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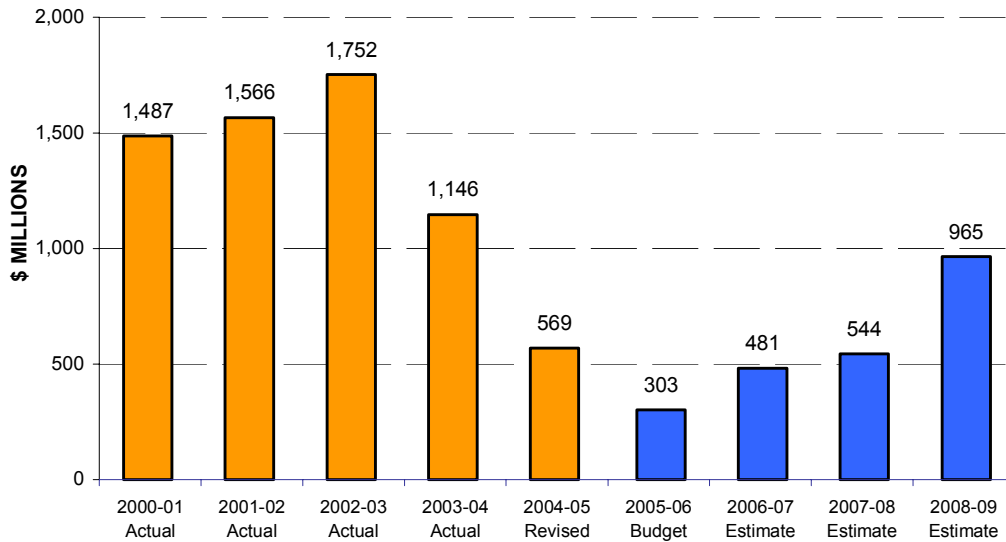


# Budget result

## Budget result

The Government continues to make progress on its fiscal targets despite recent fiscal pressures. This Budget will see the surplus gradually recover, consistent with the Government's fiscal strategy.

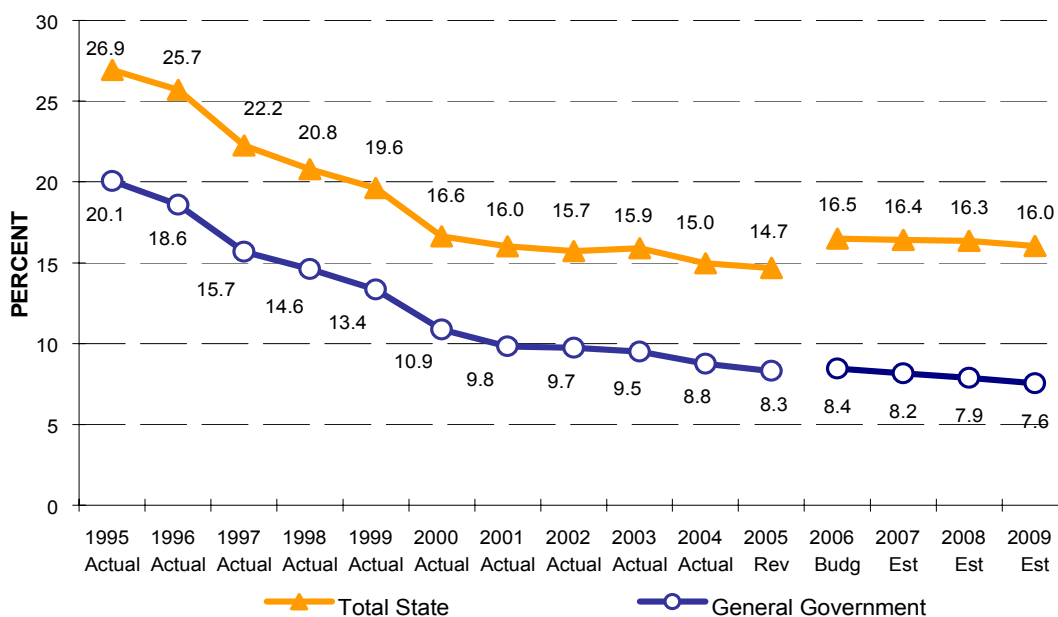
### Net Operating Surplus



Source: Chart 1.3, Chapter 1, Budget Paper 2

This fiscal strategy has produced low and sustainable debt levels and a reduction in net financial liabilities. After allowing for the introduction of new international accounting standards, general government net financial liabilities will continue to trend lower as a share of GSP. Indeed, they will be on track to meet the targets of 7.5 percent of GSP in 2009-10 and 6.0 percent of GSP by 2014-15, as detailed in the *Fiscal Responsibility Bill* introduced with this Budget. Total state net financial liabilities will also resume a downward path as a share of GSP.

### Net Financial Liabilities (percent of GSP)



Source: Chart 1.2, Chapter 1, Budget Paper 2

# Better services

## Major recurrent service improvements in the Budget

Expenses shown are for new programs or the expansion of existing programs in 2005-06 to 2008-09. The expenses shown do not therefore represent total expenditure in 2005-06 and exclude the impact of wage increases.

		Budget 2005-06	Estimates 2006-07	Estimates 2007-08	Estimates 2008-09
	(\$ millions): Expenses				
EDUCATION	Aboriginal Education Initiatives	7.8	16.9	14.2	14.4
	Reducing class sizes	53.7	87.5	97.1	97.1
	Integrating and catering for special-needs students	19.4	22.8	25.0	25.0
	Supporting apprenticeship programs	7.1	4.1	4.1	4.1
	Cancer Institute	30.0	65.0	65.0	65.0
	Radiotherapy treatment	0.9	6.4	6.4	6.4
	Registrars for medical physicists	0.5	1.0	1.0	1.0
	Plan for nurses	0.4	0.6	0.6	0.6
	Increased availability of renal services in rural areas	1.0	2.0	2.0	2.0
	More rural ambulance staff	5.0	10.9	10.9	10.9
HEALTH	Better Mental Health Services	23.9	43.2	72.5	72.5
	Clinical Excellence Reforms	5.0	5.0	5.0	5.0
	Hospital beds and increased capacity	202	202	202	202
	Implementing health care reforms	19.7	19.7	19.7	...
	Renal dialysis services	5.0	12.0	15.0	20.0
	Elective surgery	15.0	15.0	...	...
	Mental Health – psychiatric emergency services, community and rehabilitation services	22.0	22.0	22.0	22.0
	NSW Ambulance Service, extra metropolitan staff and vehicles	10.0	10.0	10.0	10.0
	Over 300 additional Trainee Enrolled Nurse places	8.1	8.1	8.1	8.1
	Increased ICU beds for adults, children and infants	25.1	25.1	25.1	25.1
CHILDREN & FAMILIES	Interventional neuroradiology service	4.6	4.6	4.6	4.6
	Severe burns services	2.2	2.2	2.2	2.2
	Medical retrieval services for rural and regional areas	1.8	1.8	1.8	1.8
	Program of Appliances for Disabled People	3.0	3.5	4.0	4.0
	Helicopter retrieval for children receiving critical care	0.4	0.4	0.4	0.4
	More child protection caseworkers	16.1	40.5	64.8	64.8
	Support services for families and needy children	14.0	31.0	31.0	31.0
	Out-of-home care services	45.5	97.7	163.2	163.2
	Supporting financial viability of NGOs	3.5	3.5	3.5	3.5
	Servicing the displaced from boarding house closures	4.5	4.5	4.5	4.5
PUBLIC ORDER & SAFETY	Servicing those transferred to care of DADHC	22.1	34.6	45.5	55.9
	Additional post-school programs	6.0	8.0	8.0	9.5
	Servicing clients with intensive support needs	6.0	12.1	18.2	24.4
	Respite care services	2.2	2.2	2.2	2.2
	Trialling new accommodation models for disabled	1.2	2.4	2.4	2.4
	Police backlog maintenance program	10.0	7.2	7.2	7.2
	Maintenance of police forensic equipment	3.5	2.0	1.6	1.9
	Increased police surveillance activities	1.8	1.6	1.6	1.6
	Information technology upgrades for police	2.4	4.3	6.3	6.3
	Revised licensing arrangements for private inquiry agents	0.4	0.4	0.4	0.4
ENVIRONMENT & NATURAL RESOURCES	Accommodating for growth in prisoner inmate numbers	4.6	29.1	55.3	84.3
	Videoconferencing for court proceedings	...	1.5	1.6	1.6
	Increased legal referrals to Crown Solicitor's Office	3.4	3.4	3.4	3.4
	Criminal case processing reforms – Legal Aid Commission	2.8	2.8	...	...
	Legal aid support for civil law mental health	0.6	0.6	0.6	0.6
	Women's domestic violence court assistance program	0.6	0.6	0.6	0.6
	Criminal case processing reforms – Office of DPP	5.5	1.7	...	...
	Improved SES capabilities in State and Regional headquarters	1.9	3.0	4.1	4.1
	Establishment of SES 24hr operations communications centre	0.9	1.4	1.4	1.4
	Grant to Surf Life Saving	2.0	2.0	2.0	2.0
ENVIRONMENT & NATURAL RESOURCES	Facilitation of strategic action to combat climate change	6.0	6.0	6.0	6.0
	Park and planning management	5.4	6.5	7.5	8.0
	Increased maintenance funding for park infrastructure	1.5	1.5	1.5	2.0
	Wetland Recovery Strategy	4.4	9.0	...	...
	Drought assistance programs – DPI/RAA*	11.8	...	...	...
	Cape Byron Marine Park buy back	4.3	0.1	...	...
	Eradication of red fire ants	1.8	1.7	...	...
	Contribution to Noxious Pest Destruction Fund	0.8	...	...	...
	NSW Shellfish Harvest Area Classification project	0.4	...	...	...
	Advancing Australia Agriculture program	1.3	...	...	...
ENVIRONMENT & NATURAL RESOURCES	Acceleration of Coal Compensation Board's operations	4.8	9.0	...	...

\* Actual drought assistance expenditure in 2005-06 will depend on the course of the drought.

Source: Budget Paper 2 & 3

## Better services

### Major capital service improvements in the Budget

Except for roads projects, the expenditures shown in the table below are for new capital projects, as well as the expanded scope of existing projects in 2005-06 to 2008-09. The amounts for roads projects, which are ongoing, reflect estimated total expenditure for 2005-06.

		Budget 2005-06	Estimates 2006-07	Estimates 2007-08	Estimates 2008-09
	<b>(\$ millions): Capital Works</b>				
TRANSPORT	81 new Outer Suburban rail cars – Tranche 2	84.0	134.3	43.4	...
	Replacement of 498 non air-conditioned rail cars	17.1	84.6	116.2	78.8
	XPT Upgrade	9.0	4.0	6.0	...
	Resignalling Oatley to Cronulla rail line	15.5	15.5	18.0	...
	Easy Access upgrades for metropolitan rail stations	5.1	18.5	...	...
	Train radio onboard communications	2.6	2.6	...	...
	Central Station power upgrade	0.5	1.5	4.5	...
	Vigilance Control – Stage 2	8.0	2.0	...	...
	Rhodes Station upgrade	10.5	...	...	...
	268 new buses for Sydney & Newcastle	19.4	41.5	38.0	39.0
	Orbital Strategy	27.0			
	North West Transitway	130.0			
	Old Windsor Road and Windsor Road	176.0			
	Great Western Highway	38.0			
	Pacific Highway Upgrade	221.2			
	Cowpasture Road	23.0			
HEALTH EDUCATION	Narellan Road	21.0			
	Five Islands Road	14.0			
	North Kiama Bypass	18.0			
	Lawrence Hargrave Drive, Illawarra	9.4			
	Bus Priority network	10.0	30.0	50.0	...
	20 new major works projects for schools including 2 new schools	16.2	50.9	30.9	2.0
	12 new major works projects for TAFE NSW	22.1	27.5	8.4	2.0
	Metropolitan Hospital Upgrade	14.8	8.2	...	...
	Local initiatives by Area Health Services	12.5	...	...	...
	New and better mental health facilities	12.3	20.5	7.7	1.0
CHILDREN & FAMILIES	Redevelopment of Bathurst, Orange & Bloomfield Hospitals	6.0	21.0	47.0	74.5
	Upgrades to rural hospitals and services	6.6	7.6	5.0	2.0
	Redevelopment of Queanbeyan Hospital	3.5	18.5	22.0	...
	Improvements to Manly and Mona Vale Hospitals	3.6	1.3	...	...
	Redevelopment of Gunnedah Ambulance Station	0.8	...	...	...
	DoCS caseworker accommodation	5.0	...	...	...
	Accommodation for relocated Communities Division	1.5	...	...	...
	Group homes for new clients with disabilities	24.9	18.9	19.1	19.1
	Additions to Client Information System for DADHC	1.2	...	...	...
	Upgrade of group homes and large residencies (DADHC)	9.5	7.0	7.5	8.0
PUBLIC ORDER & SAFETY	Grants administration system to manage grant payments (DADHC)	1.5	2.6	...	...
	Six new police stations	12.2	39.2	20.6	...
	Police helicopter replacement	2.8	...	...	...
	Additional police surveillance equipment	1.3	...	...	...
	Additional 1,000 prison inmate beds	2.1	15.0	66.1	89.6
	Armoury replacement for Corrective Services	0.8	0.4	...	...
	Corrective Services dog squad accommodation	0.9	0.9	...	...
	Videoconferencing for court proceedings	2.8	3.8	2.7	...
	Attorney General's Dept - fitouts at the Parramatta justice precinct	6.0	8.8	7.9	1.5
	Purchase of information technology by Attorney General's Dept.	6.7	3.4	1.2	3.9
ENVIRONMENT & NATURAL RESOURCES	Criminal case process reforms – Office of DPP	1.0	...	...	...
	Voice and data interception (NSW Crime Commission)	1.0	...	...	...
	Upgrade Fire Brigade's fleet (including 40 new fire engines)	18.0	18.0	18.0	18.0
	223 Rural Fire Service tankers	27.4	...	...	...
	Park planning and management	7.0	4.2	1.1	0.7
	Increased maintenance funding for park infrastructure	7.3	9.2	7.5	8.2
	High-resolution satellite image coverage of NSW	2.6	1.8	1.5	1.1
	Upgrade of Cronulla fisheries research facility	0.6	...	...	...
	Electronic surveillance for cattle tick	0.5	...	...	...
	"Paddock to Plate" information system	1.1	0.7	...	...

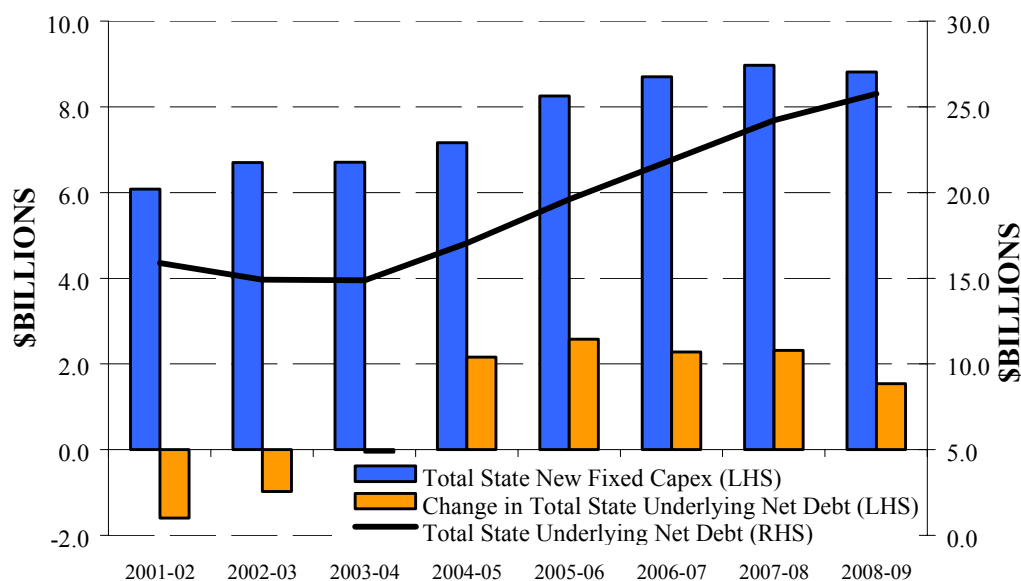
Source: Budget Paper 2 & 4

## Infrastructure

**The Government will spend \$8.2 billion on capital works in 2005-06, a 15.2 percent increase on estimated expenditure in 2004-05. This will be partly funded by an increase in state net debt of \$2.6 billion.**

Over the four years to 30 June 2009, the State's capital expenditure is expected to total \$34.7 billion in nominal terms. This is an increase of \$8.1 billion, or more than 30 percent, on the \$26.6 billion expenditure in the four years to 30 June 2005 and will be partly funded by an increase in state net debt of \$8.7 billion.

**State Capital Expenditure and Underlying Net Debt**



Source: NSW Treasury

### Public Transport & Roads

Improvements to rail services will focus on safety, reliability, security and cleanliness. Major new rollingstock purchases and the Rail Clearways Program, designed to untangle the current complex network, will improve services to customers. Major reform of bus services is progressing, with new financing and planning arrangements to result in better bus operations. The \$2.9 billion roads program includes \$1.3 billion for capital works and \$1.1 billion for maintenance.

### Health

This year's health capital program is again at record levels, with the guaranteed four year capital program at \$2.5 billion, an increase of \$393 million on the previous four years. Annual expenditure is over \$600 million, with \$646 million being spent in 2005-06 alone. Major new works include \$18 million to upgrade facilities at metropolitan hospitals, \$12 million for new and better mental health facilities, \$7.6 million to improve rural hospitals and health services, and \$9.5 million to redevelop regional hospitals. Continuing work on hospitals and health services will cost \$582 million.

### Education

The \$482 million program in 2005-06 is the largest infrastructure program ever in education. The schools portion of \$392 million includes commencing 20 new major works, including new schools at Second Ponds Creek and St Marys. The program includes \$140 million to continue 58 school projects already in progress and \$84 million for new and continuing TAFE facility improvements.

### Electricity and water

More than \$2.6 billion will be spent in 2005-06 on electricity generation, transmission and distribution, and on the storage, treatment and transport of water. Of this, the main focus of \$1.8 billion to be spent by electricity utilities will be to maintain efficiency, reliability and security of the networks and the generators, and to meet the growth in demand for electricity. Of the \$820m to be spent by the State's water utilities, around half will be spent on improving the water supply (including the deep water storages initiative announced in the Government's Metropolitan Water Plan) and the remainder on upgrading the sewerage system to protect the environment and public health outcomes.

The 2005-06 Budget reinstates a land tax free threshold of \$330,000. This decision is in response to public concerns about the abolition of the threshold and the impact this has had on small landowners. Reintroduction of the threshold will free around 350,000 landowners from land tax, and reduce the tax for around another 50,000. The threshold will be indexed annually.

The 2005-06 Budget also contains measures to raise additional revenue for government services:

- from 1 September 2005, the general insurance stamp duty rate on certain insurance policies will be increased from 5 percent to 9 percent;
- from 1 August 2005, the mortgage duty exemption for refinancing a mortgage up to the previous amount secured with a different lender will be restricted to amounts up to \$1 million; and
- from the 2006 land tax year, a \$330,000 land tax-free threshold will be introduced with a marginal rate of 1.7 percent (plus \$100) on the unimproved value of land in excess of \$330,000. The land tax threshold will be indexed annually to estimated average increases in land values for commercial, industrial and residential properties.

These measures will increase revenue by \$180 million in 2005-06 and \$206 million in 2006-07 (see the table below).

The vendor duty on property transfers is being retained.

The enhanced First Home Plus stamp duty concessions introduced in April 2004 will benefit around 35,000 first home buyers in 2004-05 or 39,000 since the new concessions commenced on 4 April 2004.

Measure	Revenue Impact <sup>(1)</sup> (\$m)			
	2005-06	2006-07	2007-08	2008-09
General rate of stamp duty on certain insurance products increased to 9 percent, from 1 September 2005	120	168	176	185
Mortgage duty exemption for refinancing of loans capped at \$1 million, from 1 August 2005	20	25	25	25
Introduction of a \$330,000 land tax-free threshold, with a marginal tax rate of 1.7% (plus \$100) above the threshold, from the 2006 land tax year. Threshold to be indexed annually.	40	13	-20	-51
<b>Total</b>	<b>180</b>	<b>206</b>	<b>181</b>	<b>159</b>

(1) 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.

Source: Table 3.2, Chapter 3, Budget Paper 2

## Economy

**This year's Budget projects economic growth of  $2\frac{3}{4}$  per cent in New South Wales, with a stabilisation of the dwelling cycle, another year of strong growth in business investment and firm global growth boosting net exports.**

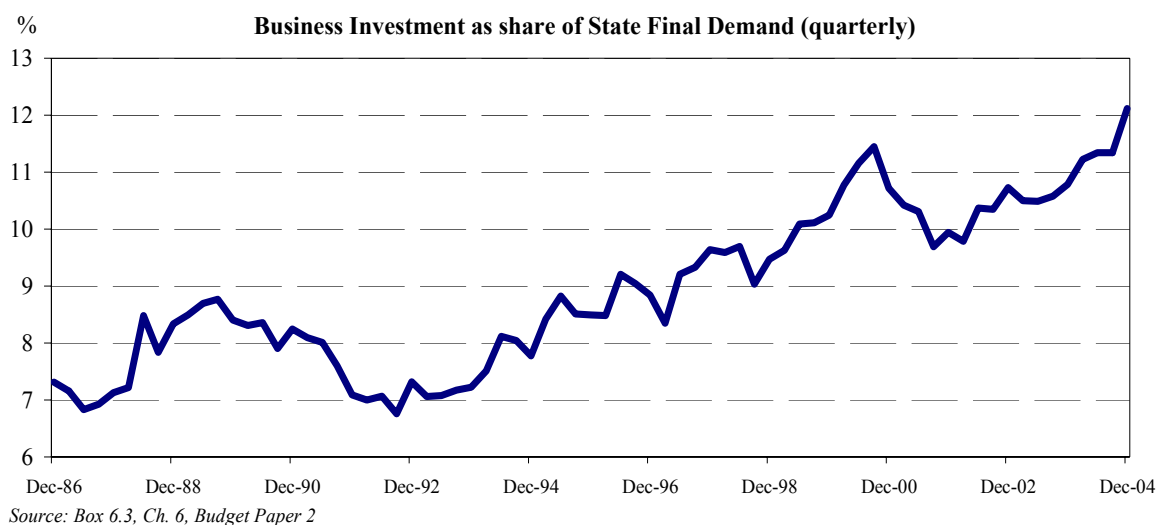
State final demand will continue to expand at around  $3\frac{1}{2}$  percent in 2005-06, with slightly stronger private consumption and a recovery in the dwelling sector as the year progresses.

Business investment will continue to expand at a robust pace in 2005-06. Private capital expenditure intentions in New South Wales point to nominal growth of about 11 percent in building expenditure and 12 percent in plant and equipment expenditure.

Employment growth is expected to remain steady at around  $1\frac{1}{4}$  percent, sufficient to keep the NSW unemployment rate at a historically low  $5\frac{1}{4}$  percent.

Wage growth in the private sector is expected to be slightly higher, reflecting the continued tight supply of skilled workers.

Inflation (Sydney CPI) is expected to be 3 percent in 2005-06.



### Economic Performance and Outlook

(Percent change, year average, unless otherwise indicated)

	Outcomes	Estimates	Forecasts
	2003-04	2004-05	2005-06
<b>NSW</b>	%	%	%
State final demand	4.7	$3\frac{1}{2}$	$3\frac{1}{2}$
Gross state product	2	2	$2\frac{3}{4}$
Employment	1.4	$1\frac{1}{4}$	$1\frac{1}{4}$
Unemployment rate (year average, percent)	5.6	$5\frac{1}{4}$	$5\frac{1}{4}$
Sydney CPI	2.1	$2\frac{1}{2}$	3
Wage price index	3.8	$3\frac{1}{2}$	$3\frac{3}{4}$

Source: Table 6.2, Ch. 6, Budget Paper 2.