipment and support costs.	7,500	15,000	15,000	15,000
• Streamline and share corporate services and clinical networks across the Children's Hospital Westmead / Sydney West Area Health Service and Sydney South West Area Health Service / Greater Western Area Health Service.	3,000	6,000	6,000	6,000
• Centralise and standardise engagement and management of locums and non permanent staff, including rates, by Area Health Services.	4,000	8,000	8,000	8,000
• Update nursing staff mix in small hospitals by adjusting the number of assistants in nursing and enrolled nurses against the number of registered nurses to better align with patients' care needs.	1,500	3,400	13,700	19,800
• Pursue operational efficiencies in medical imaging reading and private partnerships.	…	3,000	6,100	16,100
• Outsource transport activities between warehouses and hospital docks.	…	200	300	500
• Integrate corporate service functions of NSW Ambulance and other health entities to improve efficiency and reduce corporate overheads.	…	200	800	800
• Roll out of Royal North Shore Hospital's commercial model for cardiac catheterisation services to Royal Prince Alfred Hospital.	…	…	500	800
• Transfer remaining State-owned nursing homes to non Government sector, while maintaining continuity of care for residents. Sale of surplus land.	…	7,000	7,000	8,000
• Develop non emergency ambulance transport under a separate service model to reduce service cost and free up Ambulance officer time for emergency work.	…	1,300	1,300	1,200
• Restructure non rural car park funding to maximise revenue opportunities and minimise costs.	…	1,000	2,500	2,500
• Further reform medical equipment procurement to achieve savings through bulk buying, maintenance agreements and consolidating services across Area Health Services.	…	1,300	4,800	4,800
• Reform pharmacy supply chain by standardising business and clinical service models and procurement practices to allow for effective management of pharmaceuticals, and greater private sector involvement.	…	-1,800	-1,000	1,500
• Expand buy-in of pre-prepared food options and manage food services centrally.	…	-9,000	-35,500	16,500

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Department of Health (cont)				
• Local savings strategies in Area Health Services including reprioritisation of various initiatives and abolishing of Aus Health International.	64,000	47,000	47,000	47,000
• Full cost recovery for statutory regulation via Licence Fees.	…	700	700	700
• Administrative savings in the Cancer Institute NSW.	3,000	4,500	4,500	4,500
• Reform grants to non Government organisations through efficiencies and limiting new agreements.	…	2,500	3,500	5,000
• Establish clinically appropriate stepped referral processes for a range of surgical procedures including cataracts, and hip and knee joint replacements.	…	2,000	5,000	5,000
• Cease subsidisation of private hospitals for the cost of providing blood and blood products currently borne by NSW Health.	2,000	8,000	8,000	8,000
• Standardise patient billing and referral practices across public hospitals.	40,000	80,000	90,000	90,000
• Revise fee structure for Area Health Service staff using fleet vehicles for private purposes to better align with costs.	900	3,700	3,700	3,700
• Expand training of health care workers to undertake a range of roles as part of the Commonwealth Government's Skilling Australia for the Future Policy, and expand care settings for nursing and allied health staff.	…	3,800	13,700	18,700
• Increased cost recovery by extending Motor Accidents Authority levy to at fault drivers.	…	30,000	37,500	37,500
• Review financial feasibility to provide the most cost effective business model for delivering hospital linen services.	…	6,000	6,000	6,000
• Further development of hospital retail strategy, including consistent head lease arrangements and exploration of additional services to maximise returns to hospitals.	…	2,600	5,600	8,600
• Subject to discussions with the Commonwealth regarding national infrastructure funds, some capital works projects may be deferred to ensure the planned program is realistic and deliverable within existing resources.	…	…	…	…
Minister for Housing, and Minister for Western Sydney				
Payments to Other Government Bodies Under the Control of the Minister				
• Improve operational efficiency, reduce corporate overheads and leverage procurement savings within Department of Housing.	20,000	20,000	20,000	20,000
• Housing NSW's water and energy savings programs will now be funded mostly through the Climate Change Fund, rather than through Budget grant funding.	5,475	5,410	3,408	3,583
Minister for Juvenile Justice, Minister for Volunteering, and Minister for Youth				
Department of Juvenile Justice				
• Restructure operations of the Department of Juvenile Justice including sharing various activities with other agencies, with other activities undertaken via centralised service arrangements.	500	13,600	11,700	11,700

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Office for Children				
• Increase cost recovery for safety and authorisation checks of employers who seek to employ children. Employer fees will be a flat $2,000 per year per application.	…	300	300	300
Minister for Planning, and Minister for Redfern Waterloo				
Department of Planning				
• Additional funding to speed up major rezoning assessments.	-3,000	…	…	…
• Restructure of the Planning portfolio to better reflect roles and responsibilities. Initiatives include the transfer of the Office of Strategic Lands to the State Property Authority and the Department of Planning taking responsibilities for planning and land release functions previously undertaken by other government agencies.	…	3,000	3,000	3,000
Sydney Olympic Park Authority				
• Savings from not proceeding with a $181 million upgrade to convention facilities at the Sydney Showgrounds.	…	11,000	18,000	42,600
Sydney Harbour Foreshore Authority				
• Transfer of minor development application decisions to Sydney City Council.	…	500	500	500
• Defer capital improvements to commercial properties and non-commercial park related works.	13,000	6,000	-2,000	-5,000
Minister for Police, Minister for Lands, and Minister for Emergency Services				
NSW Police Force				
• Accelerated sale of assets surplus to operational requirements.	2,000	2,000	2,000	2,000
• Reduce the allocation for Police building works by $5 million per annum and the provision for information and communication technology projects by $15 million per annum.	20,000	20,000	20,000	20,000
Department of Lands				
• Operational costs of accelerating the sale of Crown Roads (enclosure permits) that are not required. Sales of $11 million per annum in 2009-10 and 2010-11 are expected.	…	-2,000	-2,000	…
• Operational costs of finalising the sale of perpetual leases to landholders that have applied to convert to freehold. Sales of $7 million per annum are expected.	…	-1,400	-700	…
New South Wales Fire Brigades, Department of Rural Fire Service and State Emergency Service				
• Standardise the current contributory funding system for the two fire services and introduce a similar funding model for the State Emergency Service which will see it receive contributions from the State Government, the Insurance Industry and Local Councils. Streamline back office transaction processes across the emergency services portfolio.	…	39,000	39,000	39,000
Land and Property Information New South Wales				
• Increase in property transfer fee from 1 January 2009 from $92 per transaction to $184 per transaction.	8,000	16,500	16,500	16,500

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Minister for Primary Industries, Minister for Energy, Minister for Mineral Resources, and Minister for State Development				
Department of Primary Industries				
• Adjust the levy on electricity distributors under the *Energy and Utilities Administration Act 1987* to fund the Clean Coal Fund.	…	25,000	25,000	25,000
• Invest in the development of clean coal technology through the Clean Coal Fund, including the Carbon Capture and Storage demonstration project.	…	-16,500	-21,500	-22,000
• Fund capital investment in the Carbon Capture and Storage demonstration project from the Clean Coal Fund.	…	10,000	10,000	…
• Consolidation of excess offices and research stations over the next three years at Alstonville, Berry, Condobolin, Glen Innes, Gosford, Griffith, Temora, and Jindabyne Hatchery.	…	…	…	…
Department of Water and Energy				
• Defer projects under the Country Towns Water and Sewerage Program by up to two years.	…	…	22,317	13,992
Department of State and Regional Development				
• The $40 million Tourism strategy will be spread over four years, reflecting the delayed start to the program.	-4,725	-12,300	-12,300	-10,675
• Reduce over-lapping programs and achieve efficiencies in program delivery.	…	777	420	115
• Introduce a regional development assistance package ("Building the Country") to boost services in regional New South Wales. The package includes funding for the establishment of an infrastructure fund to address infrastructure impediments to otherwise viable business projects, improving access to broadband, adjustment assistance for communities affected by water management reforms and enhancements to community services in regional New South Wales.	-9,000	-19,000	-19,000	-19,000
Country Energy, EnergyAustralia, Integral Energy and TransGrid				
• Deferral of network and non-network capital expenditure.	…	271,200	267,150	318,900
Minister for Roads				
Roads and Traffic Authority of New South Wales				
• Consolidate testing locations across the Greater Sydney, Illawarra, Hunter and Central Coast regions.	…	3,000	5,000	5,000
• Expansion of contracted out road maintenance work.	…	5,000	10,000	15,000
• Increase the Harbour Bridge and Tunnel tolls to $4 (peak), $3 (shoulder) and $2.50 (off-peak).	5,000	12,000	12,000	12,000
• Limit Cashback claims to journeys within the previous 12 months.	300	300	300	300
• Defer NSW contributions to jointly funded Pacific Highway projects (Banora Point, Tintenbar to Ewingsdale) and defer two other road upgrades.	…	60,000	20,000	165,000

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Minister for Transport, and Minister for Illawarra				
Ministry of Transport				
• Remove subsidy of 1.2 cents per litre for fuel transported across the Blue Mountains by rail.	…	1,700	1,700	1,700
• Provide additional commuter car parks and interchanges.	-6,000	-25,000	-25,000	…
• Develop South West rail extension in two stages with the first stage to be completed by 2014 including upgrading Glenfield station, provision of additional parking at stations, new stabling facilities at Auburn and power upgrades to the Airport Line.	-6,000	50,000	216,000	202,000
• Defer the North West Metro and proceed with a Sydney Metro system linking Central Station with Rozelle.	…	-257,000	218,000	983,000
• Purchase of additional Oscar train sets (in addition to 121 currently being procured).	-10,000	-125,000	-125,000	-110,000
• Defer duplication of the Richmond Line Stage 2 from Schofields to Vineyard and cancel proposed Carlingford duplication and Sydenham to Erskineville 6 Track projects. Proceed with the delivery of the balance of Clearway projects including the Kingsgrove to Revesby quaduplication, Cronulla line duplication and Richmond line duplication to Schofields.	10,000	-11,000	-197,000	-37,000
• Discontinue Manly Jet Cat services.	…	7,000	7,000	7,000
• Market test the provision of Sydney Ferry services (with estimate of savings being subject to the response)	…	…	…	…
• Increase the Parking Space Levy for the CBD and North Sydney/Milson's Point from $950 to $2,000 per year and for other areas from $470 to $710 per year.	…	58,000	58,000	58,000
• Introduce an annual co-payment of $45 for primary students and $90 for secondary students for access to the school student travel scheme, with a cap of $180 per family and providing provisions for hardship.	33,000	33,000	33,000	33,000
• Provide 300 additional buses over 2 years (2009-10 and 2010-11) to increase service capacity and frequency.				
- Recurrent Costs	…	-12,000	-36,000	-49,000
- Capital Costs	…	-84,000	-86,000	…
• Accelerate the delivery of 150 articulated buses over 3 years (2009-10, 2010-11 and 2011-12).				
- Recurrent Costs	…	-3,000	-7,000	-7,000
- Capital Costs	…	-26,000	-11,000	12,000
Rail Infrastructure Corporation				
• Suspend up to 5 minor Country Regional Network services, subject management services to competitive processes and merge the agency with RailCorp with the savings to be used to meet the cost of maintaining the Network.	…	…	…	…
Rail Corporation New South Wales				
• Rationalise corporate and support functions.	-4,000	…	5,000	20,000
• Implement the Every Day Essentials program including improved ticketing, crowd management and a program office.	-14,000	-18,000	-12,000	-12,000
• Reduce bussing costs during planned maintenance by aligning services with need.	…	3,000	3,000	3,000
• Manage all non-operational property on a commercial basis.	…	2,000	5,000	10,000

	2008-09 Budget $000	2009-10 Estimates $000	2010-11 Estimates $000	2011-12 Estimates $000
Rail Corporation New South Wales (cont)				
• Restructure train driver rosters to achieve increased productivity.	…	…	5,000	10,000
• Restructure rolling stock maintenance to achieve benchmark performance.	-5,000	-12,000	-5,000	2,000
• Restructure cleaning of railway rolling stock and stations to achieve benchmark performance.	-1,000	-2,000	2,000	20,000
• Implement IPART rail fare determinations.	12,000	46,000	65,000	79,000
Treasurer				
Treasury				
• Limit availability of FHOS to first homes under $750,000 from 1 July 2009.	…	14,000	14,000	14,000
• Introduce additional FHOS grant of $3,000 for first home buyers purchasing a newly constructed home, for one year from 11 November 2008.	-6,000	-3,000	…	…
• Abolish Northern NSW petrol subsidy from 1 July 2009.	…	44,000	45,000	47,000
Crown Leaseholds Entity				
• Additional revenue from the accelerated sale of perpetual leases and Crown Roads.	…	18,000	18,000	…

APPENDIX B: REVENUE MEASURES

The Mini-Budget introduces a number of measures that will enhance the revenue base and assist the Government to fund the delivery of services. The measures and their revenue impact are outlined below.

Land Tax

From the 2009 land tax year, a marginal rate of 2 per cent will apply to land tax payers with total taxable land holdings above $2.25 million. The higher rate will only apply to the land holding in excess of $2.25 million. The land holding below this amount will remain subject to the 1.6 per cent rate.

This measure is expected to affect around 8,500 land tax payers, which is around 5.6 per cent of the total number of land tax payers. There is no broadening in the land tax base.

Principal place of residence and rural properties remain exempt from land tax.

This initiative is expected to increase land tax revenue for the 2009 and subsequent land tax years by around $170 million.

This threshold will also be indexed in line with the existing land tax threshold.

Land Holder Duty

Currently, the purchase of a large share of a private company or private trust where more than 60 per cent of the assets are land is subject to transfer duty as if the land was being purchased directly. This tax is known as “land rich” duty.

Complex structures have increased the difficulty and reduced the transparency of these provisions. A simpler set of provisions has been introduced in a number of other States, known as the landholder model.

Under these provisions, the purchase of a significant parcel of shares or units in an entity that owns land above a threshold value is subject to transfer duty as if there was a direct purchase of land. Western Australia, the Northern Territory, the ACT and Queensland (for trusts only) have already moved to replace the “land rich” approach with the “landholder” model.

The change to a “landholder” model will eliminate the need for complex valuations and calculations regarding the proportion of assets represented by land. Changing to a “landholder” model will also provide increased tax harmonisation between New South Wales and the other jurisdictions that use the “landholder” model and provide for a more robust revenue base in future.

The introduction of this change will take some time to implement and will require consultation with the industry. Consequently, the new provisions will not commence until 1 July 2009. The change is expected to have an impact on revenue of approximately $20 million per annum from 2009-10.

Nominal Duties

The Office of State Revenue (OSR) is required to stamp a range of documents such as duplicates of contracts on which ad valorem duty has been paid, duplicates of trust documents on which ad valorem duty has been paid, a change of trustees of a trust and transfers of property pursuant to a will. A nominal duty of between $2 and $10 is imposed on most documents and $200 on trust deeds.

These charges have not increased for up to 20 years, despite increases in the cost of providing copies and duplicates. These duties will be increased from $2 to $10, $10 to $50 and $200 to $500 (for trust deeds) from 1 January 2009. This initiative is expected to increase revenue by around $4 million in 2008-09 and around $6 million per annum in subsequent years.

Deferred Abolition of Stamp Duties

New South Wales previously announced a schedule for the abolition of a number of taxes that were listed for review in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA).

This schedule for the abolition of mortgage duty and the transfer of non-land business assets was brought forward in the past two Budgets. Currently, duty on unquoted marketable securities is scheduled to be abolished from 1 January 2009, mortgage duty on business loans is scheduled to be abolished on 1 July 2009 and transfer duty on non-land business assets is scheduled to be abolished on 1 January 2011. Mortgage duty has been abolished for individuals taking out mortgages on both owner occupier and investor residential properties.

New South Wales remains committed to the abolition of these taxes. However, as a cyclical response to the deterioration in revenue, the abolition of these three stamp duties will be deferred until 1 July 2012. This initiative will generate an additional $36 million in 2008-09, $197 million in 2009-10, $298 million in 2010-11 and $401 million in 2011-12.

Parking Space Levy

From 1 July 2009, the parking space levy will increase from $950 to $2,000 a year per off-street, non-residential parking space in the Sydney, North Sydney and Milsons Point business districts; and from $470 to $710 a year in the business areas of St Leonards, Chatswood, Parramatta and Bondi Junction.

Existing exemptions will remain in place, including for example, parking spaces used exclusively for retail, hotel, motel, club, restaurant and medical centres in the business areas of St Leonards, Chatswood, Parramatta and Bondi Junction.

The measure is expected to increase revenue by about $58 million per annum.

Mineral Royalties

Mineral royalties provide a return to the people of New South Wales on the natural resources that are owned by the community.

This initiative will generate an additional $152 million in 2008-09 and $1.2 billion over the forward estimates period to 2011-12.

The following table outlines the current and new royalty rates that will apply from 1 January 2009 as follows:

Table B.1: Changes in Coal Royalty Rates

Method of coal recovery	*Current*	*From 1 January 2009*
Open cut mining	7 %	8.2 %
Underground mining	6 %	7.2 %
Deep underground mining	5 %	6.2 %

Note: Deep underground is generally classified as coal extracted more than 400 metres below ground surface

Transport costs will be excluded from the allowable deductions that can be made before calculating the royalty.

Table B.2: Revenue measures in the Mini-Budget

Measure	*Revenue Impact* [(a)]			
	2008-09 $m	*2009-10 $m*	*2010-11 $m*	*2011-12 $m*
Land Tax	170	170	170	170
Land Holder Duty		20	20	20
Nominal Duties	4	6	6	6
Deferred Abolition of IGA Stamp Duties				
- unquoted marketable securities	36	77	79	80
- mortgage duty on business transfers		120	131	139
- non-land business transactions			88	182
Parking Space Levy		58	58	58
Mineral Royalties	152	301	382	336
Total	**362**	**752**	**934**	**991**

(a) Revenue impacts are expressed in nominal dollars. These figures show the part-year effect of the revenue measures where the change commences during the year.