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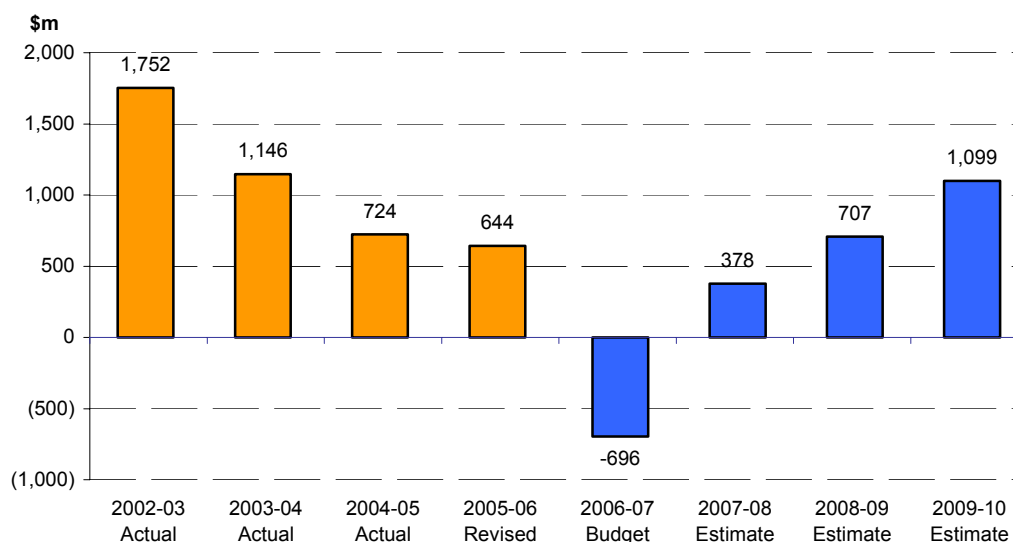
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# Budget Result

The Budget result for 2006-07 is expected to be a deficit of \$696 million. In the forward years the Budget result is expected to strengthen with a projected surplus in 2007-08. The return to surplus is based on achieving the savings outlined in the Premier's February 2006 *Economic and Financial Statement* and a slowing in annual expenses growth to 3.8 per cent per annum over the four years ending 2009-10.

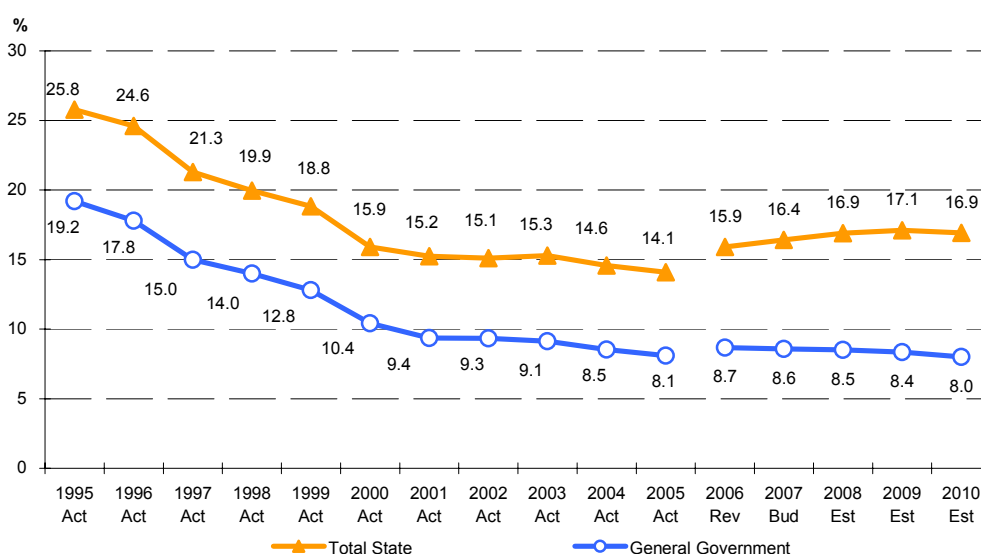
## Budget Result 2002-03 to 2009-10



Source: Chart 1.1, Chapter 1, Budget Paper 2

After allowing for the impact of new accounting standards, general government sector net financial liabilities will continue their underlying trend decline as a percentage of gross state product (GSP). Total State sector net financial liabilities are projected to increase as a share of GSP over the forward years as a result of higher PTE capital expenditure funded by debt.

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



Source: Chart 1.5, Chapter 1, Budget Paper 2

(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. For example, in June 2006 general government sector net financial liabilities would have been 7.3 per cent without the change in standards.

## Services

The Government has allocated \$42.9 billion in this Budget for general government services, an increase of 5.7 per cent from last year. Key expenditure growth areas in the 2006-07 Budget include health, transport, disability services, education and public order and safety.

**Health** - In 2006-07 the Government will continue to ensure growing demand is effectively addressed through increased funding for hospital beds, mental health services, dental services and cancer services as well as initiatives to recruit and retain health professionals. The 2006-07 Budget will allow NSW Health to operate the equivalent of 426 beds on top of the additional 800 beds announced with the 2005-06 Budget. Funding will also be directed to improve the effectiveness of the health system through integration of primary health and community care services and initiatives to support promotion, prevention and early intervention.

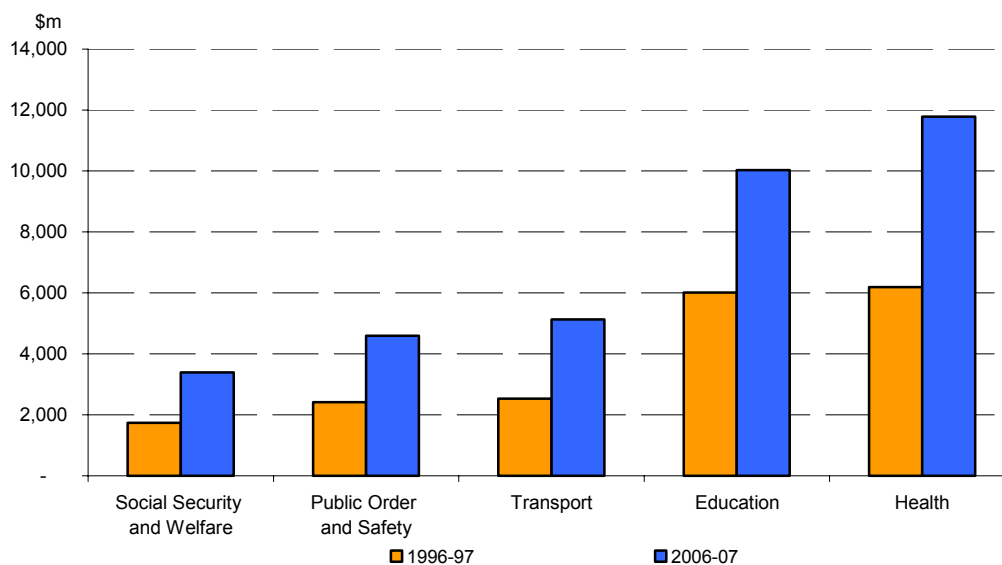
**Education** - Expenditure on education and training services in 2006-07 will exceed \$10 billion. Key education and training services over the next four years will include \$616 million on the State's literacy and numeracy programs, \$603 million for the class size reduction program, \$267 million to support quality teaching, \$676 million for technology initiatives and \$857 million for school maintenance.

**Transport** - The Government is expending around \$5.2 billion in the Budget to deliver efficient transport services. In 2006-07 rail maintenance expenditure will be increased, further improving the safety and reliability of the network and building on the substantial gains achieved with the new timetable in September 2005. Bus reform will be extended to outer metropolitan areas and further bus priority measures will be implemented.

**Community and Disability Services** - In 2006-07 the Government will continue the expansion of services provided by the Department of Community Services including the recruitment of an extra 300 caseworkers to enhance responses to child protection notifications and services for children who cannot live with their birth families. 2006-07 will be the first year of funding for *Stronger Together: a new direction in disability services*. As a result, the Department of Ageing, Disability and Home Care will increase support for school leavers with a disability from three days a week to four days a week, and five days a week for those with high support needs. This will equate to an additional 4,290 places in 2006-07. There will be an additional 180 supported accommodation places for people with a disability and an additional 820 respite places for both children and adults to help with caring for people with a disability.

**Public Order and Safety** - In 2006-07 the Government will provide funding for the training and deployment of a permanent increase of 750 police officers. These extra officers, along with major ongoing investments in information technologies, will assist NSW Police in its efforts to continue to reduce crime, violence and community fear.

Major Policy Area Expenses Comparison - 1996-97 to 2006-07



## Additional funding or service improvements

		Budget 2006-07	Estimates 2007-08	Estimates 2008-09	Estimates 2009-10	
	(\$ millions): Expenses					
EDUCATION	Aboriginal Education Initiatives	17.1	16.0	16.1	16.1	
	Reducing class sizes	137.1	155.3	155.3	155.3	
	Increased school maintenance works	30.0	30.0	30.0	30.0	
	Trade Schools	0.2	0.9	1.9	2.5	
HEALTH	Cancer Institute and radiotherapy services	24.8	25.5	30.5	35.5	
	New and expanded Mental Health Services <sup>(a)</sup>	56.2	86.5	115.5	127.5	
	Corrective Services programs for inmates with mental illness and other disabilities	1.0	1.0	1.0	1.0	
	Expanded Housing and Accommodation Support Initiative	5.5	11.0	11.0	11.0	
	Hospital beds / Transitional care services	52.0	52.0	52.0	52.0	
	Increased ICU beds for adults, children and infants	10.0	10.0	10.0	10.0	
	Renal dialysis services	2.0	5.0	10.0	15.0	
	Elective surgery	15.0	...	...	...	
	NSW Ambulance Service, more rural ambulance staff	5.9	5.9	5.9	5.9	
	NSW Ambulance Service, extra metropolitan staff and vehicles	2.0	5.0	12.0	12.0	
	NSW Ambulance Service, enhanced helicopter ambulance services	4.0	8.0	8.0	8.0	
	COAG Health Reform initiatives including After Hours GP services and Integrated Primary Health and Community Care Services	31.4	34.9	39.5	36.6	
	Expanded Specialist and State-wide services	4.8	6.0	6.0	6.0	
	South Western Sydney extension of services	18.9	33.0	33.0	33.0	
	Sustainable workforce initiatives	3.5	3.5	3.5	3.5	
	Better dental services	4.0	8.0	12.0	16.0	
	Shared corporate services	3.0	5.0	...	...	
	Coordinating local government role in food safety	1.6	1.0	1.2	0.9	
	COMMUNITY & DISABILITY SERVICES	More child protection caseworkers	24.4	48.7	48.7	48.7
		Support services for families and needy children	17.0	17.0	17.0	17.0
Out-of-home care services		52.2	117.7	117.7	117.7	
Supporting financial viability of NGOs		5.0	5.0	5.0	5.0	
Servicing those transferred to care of DADHC		8.3	19.2	30.5	52.2	
Additional post-school programs		20.2	38.3	47.4	58.0	
Case management support for people with a disability		4.3	7.9	11.9	14.6	
Respite care services		8.3	9.5	16.0	16.9	
Attendant care places		5.3	6.6	13.9	18.8	
PUBLIC ORDER & SAFETY		Increased police numbers	48.2	67.7	67.7	67.7
	Ongoing support for information technology upgrades	21.3	23.8	24.0	24.3	
	Ongoing support for the Police Death and Disability Benefits Scheme	29.2	29.2	29.2	29.2	
	New Middle Eastern Crime Squad	1.6	1.6	1.6	1.6	
	Maintenance of counter-terrorism activities	1.8	1.8	1.8	1.8	
	Joint Investigative Response Teams	1.0	1.0	1.0	1.0	
	Enhanced drug and alcohol testing of police officers	1.0	1.0	1.0	1.0	
	Security Industry reforms	0.3	0.3	0.3	0.3	
	Court security	1.6	2.1	3.6	3.6	
	Juvenile Justice custodial accommodation and community intervention	5.0	5.0	3.8	2.5	
	Criminal case processing reforms – Office of DPP	5.5	...	...	...	
	Improved SES capabilities in State and Region headquarters	3.0	4.1	4.1	4.1	
	Establishment of SES 24hr operations communications centre	1.4	1.4	1.4	1.4	
ENVIRONMENT & NATURAL RESOURCES	Cap and Pipe The Bores	5.5	5.5	5.5	5.5	
	Aboriginal Water Trust	1.0	1.0	0.9	...	
	Irrigation Area Works	18.1	18.1	18.1	18.1	
	Murray-Darling Basin Commission	26.3	26.3	26.3	26.3	
	CMAs Operating Expenditure	39.0	38.5	37.7	37.7	
	CMAs Program Expenditure	167.0	80.0	12.5	...	
	NWI Living Murray	29.0	23.0	35.0	...	
	Native Vegetation Structural Adjustment	12.3	12.3	12.4	...	
	Groundwater Structural Adjustment (State/C wealth)	101.4	...	...	...	
	Forestry Industry Restructure	10.8	4.5	4.1	2.5	
	Wetland Recovery Strategy	9.0	...	...	...	
	Drought assistance programs <sup>(b)</sup>	2.6	...	...	...	
	Buyout of commercial fishers in new Marine Parks	10.0	6.5	2.0	...	
	Increased maintenance funding for Marine Parks	0.5	0.7	0.8	1.0	
New Frontiers minerals exploration initiative to gather geoscience data	4.0	4.0	...	...		
Clean up QX-affected oyster leases in the Hawkesbury	1.0	...	...	...		

(a) Excludes grants of \$33 million provided in May 2006 for mental health research and to improve facilities at St Vincent's Hospital.

(b) NSW funding for joint State-Commonwealth program only. Actual drought assistance expenditure will depend on the course of the drought.

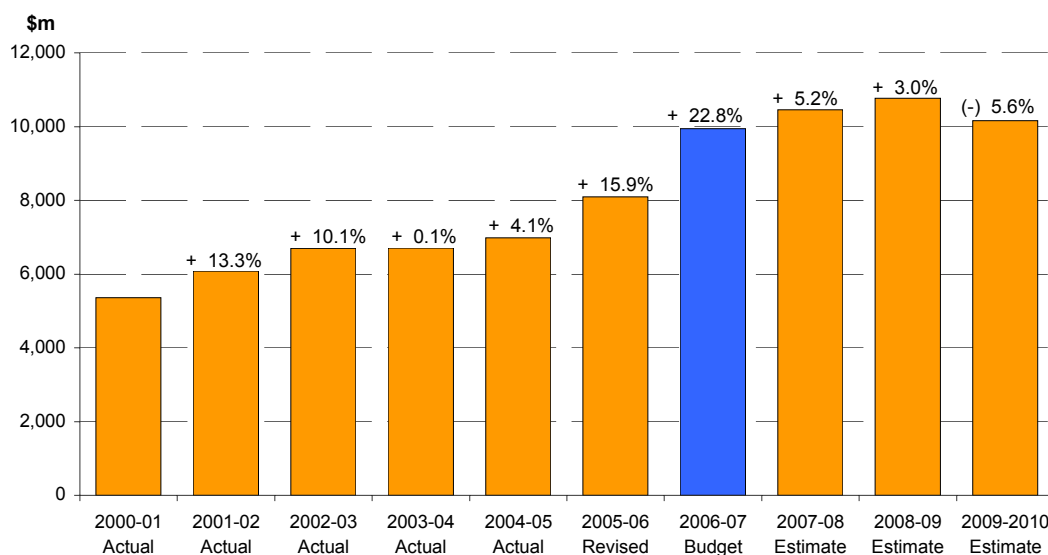
## Major capital projects

	Budget 2006-07	Estimates 2007-08	Estimates 2008-09	Estimates 2009-10	
(\$ millions): Expenditure					
TRANSPORT <sup>(b)</sup>	New air-conditioned rail carriages for the CityRail network <sup>(a)</sup>	115.0	...	...	
	North Sydney Station upgrade	19.9	24.0	8.0	
	Easy Access upgrades for metropolitan rail stations	14.5	...	...	
	Train overspeed protection - Stage 1 development	8.5	3.3	...	
	Signalling and train control - country regional network	16.8	14.5	...	
	237 new buses for Sydney and Newcastle	36.0	...	...	
	Pacific Highway accelerated upgrade	60.0	...	...	
	Hume High accelerated duplication	40.0	...	...	
	Windsor flood evacuation route over South Creek	55.0	...	...	
	F3 Sydney to Newcastle Freeway	40.0	...	...	
	Spit Bridge widening	11.0	...	...	
	Karuah to Bulahdelah - sections 2 and 3	40.0	...	...	
	Bonville Bypass	75.0	...	...	
	Ballina Bypass	20.0	...	...	
	Oak Flats to Dunmore	8.2	...	...	
	New National Network link - F3 Freeway to New England Highway	10.0	...	...	
	Nelson Bay Road, replacement of Tourle Street bridge	5.0	...	...	
	Hume Highway, Coolac Bypass	25.0	...	...	
	Corridor Acquisition - proposed North and South West Rail Links	129.0	155.0	126.0	30.0
EDUCATION	24 new major works projects for schools including 2 new schools	30.4	65.6	55.4	4.0
	11 new major works projects for TAFE NSW	5.9	28.6	25.5	...
	Trade Schools	2.5	6.0	4.0	...
HEALTH <sup>(c)</sup>	Metropolitan Hospital Upgrade - Auburn and Liverpool	11.0	35.4	108.1	90.2
	New mental health works and increased scope of Rozelle relocation	9.8	26.9	27.2	14.4
	Ambulance Service capital works	18.5	11.7	8.0	9.0
	Upgrades to rural hospitals and services	5.4	14.7	1.5	...
	Multi purpose services and integrated primary health and community care facilities	12.6	12.1	14.1	14.1
	Information Management and Technology	12.3	11.0	4.1	1.1
	Shared corporate services	9.0	21.8	23.9	1.9
DISABILITY SERVICES	John Hunter Hospital Patient and Public Amenity	5.8	4.0	...	...
	Local initiatives by Area Health Services	19.1	...	...	...
	Medical Technology Program	2.0	...	...	...
	Group homes for new clients with disabilities	18.9	19.1	19.1	19.1
	Grants administration system to manage grant payments (DADHC)	2.6	...	...	...
	Upgrade of large residencies for people with a disability	16.5	...	...	...
	Improve/upgrade various DADHC accommodation facilities	14.5	12.7	12.7	6.7
PUBLIC ORDER & SAFETY	Six new police stations	3.8	18.9	42.0	16.0
	Police helicopter replacement	0.6	2.3	...	...
	Infra Red Imaging System replacement	1.5	...	...	...
	Water cannon	0.5	...	...	...
	Replacement of counter-terrorism equipment	1.0	...	...	...
	Additional equipment for the Public Order Riot Squad	2.5	...	...	...
	Attorney General's Dept - fitouts at the Parramatta Justice Precinct	74.7	55.6	10.3	...
	Voice and data interception (NSW Crime Commission)	1.8	0.6	0.6	0.6
	Department of Juvenile Justice's Corporate Information System	0.4	1.7	1.4	1.5
	NSW Fire Brigades community fire units	1.5	1.4	1.4	1.5
ENVIRONMENT & NATURAL RESOURCES	Raymond Terrace fire station	1.1	...	...	...
	260 Rural Fire Service tankers	34.1	...	...	...
	Park planning and management of newly acquired land	10.4	6.5	6.0	1.5
	Improved infrastructure within National Parks	9.3	5.5	8.2	...
	Land purchases for new parks and reserves	4.8	2.0	2.0	2.0
	Improved storage facilities at Lidcombe	3.3	1.7	...	...
	High-resolution satellite image coverage of NSW	2.3	1.5	1.1	...
	Upgrade Department of Primary Industries (DPI) facilities	5.3	...	...	...
Integrate and replace DPI IT infrastructure	4.2	...	...	...	
	New offices, infrastructure and equipment for Marine Parks	1.7	2.4	...	...

- (a) Forward year amounts not included due to a tender process that is currently underway. The project has also increased in scope to acquire around 600 carriages.
- (b) The amounts for roads projects, which are ongoing, reflect estimated total expenditure for 2006-07 only.
- (c) Contracts have also been signed to deliver the Forensic and Prison Hospitals at Long Bay and the Newcastle Mater Hospital Redevelopment as Privately Financed Projects.

Over the four years to 2009-10, State capital expenditure (general government sector and PTE sector) will be \$41.3 billion, a 45.1 per cent increase on the \$28.5 billion spent in the four years to 2005-06. This will be partly funded by an increase in total State sector net debt of \$19.6 billion.

## State Capital Expenditure



Source: Chart 1.3, Chapter 1, Budget Paper 4

**Public Transport and Roads** - Spending on new transport infrastructure, for roads and public transport, will be around \$3.2 billion. A major focus is lifting the performance of the rail system. In 2006-07 the first of the new Outer Suburban cars will be in service as well as the new rail cars for the Hunter network. Two further Clearways projects, an additional platform at Berowra and train stabling at Macdonaldtown will be completed. Work will continue on the Epping Chatswood Line (due for opening in mid-2008), the duplication of the Cronulla line and turnbacks at Homebush, Lidcombe and Revesby. The Government is continuing the upgrade of major highways, including the Pacific, as well as expanded arterial connections in Sydney to match the city's growth.

**Health** - In 2006-07 the Department of Health will spend \$633 million to redevelop, upgrade and refurbish public hospitals and health facilities as part of a \$2 billion capital works program over the next four years. Major new works include the redevelopment of Auburn and Liverpool hospitals to deal with population growth in Western Sydney, continued expansion of mental health capital works to improve capacity and services, and upgrades of rural hospitals and multi purpose services. Contracts have also been signed to deliver the Forensic and Prison Hospitals at Long Bay and the Newcastle Mater Hospital Redevelopment as Privately Financed Projects.

**Education** - The \$574 million program in 2006-07 is the largest infrastructure program ever for education being \$128 million higher than the estimated 2005-06 program. The schools portion of \$486 million includes commencing 22 new major works, two new schools at Ashtonfield and Halinda and infrastructure for 10 trade schools. It includes commencing construction on 5 new school halls, security fencing for 32 schools and upgrading toilet facilities at 90 schools. The program also provides \$87 million for new and continuing TAFE facility improvements.

**Electricity and Water** - The 2006-07 capital expenditure program for the electricity policy area is estimated at \$2.3 billion. Over 70 per cent of this program will be undertaken by the electricity distribution businesses. The main focus is on meeting growth in demand across the State and continuing to ensure network reliability and security. The 2006-07 capital expenditure for water businesses is estimated at \$990 million and includes expenditure on water, wastewater and recycling infrastructure. Sydney Water accounts for around 73 per cent of this expenditure. The capital expenditure program includes Metropolitan Water Plan initiatives, water and sewerage system improvements and new infrastructure to meet growth demands in Sydney and the Hunter region.

## Tax Cuts and Business Savings

There are no new taxes or increases in tax rates in the 2006-07 Budget. Taxation measures announced during 2005-06 and in the 2006-07 Budget will reduce revenue by \$481 million in 2006-07 and \$693 million in 2007-08.

Due to the improved performance of Workers Compensation arrangements, there was a reduction in premiums of 5 per cent from 31 December 2005 across all WorkCover Industry Classification rates. These premium reductions will directly benefit all businesses in New South Wales. A further 10 per cent reduction in premiums will come into effect on 30 June 2006. In total, these reductions save business in New South Wales \$430 million per annum.

Measure	Revenue Impact <sup>(a)</sup>				
	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
<b>Tax Measures Since the 2005-06 Budget</b>					
Abolish vendor duty on contracts exchanged on or after 2 August 2005 <sup>(b)</sup>	-265	-382	-409	-429	-450
Increase the tax-free threshold for land tax to \$352,000, from \$330,000, for the 2006 land tax year	-43	-53	-57	-60	-64
Modify club gaming machine duty rates announced in the 2003-04 Budget with effect from 1 September 2006		11	-25	-80	-139
Payroll tax rebates for businesses becoming liable for payroll tax for the first time in regions with above-average unemployment rates, from 1 July 2006 <sup>(c)</sup>			-6	-13	-21
<b>Total</b>	<b>-308</b>	<b>-424</b>	<b>-497</b>	<b>-582</b>	<b>-674</b>
<b>Tax Measures in the 2006-07 Budget</b>					
Calculate land values for land tax purposes based on an average of the last three years and index the tax-free threshold to the three-year average change in State-wide land values from the 2007 land tax year		-57	-98	-117	-123
Abolish hire of goods duty from 1 July 2007			-73	-81	-83
Abolish lease duty from 1 January 2008			-25	-80	-84
Abolish unquoted marketable securities duty from 1 January 2009				-29	-61
Halve the mortgage duty rate from 1 January 2010 <sup>(d)</sup>					-106
<b>Total</b>		<b>-57</b>	<b>-196</b>	<b>-307</b>	<b>-457</b>
<b>Workers Compensation Premiums</b>					
A 5 per cent reduction in premiums from 31 December 2005.	-70	-140	-140	-140	-140
Further 10 per cent reduction in premiums from 30 June 2006		-290	-290	-290	-290
<b>Total</b>	<b>-70</b>	<b>-430</b>	<b>-430</b>	<b>-430</b>	<b>-430</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) Gross revenue cost of abolishing vendor duty. Any possible indirect impact on transfer duty revenue is not included.

(c) Rebates under the scheme will be first payable in 2007-08.

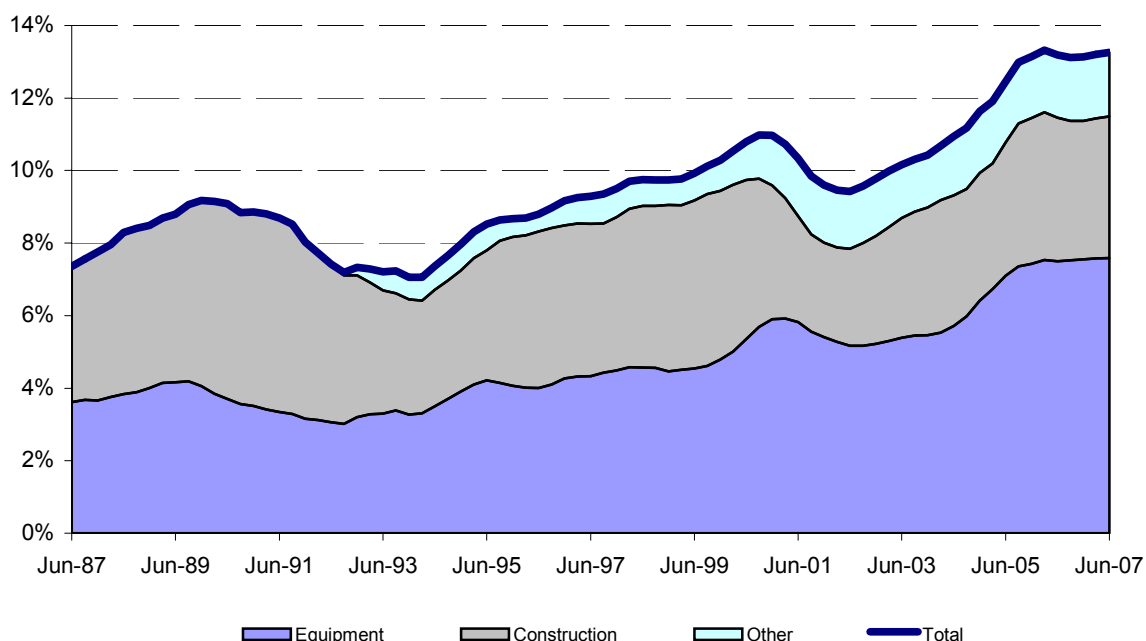
(d) Mortgage duty will be completely abolished from 1 January 2011.

In 2006-07 economic growth in New South Wales is expected to accelerate to 2 ½ per cent, with business investment rising to new record levels and a growing contribution from net exports.

State final demand will maintain a steady 2 ½ per cent rate of expansion in 2006-07, with strong growth in business investment and moderate growth in consumer spending. With the recent increase in interest rates, housing investment is expected to remain subdued.

Growth in employment and wages will remain firm and the unemployment rate will remain near three-decade lows. Inflation will remain steady at around 2 ¾ per cent.

**Business Investment Share in State Final Demand  
(annual moving averages)**



Source: Box 6.2, Chapter 6, Budget Paper 2

## Economic Performance and Outlook

(Percent change, year average, unless otherwise indicated)

	Outcomes 2004-05	Estimates 2005-06	Forecasts 2006-07
<b>New South Wales</b>			
State final demand	3.5	2½	2½
Gross state product	1.1	1¾	2½
Employment	1.3	1½	1¾
Unemployment rate (year average, percent)	5.3	5¼	5¼
Sydney CPI	2.5	2¾	2¾
Wage price index	3.5	4	4
<b>Australia</b>			
Non-farm GDP deflator	4.1	4½	2¾
Ten year bond rate (year average, percent)	5.4	5¼	5¼

Source: Table 6.2, Chapter 6, Budget Paper 2