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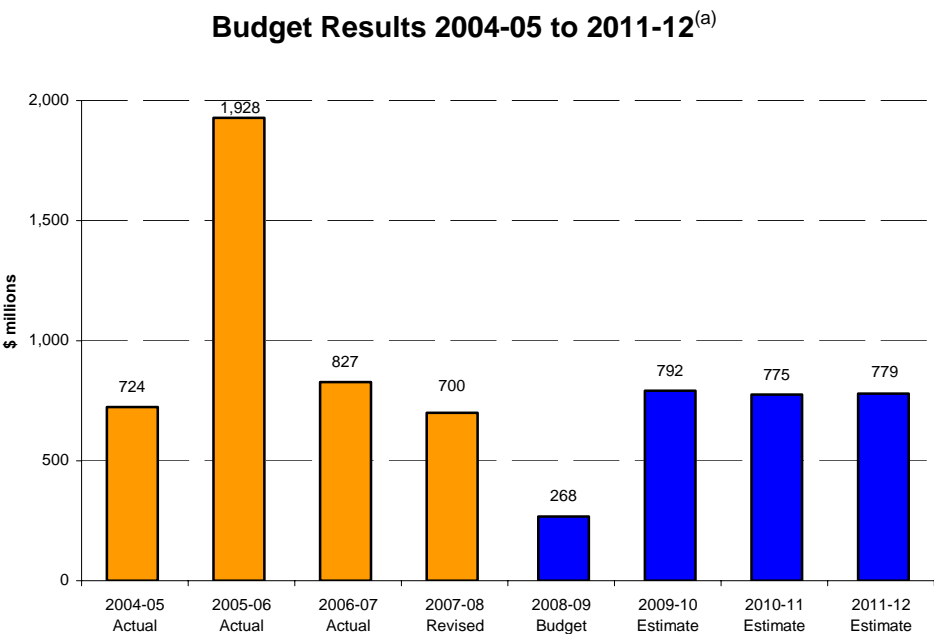


# Budget Position

## Budget Result

The budget result for 2008-09 is expected to be a surplus of \$268 million. There will be surpluses averaging \$782 million over the forward estimates period.

Stabilisation of the budget result will be achieved by aligning expenses and revenue growth. Expenses increased by 5.8 per cent a year over the four years to 2007-08, but are forecast to slow to an average of 4.5 per cent a year over the budget and forward estimates period. Revenue growth is also forecast to slow from an average of 5.4 per cent a year over the four years to 2007-08, to an average of 4.4 per cent a year over the budget and forward estimates period.



(a) Budget reporting in 2008-09 is, for the first time, in accordance with Australian Accounting Standard AASB 1049. Refer to Appendix B, Budget Paper 2 for more detail.

Source: Chart 1.1, Chapter 1, Budget Paper No. 2

The objective of the Government's medium-term fiscal strategy is to maintain service delivery, notwithstanding economic and fiscal shocks. By maintaining low levels of net debt and net financial liabilities, the State can absorb the effects of adverse revenue or expenditure fluctuations by allowing a temporary increase in borrowings rather than having to reduce services. The strength of the balance sheet provides the State with the capacity to deliver and expand services in the future.

The Government's medium-term fiscal strategy is designed to:

- ◆ support expenditure priorities within sustainable aggregate expenditure growth
- ◆ maintain a competitive tax regime that is conducive to business investment and
- ◆ maintain net debt and other financial liabilities at sustainable levels.

# Budget Position

## Net Financial Liabilities

Fiscal fundamentals in New South Wales remain strong, with international credit rating agencies again reaffirming the State's Triple A rating in 2007-08.

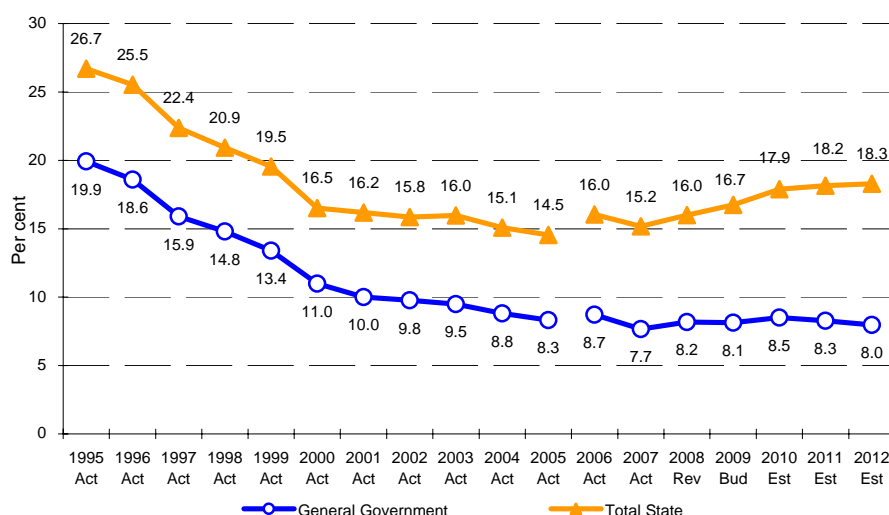
General government net financial liabilities as a share of the economy are expected to remain stable before rising in 2009-10, and then resuming a downward trajectory. At 8.5 per cent of GSP in June 2010, they will be moderately above the medium-term target of 7.5 per cent of GSP contained in the *Fiscal Responsibility Act 2005*, but are expected to fall after this time to 8 per cent in June 2012.

The deviation from the target is caused by higher general government net debt and unfunded superannuation liabilities. The increase in net debt funds higher levels of capital expenditure and increased capital grants to the non-commercial PTE sector.

The higher unfunded superannuation liabilities arise from the negative returns on investments in 2007-08, caused by significant financial market volatility. The plan to fully fund superannuation liabilities by 2030 remains on track.

After declining substantially since the mid-1990s, total state sector net financial liabilities are projected to increase as a share of the economy over the forward estimates period. This is due mainly to the large increase in infrastructure related borrowings, mostly by the PTE sector. Both total state sector and general government net financial liabilities remain substantially below the highs of the mid-1990s.

**Net Financial Liabilities (per cent of GSP)<sup>(a)</sup>**



(a) Series break in 2006 results from the adoption of Australian Equivalents to International Financial Reporting Standards. It has the effect of increasing the reported level of net financial liabilities.

Source: Chart 2.8, Chapter 2, Budget Paper No. 2

# Budget Position

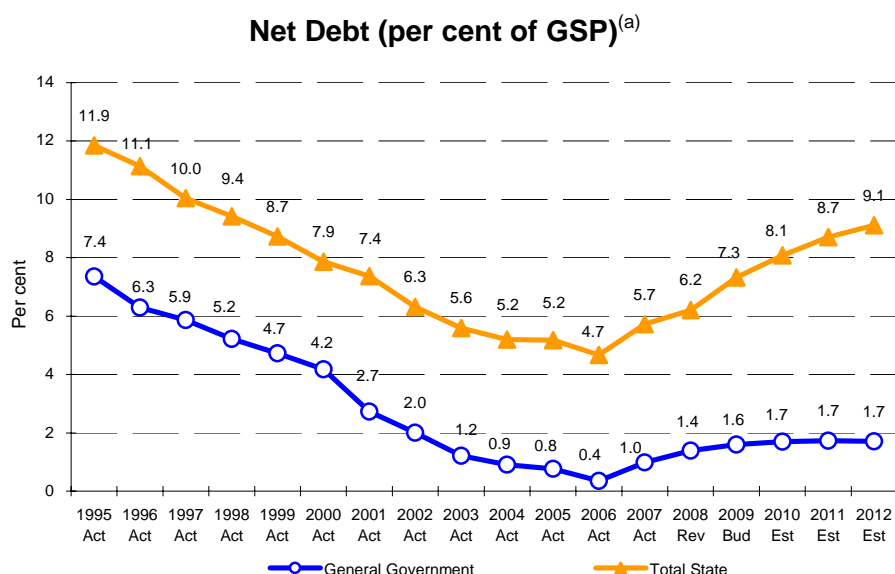
## Net Debt

Total state sector net debt will increase substantially over the forward years, to partially fund the large PTE capital spending program. Net debt of the general government sector is projected to increase over the forward years, but stabilise at low and sustainable levels.

The level of net debt in the general government sector has increased since June 2007, rising by around \$1.7 billion to \$5 billion in June 2008 (1.4 per cent of GSP). This is lower than the \$5.4 billion estimated in the 2007-08 Budget mainly due to better than expected budget results. The stronger than expected budget position in 2007-08 allowed the government to bring forward the repayment of \$390 million of debt associated with the Epping to Chatswood Rail Line.

Net debt will increase in the 2008-09 Budget year and over the forward estimates period, reaching \$7.8 billion by June 2012 (1.7 per cent of GSP), to partially fund ongoing high levels of general government and non-commercial PTE capital expenditure. This is still well below the level prevailing in 1995.

Total state sector net debt is projected to increase more than in the general government sector, reflecting the PTE sector's significant capital expenditure plans over the forward estimates period. Total state net debt is forecast to rise to \$41.7 billion (9.1 per cent of GSP) at June 2012. Debt will help fund capital expenditure of around \$57.6 billion over the four years to 2011-12. This significant rise reflects the major investment in areas such as water, electricity and rail over the next four years. The bulk of the rise in PTE debt will be supported by revenue growth that covers the expenses associated with the higher debt.



(a) Excluding the impacts of prepayment/deferral of superannuation contributions.

Source: Chart 2.7, Chapter 2, Budget Paper No. 2

# Expenditure

## Total Expenses

General government expenses are estimated to increase by 4.2 per cent in 2008-09, to \$47.6 billion and to grow by 4.5 per cent a year on average over the four years to 2011-12.

Expenses increased by 5.8 per cent a year on average over the four years ending 2007-08. The growth in underlying expenses over the past four years has been driven by growth in the cost, volume and quality of services provided in health, transport, community, disability and justice agencies.

Employee-related expenses have grown by an average of 5.3 per cent per annum over the four years to 2007-08. This reflects both increases in real wages as well as funding for additional front-line positions. Achievement of forward estimates for total expenses will rely upon reducing this figure to an average of 3.9 per cent growth per annum over the four years to 2011-12.

Expenses are forecast to increase by 4.2 per cent in 2008-09. This will fund services in key State Plan priority areas including around \$13 billion on health services, \$11 billion on education and training, and \$5.5 billion to improve public transport and roads.

Looking forward, expenses are forecast to increase by 4.5 per cent a year on average over the budget and forward estimates period. Constraining the growth in expenses will be achieved by delivering the State Plan within a budget-neutral framework, targeted savings and efficiency measures, and delivering public sector wage and conditions outcomes consistent with the Government's wages policy.

## General Government Total Expenses

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Employee-related	19,505	20,732	21,344	22,527	23,579	24,693	25,346	26,286
Other operating	8,530	8,240	8,726	9,162	10,067	10,208	10,653	10,888
Depreciation and amortisation	1,994	2,127	2,308	2,478	2,603	2,791	2,940	3,067
Current grants and subsidies	6,035	6,797	7,426	8,161	7,963	8,107	8,452	8,586
Capital grants	1,368	1,621	2,839	2,071	1,962	2,534	3,391	3,807
Finance	1,061	1,184	1,257	1,297	1,440	1,540	1,666	1,773
Total Expenses	38,493	40,701	43,900	45,696	47,614	49,873	52,448	54,407
Year on year change	5.6	5.7	7.9	4.1	4.2	4.7	5.2	3.7
4 year average growth				5.8				4.5

Source: Table 3.1, Chapter 3, Budget Paper 2

# Expenditure

## Services

The Government has allocated nearly \$48 billion in the 2008-09 Budget for general government services. Expenditure allocations in this budget incorporate all policy commitments announced prior to the March 2007 election, and reflect priorities outlined in the State Plan.

**Health** – The Government will increase spending by NSW Health to \$13.2 billion in 2008-09 (up 5 per cent). Key focus areas include expanding mental health services, improving Aboriginal health and increasing acute care capacity. The Government will continue integrating primary health care facilities, expanding after-hours GP services, implementing reform initiatives agreed by the Council of Australian Governments (COAG) and further reducing elective surgery waiting times. The budget also supports further investment in oral health, renal treatment and ambulance services, and continuing increases in frontline staff including nurses, ambulance operatives, mental health professionals, and acute care clinicians.

**Education and Training** – Increasing levels of attainment and increased students completing Year 12 or accredited vocational education are key government priorities. Expenditure on education and training services will rise to nearly \$11 billion in 2008-09 (up 4.7 per cent). Expenditure of \$108 million on the government's Best Start program will boost literacy and numeracy programs over the next four years to \$745 million. Other key education and training services over the next four years include \$1.1 billion for school and TAFE maintenance and \$772 million on technology initiatives.

**Community and Disability Services** – In 2008-09, the Department of Community Services will deliver early intervention, child protection and out-of-home care services appropriate to the needs of diverse groups. Expenses of the department will be \$1.3 billion in 2008-09 reflecting full resources under the five year reform package. The full complement of 1,025 new caseworkers will be deployed in 2008-09, and an additional \$33 million is being provided for the increase in children receiving out-of-home services. The Government will invest an extra \$21 million per year to provide preschool opportunities to 10,500 new children for two days per week. Further implementation of the Government's record \$1.3 billion Stronger Together disabilities package will include continuation of programs to strengthen families, promote community inclusion and improve existing services.

**Public Transport and Roads** – Maintaining an effective transport system, including excellent roads and public transport services, is a key priority for the Government. This year \$3.8 billion will be available to support a range of public transport initiatives, with a focus on increasing the share of peak hour journeys on public transport. A further \$2.6 billion will be available to improve the efficiency of the road network. Grants to transport providers will be \$2.6 billion, an increase of 7.8 per cent on last year. CityRail's Customer Service Improvement Program focuses on better services and keeping the customer better informed. Funding for buses will continue to address Bus Priority measures and improved network design to better meet commuter travel needs.

**Police** – Total expenses for the NSW Police Force are budgeted to increase by \$90 million to almost \$2.4 billion in 2008-09. The Government will provide an additional \$211 million over the next four years for Police service improvements. This includes \$191.2 million for the training and deployment of an additional 750 officers by December 2011 and \$20.8 for DNA testing and a mobile forensic laboratory to further enhance technical support for criminal investigations.

# Expenditure

## Service Delivery Highlights 2008-09 to 2011-12

<i>Expenses: (\$ millions)</i>		<i>2008-09 Budget</i>	<i>2009-10 Estimates</i>	<i>2010-11 Estimates</i>	<i>2011-12 Estimates</i>
EDUCATION	Literacy (The Best Start)	19.0	26.2	30.9	32.1
	Learn or Earn	10.0	15.6	20.1	20.1
	Connected Classrooms	11.0	11.3	11.6	11.6
	Training our workforce	5.3	16.7	22.0	22.0
	Support for Beginning Teachers	5.7	7.1	8.9	9.6
	Transition to Year 7	2.4	4.6	4.7	4.7
	Community Service Begins at School	0.8	3.9	4.0	4.0
	School Sport	1.9	2.4	2.8	2.8
HEALTH	New and expanded mental health services	31.6	43.6	43.6	43.6
	Additional Investment to ease pressure on emergency departments	29.5	29.5	29.5	29.5
	Additional investment in nurses	4.5	5.5	6.5	6.5
	Additional investment in oral health	6.5	10.5	10.5	8.0
	Expanded renal services	5.1	10.1	10.1	10.1
	Better ambulance services	7.2	7.2	7.2	7.2
	Additional investment in after hours GP clinics and HealthOne services	2.2	2.4	1.8	1.8
	Additional Cancer Institute funding	5.0	10.0	10.0	10.0
	New investment in Aboriginal health	5.2	11.7	11.7	11.6
COMMUNITY AND DISABILITY SERVICES	Water and sewerage maintenance in Aboriginal communities	3.5	4.7	4.1	4.1
	Accommodation support for people with a disability	38.7	63.8	83.2	83.2
	Allowances for an extra 2,500 children in out-of-home care at June 2008	33.0	33.0	33.0	33.0
	Expand post-school programs	9.1	19.7	33.0	33.0
	Expand preschool places to 10,500 new children, 2 days per week	21.0	21.0	21.0	21.0
	Case management support for people with a disability	4.0	6.7	6.7	6.7
	Attendant care places	7.5	12.2	14.6	14.6
	Respite care services	6.5	7.5	8.1	8.1
	Enhanced support services for parents and other carers	4.4	7.6	10.5	10.5
	Managing children with problem behaviours	1.5	1.5	1.0	1.0
	Intensive support packages for children, young people and their families	2.0	5.0	7.7	7.7
	Additional therapy places	4.6	8.6	10.9	10.9
	Additional day program places	5.1	7.1	8.3	8.3
	Preventing young people with a disability entering nursing homes	7.6	13.2	16.1	16.1
	Aboriginal community resilience officers	1.9	2.4	2.4	2.4
	Community Officers Aboriginal Focus Communities - child sexual assault prevention and awareness	0.8	1.2	1.1	1.1
POLICE AND JUSTICE	Enhanced Community Offender Services Program	15.1	15.1	15.1	15.1
	Funding to support increased inmate numbers	16.4	19.6	22.6	22.6
	Additional Juvenile Justice custodial accommodation units	15.5	18.0	20.4	22.8
	Increased DNA analysis capacity	6.7	7.2	4.4	1.5
	Domestic Violence Court intervention program	2.1	2.1	2.1	2.1
	Aboriginal Community Justice Groups	1.7	1.7	1.7	1.7
	Remote Witness facilities	2.0	2.9	3.0	3.0
	Increased police numbers	7.7	31.5	63.2	88.8
EMERGENCY SERVICES	Additional front-line staffing for fire stations	10.4	10.4	10.4	10.4
	Improved Emergency Management IT platform for Rural Fire Service	3.4	0.6	...	...
	SES programs to improve response capability and expand recruitment and development programs	5.8	6.8	7.5	7.4
ENVIRONMENT AND NATURAL RESOURCES	Catchment Management Authorities	120.1 <sup>^</sup>	...	...	...
	Climate Change Fund	35.1	82.9	84.7	72.8
	Waste Levy rebates to local councils	13.3	18.7	27.0	27.0

<sup>^</sup> Future funding will be determined once details of Commonwealth programs are known



# Infrastructure

## Major Capital Works 2008-09 to 2011-12

	<i>Capital Works (\$ millions)</i>	<i>New Works*</i>	<i>2008-09 Budget</i>	<i>2009-10 Estimates</i>	<i>2010-11 Estimates</i>	<i>2011-12 Estimates</i>
PUBLIC TRANSPORT AND ROADS	Southern Hume Duplication		450.0	135.7	...	...
	Corridor Acquisition - North West Metro and South West Rail Link		212.5	94.5	60.0	...
	North West Metro and South West Rail Link		170.0	409.0	1,445.0	2,112.0
	Digital Train Radio System	*	21.0	...	...	...
	Easy Access Upgrade - Burwood Station	*	8.0	9.3	0.7	...
	263 new buses for Sydney and Newcastle	*	109.8	...	...	...
	Riverstone railway overpass		2.0	20.0	70.0	35.0
	Pacific Highway upgrade		554.0	710.0	790.0	983.0
	Camden Valley Way, Cowpasture Rd to Narellan Rd		5.0	6.0	40.0	70.0
	Newcastle Inner Bypass		2.0	15.0	40.0	50.0
	Great Western Highway upgrade		72.4	141.0	180.0	129.0
	Bus Priority projects on strategic corridors		40.0	40.0	30.0	30.0
	Prince's Highway, Gerringong to Bomaderry		4.0	21.5	50.0	80.0
	Oxley Highway		16.0	50.0	50.0	28.7
	Victoria Road Upgrade, Gladesville Bridge to ANZAC Bridge		40.0	70.0	24.4	...
EDUCATION	16 new major works projects for schools	*	18.2	81.4	48.4	...
	3 new schools (PFP)	*	37.5	...	...	...
	12 new major works projects for TAFE NSW	*	8.4	32.2	19.4	...
	44 continuing major works projects for schools		222.6	155.8	82.7	...
	22 continuing major works projects for TAFE NSW		49.4	17.1	...	...
HEALTH	Ambulance Infrastructure Program	*	6.9	5.7	4.1	0.4
	Equipment and Health Technology	*	10.9	0.2	0.8	...
	Lismore Integrated Cancer Care	*	12.2	13.3	...	...
	Narrabri Hospital Redevelopment	*	5.6	14.4	18.0	2.6
	Radiotherapy Services (includes Orange Radiotherapy Services)	*	10.0	10.0	...	...
	Coonamble and Manilla Multi Purpose Services facilities	*	7.8	15.6	5.7	...
	Liverpool Hospital Redevelopment Stage 2		106.2	129.5	107.5	22.8
	Royal North Shore Hospital Redevelopment		61.4	110.3	130.6	92.6
	Information Management and Technology projects		56.5	34.4	42.7	5.2
DISABILITY SERVICES	Accommodation options for disabled and aged clients	*	35.0	31.0	25.0	...
	Accommodation facilities for new clients		19.1	19.1	19.1	...
	Redevelopment of the Peat Island accommodation facility		13.6	19.2	...	...
	Reconfiguration of Grosvenor and Lachlan residential facilities		11.9	2.0	...	...
POLICE AND JUSTICE	1000 inmate beds		70.6	93.6	82.1	15.5
	Mobile forensic laboratory and mobile phone interception equipment	*	1.4	...	...	...
	New police stations at Riverstone and Glendale	*	0.5	2.0	11.8	20.3
	Continuing construction of 14 new and upgraded police stations		60.6	64.8	25.3	8.0
	Upgrade of Sydney Police Centre		2.4	...	...	...
	Upgrade of Police Information and Communication Technology equipment		50.9	34.9	21.5	...
	Fitout of vehicles for new police officers	*	0.5	1.3	2.6	0.9
	Police radio network and communication infrastructure upgrades	*	16.6	...	...	...
	Remote Witness Facilities	*	4.0	3.9	...	...
	Sydney West Trial Complex		6.9	...	...	...
	Court Upgrades (including JusticeLink Project)		24.1	22.2	32.4	36.4
	Additional custodial unit - Acmena Juvenile Justice Centre	*	0.8	7.4	...	...
	Redevelopment of Riverina Juvenile Justice Centre	*	2.6	9.6	23.8	20.3
	Additional custodial accommodation unit - Orana Juvenile Justice Centre		6.6	...	...	...
	Silverwater Women's Correctional Centre - Staged Development		10.0	0.5	...	...
ENVIRONMENT AND NATURAL RESOURCES	Purchase of water entitlements for environmental water recovery		137.4	97.6	27.8	...
	Fire management within parks	*	3.4	3.4	3.4	3.4
	Replacement of Parks and Wildlife radio network	*	6.8	8.1	1.5	...
	High-resolution satellite image coverage of NSW		3.5	3.5	3.5	...
	Land purchases for new parks and reserves across NSW		6.6	7.0	2.0	2.0
	Improved infrastructure and visitor facilities within National Parks		8.2	...	...	...
	Biosecurity upgrade at Elizabeth Macarthur Agricultural Institute	*	1.5	10.6	21.2	9.4

## Major Capital Works

Major new projects commencing in 2008-09 (with the estimated total cost) include:

- ♦ major road expenditure including M5 East Filtration (\$65 million), Victoria Road upgrade (\$150 million), widening of the Great Western Highway at Lawson (\$220 million) and Wentworth Falls
- ♦ 413 new buses for State Transit and private bus operators for delivery between 2008-09 and 2011-12 (\$222 million)
- ♦ redevelopment of Narrabri Hospital, Lismore Hospital Cancer Care, ambulance infrastructure and other new health projects (\$264 million) and
- ♦ 19 major new school projects (including new schools at Elderslie, Kariong Mountains, Middleton Grange, Rouse Hill and Wilton) and 12 new TAFE projects (\$246 million).

**Public Transport and Roads** – A significant expansion of the network is underway. The Epping to Chatswood Rail Line will open for services in 2008-09. In March 2008 the Government announced SydneyLink, a series of major transport projects to transform Sydney's public transport infrastructure. The first stages of SydneyLink will be the \$12 billion North West Metro and the \$1.36 billion South West Rail Link. This is the largest expansion of the rail network since the 1930s and will put services into the growing areas of the north west and south west of Sydney. Complementing rail infrastructure new rollingstock will be delivered, or is in planning, to improve the amenity of commuters. The Government is also delivering a record roads budget of more than \$4 billion, an increase of \$400 million on 2007-08. In addition to major highway upgrades throughout the State, the Roads and Traffic Authority is also committed to a range of Bus Priority measures and capacity enhancements to support public transport networks.

**Health** – The 2008-09 capital works program for NSW Health totals \$839.5 million, part of a \$2.3 billion program over the next four years. The 2008-09 program includes commencement of redevelopment at Narrabri Hospital, Lismore Integrated Cancer Care facility, and new investments in ambulance stations, mental health facilities, radiotherapy and rural health services. The Newcastle Mater Hospital redevelopment and the Forensic Hospital at Long Bay Correctional Facility will be completed in 2008-09 as privately financed projects. Work will also continue on major redevelopments including Auburn, Liverpool, Orange, Queanbeyan, Royal North Shore and Wyong Hospitals, rollout of the Rural Hospital and Health Service program, new medical equipment and business information systems.

**Education** – Over four years, more than \$2 billion will be spent on delivering the largest public education and training capital works program ever undertaken in New South Wales. This includes a record \$735 million in 2008-09. The schools program of \$648 million includes commencing 19 major new works including new schools at Elderslie, Kariong Mountains, Middleton Grange, Rouse Hill and Wilton and continuing major information technology projects. The program also provides \$85 million for new and continuing TAFE facility improvements.

**Housing** – In 2008-09, the Department of Housing expenditure will include \$318.1 million for acquisition or construction of 1,291 new units of general public housing, community housing and crisis accommodation. This includes \$114.8 million for dwellings for seniors under the Social Housing for Older People initiative.

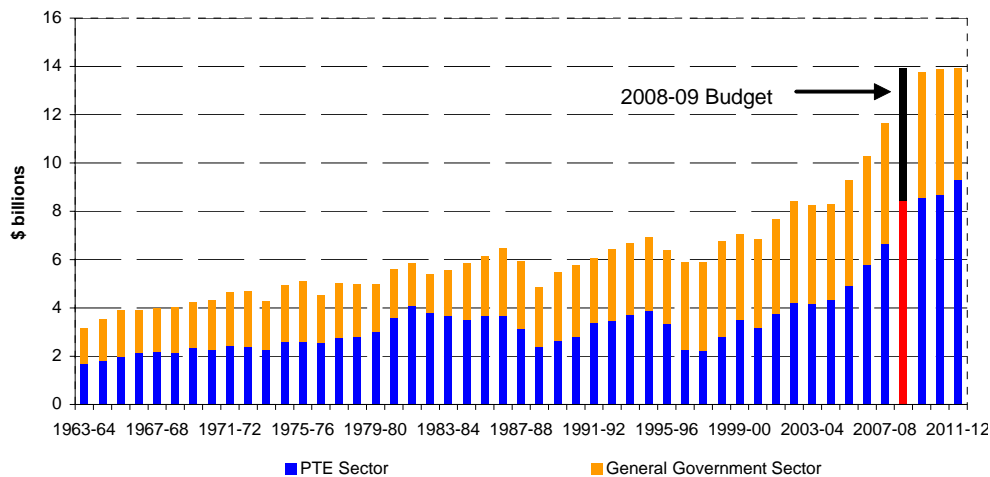
**Water** – Nearly \$2.2 billion will be spent by the water businesses in 2008-09, an increase of \$460 million on 2007-08. Of this, \$886.3 million will be spent on the Sydney Water Desalination project, \$139.3 million will be spent on water recycling projects including the Western Sydney Replacement Flows project and \$170.8 million will be spent upgrading sewage treatment plants and the sewer network.

**Electricity** – The capital expenditure program for the electricity sector for 2008-09 is estimated at \$3.5 billion. This is an increase of 30 per cent on 2007-08. Around 65 per cent of this will be spent by the electricity distribution businesses, particularly on new or upgraded substations and distribution centres. TransGrid will spend \$537.9 million expanding and upgrading the high voltage electricity network. The electricity generators will spend \$689.5 million, including the ongoing construction of the Colongra open cycle gas turbine power station on the Central Coast and upgrades to existing power stations.

## Capital Expenditure

Capital expenditure will rise substantially in 2008-09 to \$13.9 billion, and will remain at high levels over the forward estimates period. General government sector capital expenditure will total \$5.5 billion, and in the PTE sector it will total \$8.5 billion. In the four years to 2011-12, capital expenditure in the general government and PTE sectors will rise by 58 per cent on the preceding four years, totalling \$57.6 billion over the period.

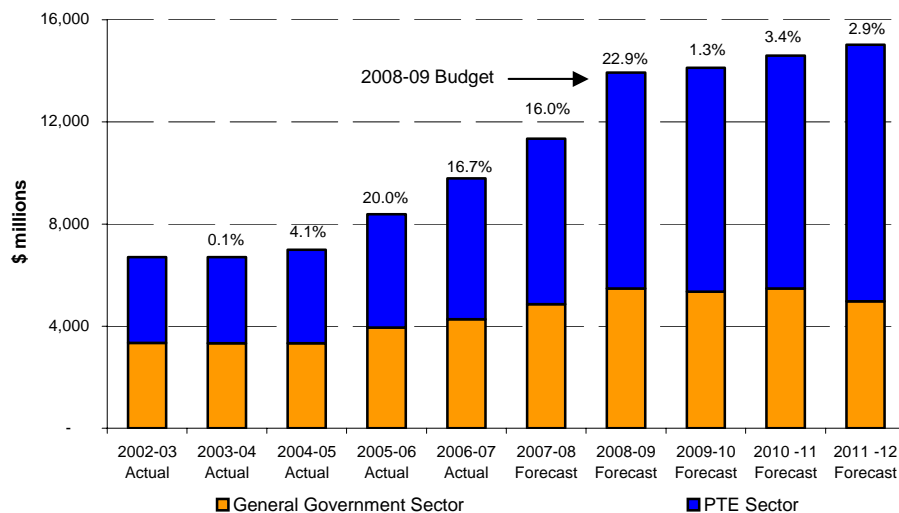
### State Capital Expenditure Program (2008-09 dollars)



Source: Chart 2.6, Chapter 2, Budget Paper No. 2

Total state capital spending of \$13.9 billion in 2008-09 will be 22.9 per cent higher than the \$11.3 billion expected to be spent in 2007-08. This comprises \$5.5 billion in capital expenditure by the general government sector (12.6 per cent higher than 2007-08) and \$8.5 billion by the public trading enterprise (PTE) sector (30.6 per cent higher than 2007-08). Over the forward estimates period, these increased levels of capital expenditure will be maintained. However, an increasing proportion of the total state sector capital expenditure will be undertaken by the PTE sector.

### Growth in Capital Expenditure



Source: Chart 1.3, Chapter 1, Budget Paper No. 4

## Funding

In 2008-09, capital expenditure in New South Wales will be \$13.9 billion. This capital expenditure will be partly funded by an increase in net debt of \$6.4 billion. In the four years to 2011-12, capital expenditure will total \$57.6 billion and will be funded in part by an increase in debt of \$20.9 billion.

The increase in the net debt in the general government sector of \$1.2 billion in 2008-09 will partly fund the \$5.5 billion capital expenditure, with the remainder funded by State revenues.

### General Government Capital Spending and Net Debt

	4 years to June	
	2008 \$m	2012 \$m
<b>Capital Expenditure</b>	<b>16,417</b>	<b>21,280</b>
Funded by:		
Net Operating Balance (surplus net of depreciation)	13,086	14,015
Asset Sales	1,913	2,568
Increase in Net Debt <sup>(a)</sup>	2,402	2,831
Accruals/Provisions/Other	(984)	1,866
<b>Total Sources of Funding</b>	<b>16,417</b>	<b>21,280</b>

(a) The change in net debt excludes transactions of the General Government Liability Management Fund.

Source: Table 6.2, Chapter 6, Budget Paper No. 2

The increase in the net debt in the PTE sector of \$5.2 billion in 2008-09 will partly fund the \$8.5 billion capital expenditure, with the remainder funded from the PTE operating surplus.

### PTE Capital Spending and Net Debt

	4 years to June	
	2008 \$m	2012 \$m
<b>Capital Expenditure</b>	<b>20,079</b>	<b>36,389</b>
Funded by:		
Net Operating Balance (surplus net of depreciation)	11,963	17,546
Asset Sales	1,375	1,487
Increase in Net Debt	6,621	18,331
Accruals/Provisions/Other	120	(975)
<b>Total Sources of Funding</b>	<b>20,079</b>	<b>36,389</b>

Source: Table 6.4, Chapter 6, Budget Paper No. 2

Over the four years to 2011-12, total capital expenditure by the general government and PTE sectors will be \$57.6 billion, of which \$21.3 billion will be in the general government sector and \$36.4 billion in the PTE sector. It will be partly funded by an increase in net debt of \$20.9 billion. This increase in net debt compares to an increase of \$41.3 billion in the value of the State's physical assets after allowing for depreciation, valuation adjustments and asset sales.

# Revenue

## Total Revenue

General government sector revenue is expected to grow by 3.2 per cent in 2008-09 following growth of 3.7 per cent in 2007-08. Total revenue growth is forecast to average 4.4 per cent per annum over the four years to 2011-12.

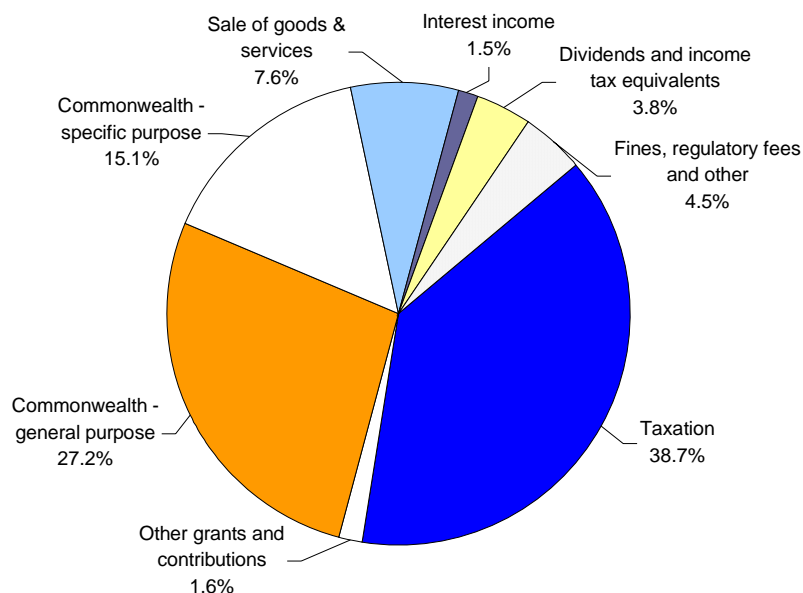
Total revenue is estimated to have increased by 3.7 per cent in 2007-08. In 2008-09 growth is expected to slow to 3.2 per cent, and to average 4.4 per cent per annum over the budget and forward estimates period – below the long run average of around 5 per cent but in line with anticipated growth in expenses over the same period (4.5 per cent per annum). Key factors affecting these variations in revenue growth include: increases in Commonwealth grants; reduced taxation revenues resulting from tax cuts; and a return to long run averages for investment income.

### General Government Sector Revenue

	2006-07 Actual \$m	2007-08 Budget \$m	2007-08 Revised \$m	2008-09 Budget \$m	2009-10 Forward estimates \$m	2010-11 Forward estimates \$m	2011-12 Forward estimates \$m
<b>Revenue from Transactions</b>							
Taxation	17,697	17,553	18,466	18,533	19,194	20,034	20,923
Grant revenue							
Commonwealth - general purpose	10,938	11,926	12,060	13,020	13,972	14,738	15,547
Commonwealth - specific purpose	6,815	6,854	7,540	7,249	7,875	8,195	8,346
Other grants and contributions	1,021	812	1,053	782	781	870	903
Sale of Goods Services	3,303	3,423	3,474	3,620	3,739	3,852	3,953
Interest Income	1,239	720	162	706	742	781	818
Dividends and income tax equivalents from other sectors	1,925	1,766	1,820	1,796	1,957	2,002	2,121
Dividends from associates	29	...	...	...	58	70	81
Fines, regulatory fees and other revenues	1,760	1,591	1,821	2,176	2,347	2,681	2,494
<b>Total Revenue</b>	<b>44,727</b>	<b>44,645</b>	<b>46,396</b>	<b>47,882</b>	<b>50,665</b>	<b>53,223</b>	<b>55,186</b>
<i>Annual per cent change</i>			3.7%	3.2%	5.8%	5.0%	3.7%

Source: Table 4.2, Chapter 4, Budget Paper No. 2

### Composition of Total Revenue, New South Wales, 2008-09



Source: Chart 4.1, Chapter 4, Budget Paper No. 2

## Tax Cuts

The 2008-09 Budget introduces responsible tax reductions that will improve the tax competitiveness of New South Wales without compromising fiscal objectives.

Tax reductions include:

- ♦ reducing payroll tax to 5.5 per cent, starting with a reduction to 5.75 per cent from 1 January 2009, with further reductions to 5.65 per cent from 1 January 2010 and to 5.5 per cent from 1 January 2011
- ♦ indexing the payroll tax threshold annually in line with Sydney CPI and
- ♦ bringing forward the abolition of transfer duty on non-land business assets from 1 July 2012 to 1 January 2011.

These measures will reduce taxation revenue by \$148 million in 2008-09 and by \$2.2 billion over the budget and forward estimates period.

Tax reductions in this and previous budgets have ensured that New South Wales maintains tax competitiveness with other states, raising a lower level of tax per capita than the average across the other States.

### Tax Reductions Commencing in the 2008-09 Budget or Forward Estimates Period

Measure	Revenue Impact <sup>(a)</sup>			
	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
Index the payroll tax threshold from 1 July 2008	-34	-62	-91	-122
Reduce payroll tax rate from 6 per cent to 5.75 per cent from 1 January 2009	-114	-289	-305	-322
Reduce the payroll tax rate from 5.75 per cent to 5.65 per cent from 1 January 2010	...	-48	-122	-129
Reduce the payroll tax rate from 5.65 per cent to 5.5 per cent from 1 January 2011	...	...	-76	-193
Bring forward abolition of transfer duty on non-land business assets to 1 January 2011	...	...	-88	-182
Abolish unquoted marketable securities duty from 1 January 2009 <sup>(b)</sup>	-36	-77	-79	-80
Abolish mortgage duty on non-owner occupied residential property from 1 July 2008 <sup>(b)</sup>	-160	-174	-186	-198
Abolish mortgage duty completely from 1 July 2009 <sup>(b)</sup>	...	-120	-131	-139
<b>Total</b>	<b>-344</b>	<b>-770</b>	<b>-1,078</b>	<b>-1,365</b>

(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.

(b) Announced previously.

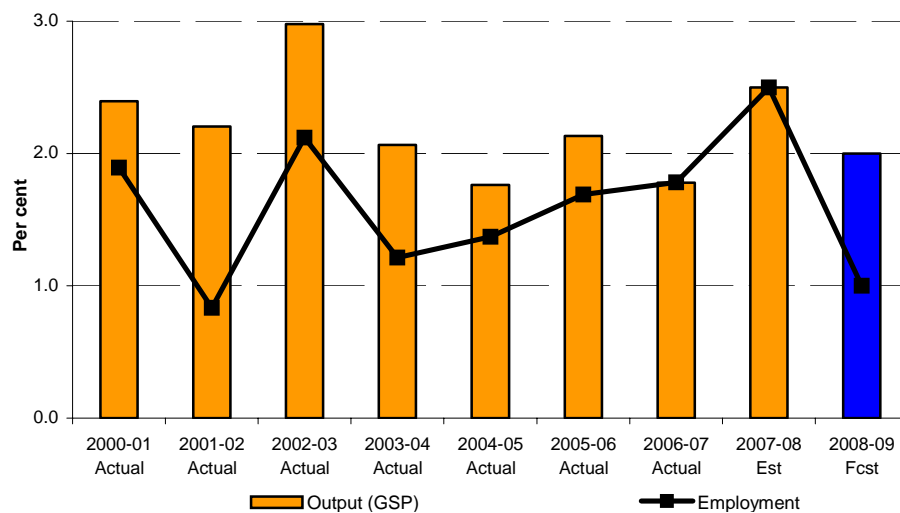
Source: Table 4.1, Chapter 4, Budget Paper No. 2

Following strong growth in 2007-08, growth in the economy is expected to slow in 2008-09 under the weight of restrictive monetary policy and weaker global conditions, although Asian demand for resources will be a buffer. NSW employment growth is expected to soften slightly, and the unemployment rate will rise a little but remain at historical lows. Inflation is expected to begin easing during the financial year.

NSW economic growth is expected to slow from 2½ per cent in 2007-08 to 2 per cent in 2008-09. State final demand growth will slow more significantly from 4½ to 2½ per cent. Unemployment is expected to increase a little from 4½ per cent to 4¾ per cent.

The anticipated slowing in economic growth reflects a weak global economy, tight global credit conditions, and restrictive domestic monetary policy. These conditions are likely to result in a lowering of inflation, and reduce the need for further monetary policy intervention in 2008-09.

**New South Wales Output and Employment Growth  
(annual per cent change)**



Source: Chart 9.1, Chapter 9, Budget Paper No. 2

## Economic Performance and Outlook

(year average per cent change, unless otherwise indicated)

	2006-07 Outcomes	2007-08 Estimates	2008-09 Forecasts
<b>New South Wales</b>			
State final demand	2.3	4¼	2½
Gross state product	1.8	2½	2
Employment	1.8	2½	1
Unemployment rate <sup>(a)</sup>	5.0	4½	4¾
Sydney CPI <sup>(b)</sup>	1.7	3¾	3
Wage price index	3.8	3¾	4
<b>Australia</b>			
Non-farm GDP deflator	4.6	5	6¾
Ten year bond rate <sup>(a)</sup>	5.8	6¼	6¼

(a) Year average, per cent

(b) Per cent through the year to June quarter

Source: Table 9.3, Chapter 9, Budget Paper No. 2



# Budget Papers and Key Terms

## Budget Papers

Budget papers can be downloaded from [www.treasury.nsw.gov.au](http://www.treasury.nsw.gov.au)

### Budget Paper No. 1 Budget Speech

The 2008-09 Budget speech delivered by the NSW Treasurer, the Honourable Michael Costa MLC, in the Legislative Assembly of the NSW Parliament at 12:00pm on Tuesday, 3 June 2008.

### Budget Paper No. 2 Budget Statement

The *Budget Statement* presents detailed information on the budget aggregates, expenditures, revenues, State fiscal strategy and the economy.

### Budget Paper No. 3 Budget Estimates

The *Budget Estimates* provide detailed revenue and expense information on an agency and portfolio basis for the general government sector. This budget paper is published in two volumes.

### Budget Paper No. 4 Infrastructure Statement

The *Infrastructure Statement* provides an overview of the State's capital program including details of projects in the general government and public trading enterprise sectors.

### Budget Paper No. 5 Appropriation Bills

Three Bills presented to Parliament:

- ◆ a Special Offices Bill to provide funding for the Ombudsman's Office, State Electoral Office, Independent Commission Against Corruption, and the Office of the Director of Public Prosecutions
- ◆ a Bill to provide funding for the Parliament and
- ◆ a general Appropriation Bill covering the remaining general government sector agencies.

## Key Terms

The budget papers principally report on the financial and service delivery performance of the **general government sector**. General government agencies typically deliver public services or are regulatory in nature.

The general government sector forms one part of the total state sector. The remainder of the total state sector is comprised of commercially focussed entities - **public trading enterprises** (PTE) and **public financial enterprises** (PFE). These agencies do not impact on the budget result, other than through payment of dividends and tax equivalents and where they receive budget funding to provide services on a subsidised basis (e.g. Rail Corporation New South Wales and Department of Housing).

Budget reporting is in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The **budget result** is based on the AASB 1049 net operating balance. The net operating balance reports the difference between the full cost of general government service delivery in the year (excluding new capital expenditure but including depreciation of the existing stock of fixed assets) and the revenues earned in that year to fund those services.

**Net financial liabilities** show the full range of the general government sector's financial obligations (including debt, unfunded superannuation liabilities, insurance liabilities and employee related liabilities) less its financial assets (including cash and investments).

**Net debt** is broadly borrowings less cash and investments. Debt is used to finance capital expenditure in both the general government and public trading enterprise sectors. The level of debt is based on funding priorities and whether the assets generate future income and as such, differs for each sector.