

# 1. INVESTMENT PROGRAM

- The Government's 2017-18 Budget delivers continuing record levels of infrastructure investment across New South Wales, with \$72.7 billion committed over the next four years to 2020-21.
- This includes record State spending on world class healthcare and hospitals (\$7.7 billion over four years<sup>1</sup>) and more and better schools for our community (\$4.2 billion over four years) whilst maintaining record levels of transport and roads investment (\$41.4 billion over four years).
- The total infrastructure investment supported by the State is expected to be \$79.2 billion over the four years to 2020-21, after including financial contributions to infrastructure projects and capital grants to non-government bodies and local councils.
- The continuing record level of spending on an accelerated program of projects has been achieved while maintaining the State's triple-A credit rating. This has been enabled by the State's successful asset recycling program and strong control of recurrent expenditure.
- Restart NSW has been significantly bolstered by successful asset recycling transactions, with proceeds deposited now totalling \$29.8 billion as at 30 June 2017, and with extra reservations of \$1.0 billion for stadia, \$1.0 billion for the new Regional Growth: Economic Activation Fund, and \$600.0 million to support affordable housing.
- Significant projects within the capital program have now been finished or are approaching completion. For example, the International Convention Centre (ICC) Sydney opened in December 2016, and the pedestrian link to Wynyard Station as part of the transformative Barangaroo precinct opened in September 2016.
- The regional capital program across New South Wales is significant. The Government is committed to 30 per cent of all Restart NSW spending targeted to regional projects.
- Communities will benefit from significant investment in local infrastructure including aged care facilities, water treatment plants, support for children with special needs, regional sporting facilities, local road and station upgrades, civic centres and local airports.

## 1.1 Introduction

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### Continuing record levels of infrastructure investment

Building infrastructure is a key priority of the NSW Government, including world class hospitals, more and better schools and 21<sup>st</sup> century transport links to connect our state. Reflecting this, the 2017-18 Budget includes a substantial capital investment program designed to boost economic growth and to improve the standard of services provided to NSW residents.

The Government's 2017-18 Budget commits \$72.7 billion in State capital spending over the four years to 2020-21, reflecting continuing record levels of State funded investment.

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<sup>1</sup> Includes capital expenses falling below the capitalisation threshold. Refer to footnote b) of Table 1.2 for further details.

The Government's infrastructure program includes new funding for a wide range of infrastructure projects:

- record investment in education infrastructure, including \$2.2 billion in additional funding over five years for around 90 new schools and major upgrades to existing schools
- record investment in health infrastructure, with \$2.8 billion in additional funding over four years as part of a \$7.7 billion total investment over that period to deliver world class hospitals and health facilities including:
  - the reconfiguration and expansion of Randwick Hospital Campus (estimated total cost (ETC) \$720.0 million)
  - the Campbelltown Hospital redevelopment (ETC \$632.0 million)
  - a new Tweed Hospital and Integrated Ambulatory Services redevelopment (ETC \$534.1 million)
  - the Concord Hospital upgrade (ETC \$341.2 million)
- substantial funding for regional projects including \$1.0 billion reserved in Restart NSW for the Regional Growth: Economic Activation Fund, \$200.0 million for a Stronger Country Communities Fund and \$100.0 million for a Regional Cultural Fund
- \$1.0 billion of the Rebuilding NSW plan designated for the Safe and Secure Water program<sup>2</sup>
- \$434.3 million for major arts and cultural facilities including:
  - \$244.3 million for the Sydney Modern Project at the Art Gallery of NSW<sup>3</sup>
  - \$190.0 million for the Sydney Opera House Stage 1 Renewal over four years.

The Government's infrastructure program also maintains record levels of transport and roads investment totalling \$41.4 billion over four years. The 2017-18 Budget also reserves in Restart NSW \$1.1 billion for the Western Harbour Tunnel and F6, and \$1.4 billion for the Regional Road Freight Corridor program. Key regional road initiatives include:

- \$1.5 billion in 2017-18 to continue the New South Wales and Commonwealth Government funded Pacific Highway upgrade including \$1.2 billion for Woolgoolga to Ballina
- \$136.8 million in 2017-18 for upgrades to the Princes Highway, including the Berry bypass and starting construction on the upgrade between Berry and Bomaderry.

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<sup>2</sup> The Safe and Secure Water program repurposes the \$1.0 billion Rebuilding NSW Regional Water Security and Supply Fund, including the existing commitment to the Broken Hill Water Supply project, which is commercial in confidence.

<sup>3</sup> The Gallery is also anticipating significant contributions from private donors.

### **Box 1.1: Record program of infrastructure**

The 2017-18 Budget provides for a record program of infrastructure investment supported by the State over the four years to 2020-21.

In addition to the \$72.7 billion in State capital spending by agencies, the State is also making substantial financial contributions to major projects, which are not classified as capital expenditure as reported in this Budget. Financial contributions to WestConnex Stage 3, Sydney Metro Northwest and the CBD and South East Light Rail, are expected to total \$4.3 billion over the four years to 2020-21.

The State is further supporting capital investment through capital grants to non-government bodies and local councils which, while not classified as capital expenditure, accounts for a further \$2.1 billion throughout New South Wales across the four years.

The total infrastructure investment supported by the State is expected to be \$79.2 billion over the four years to 2020-21.

A pipeline of Restart NSW projects, in the form of reservations, is yet to be included in the State capital spending amount. Reservations of \$12.1 billion, increased from \$1.8 billion in 2016-17, are not included in the budget aggregates until a final investment decision is made by Government.

Investment is occurring right across the State with several major programs dedicated to regional areas including Regional Growth Roads, Regional Multipurpose Facilities for health and aged care services, and the Regional Road Freight Corridor program. See Sections 1.4, 2.5 and 3.4 for further details on regional spending.

## **Substantial infrastructure investment is enabled by strong financial management and governance**

Increased capital expenditure has been enabled by the State's strong fiscal management, which has allowed increased funding while maintaining the triple-A credit rating. This includes:

- ongoing control of recurrent expenditure consistent with the *Fiscal Responsibility Act 2012*
- active management of the balance sheet including asset recycling and reinvestment of proceeds into productive infrastructure
- effective prioritisation of capital investments to fund those projects that produce the highest economic and social benefits
- the deposit of windfall taxation revenues into Restart NSW to fund new infrastructure.

The State's capital investment framework, which integrates planning, project selection, funding and delivery, ensures that the right projects are built, at the most efficient cost, and delivered on time and on budget. This framework is detailed in Appendix A.

Budget Paper No. 1 *Budget Statement* further details the State's fiscal strategy.

## **Asset recycling has accelerated infrastructure delivery**

The State has an active program of infrastructure delivery enabled by a successful asset recycling program. Inflows into Restart NSW from asset recycling estimated at 30 June 2017 are \$24.9 billion, which have provided the funds needed to accelerate the infrastructure program while maintaining the State's triple-A credit rating.

### **Box 1.2: Successful electricity network transactions delivered**

The Government has now successfully completed the lease of 49 per cent of the NSW electricity network businesses (electricity network transactions). This comprises the leases of:

- all of TransGrid, the state-wide transmission business completed in December 2015, with net proceeds of \$6.6 billion including stamp duty
- 50.4 per cent of Ausgrid completed in December 2016, with net proceeds of \$5.6 billion including stamp duty
- 50.4 per cent of Endeavour Energy completed in June 2017, with net proceeds of \$2.8 billion including stamp duty.

These proceeds are augmented by an expected \$2.2 billion in Commonwealth Government Asset Recycling Initiative incentive payments, and investment earnings accruing over the ten year plan.

The successful completion of the electricity networks transactions will enable the Government to deliver in full the \$20 billion Rebuilding NSW plan through Restart NSW. It also results in a substantial reduction in the current and future level of debt of the state sector. A total of \$18.2 billion of the gross proceeds were allocated to debt repayments of the network businesses and will no longer be a part of the State's balance sheet.

In addition to the electricity network transactions, proceeds from the lease of ports, the recently completed concession of Land and Property Information's titling and registry services, the divestment of Pillar and the proceeds from other assets such as the Sydney Desalination Plant have contributed to the funding of Restart NSW.

### **Box 1.3: Expediting key infrastructure projects**

Critical infrastructure projects have been fast-tracked with the funds made available from the asset recycling program. Project start dates have been brought forward, timeframes have been accelerated and previously unfunded projects have been funded.

Major strategic projects including Sydney Metro City and Southwest (accelerated by 5-7 years) have been brought forward, which will help to ease Sydney congestion. Refer to Box 3.1 for further details on accelerated Rebuilding NSW projects.

The Government has also introduced the \$1.0 billion Regional Growth: Economic Activation Fund to expedite key local and economic infrastructure in regional NSW.

## **Delivering on infrastructure promises**

The scale and scope of the \$72.7 billion four year program allows the Government to deliver on its infrastructure commitments.

One of its key infrastructure commitments, Rebuilding NSW, is the Government's ten-year plan to invest \$20 billion in new productive infrastructure across the State. The Government has committed \$11.9 billion for Rebuilding NSW projects from Restart NSW that are included in the Budget.<sup>4</sup>

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<sup>4</sup> Total Rebuilding NSW commitments are \$12.6 billion, which comprises \$11.9 billion from Restart NSW with the balance advanced from the Consolidated Fund.

A further \$12.1 billion has been reserved against funds held in Restart NSW to be committed in future budgets, representing over a 500 per cent increase in the pipeline of projects since the 2016-17 Budget. Reservations are for both government capital spending and grants to other infrastructure owners, subject to project assurance by Infrastructure NSW and Treasurer approval. These reservations are not included in the budget but, when committed, will impact capital spending in future years, significantly increasing capital spending beyond the Budget and forward estimates period.

This Budget includes Restart NSW commitments for several Rebuilding NSW projects, including the Princes Highway upgrade and the Sydney Opera House Renewal.

Chapters 2 and 3 of this *Infrastructure Statement* provide further detail on Restart NSW and the Rebuilding NSW plan.

#### **Box 1.4: Delivering on infrastructure promises – the ICC Sydney**

The Government is delivering on its infrastructure promises with several major projects completed in 2016-17. The \$1.6 billion ICC Sydney was opened to the public in December 2016. The Convention Centre building has 2,400 tonnes of steel, and the Exhibition Halls have the equivalent of five football fields of trade show floor space. The centre was delivered through a public-private partnership with Darling Harbour Live as part of a broader \$3.4 billion revitalisation of Darling Harbour.

The ICC Sydney will generate \$5 billion in economic benefits for New South Wales over 25 years. Across the 20-hectare development, the project was estimated to have created about 3,700 jobs during construction and a further 4,000 ongoing jobs on completion.<sup>5</sup>

<sup>5</sup> Infrastructure NSW, World class centre for business and entertainment, viewed 7 June 2017, <http://www.infrastructure.nsw.gov.au/projects-nsw/darling-harbour-live-and-icc-sydney/icc-sydney.aspx>

### Box 1.5: WestConnex, easing congestion across Western Sydney

**Project:** WestConnex is Australia's largest transport project, creating a non-stop underground western bypass of Sydney's CBD for motorists with connections to the airport and port precincts. The project will generate over \$20 billion in economic benefits and is being delivered in three stages.<sup>6</sup> Stage 1 is the widening and extension of the M4 motorway to Haberfield. Stage 2 is the New M5 motorway and Stage 3 is the planned link between the M4 and the M5 and the Iron Cove Link and Rozelle Interchange. The project is being delivered by the Sydney Motorway Corporation (SMC). The total estimated cost of WestConnex is \$16.8 billion.



**Service delivery objective:** WestConnex is part of an integrated transport plan which will ease congestion, create jobs and connect communities.

**Implementation:** The Government's investment has enabled the delivery of Stage 1, the accelerated delivery of Stage 2 and the delivery of Stage 3 preliminary works.

**Stage 3 funding strategy announced:** Construction of Stage 3 of WestConnex, the M4-M5 Link and the Iron Cove Link and Rozelle Interchange, is due to commence and requires funding of \$7.2 billion. The Government will proceed with the sale of at least a 51 per cent stake in SMC and its subsidiaries to help fund Stage 3. It will launch a competitive trade sale later this year, calling for expressions of interest for the WestConnex sale, and is targeting a transaction closing date of mid-2018.

<sup>6</sup> Sydney Motorway Corporation, Delivering Australia's largest transport infrastructure project, Sydney, 2016.

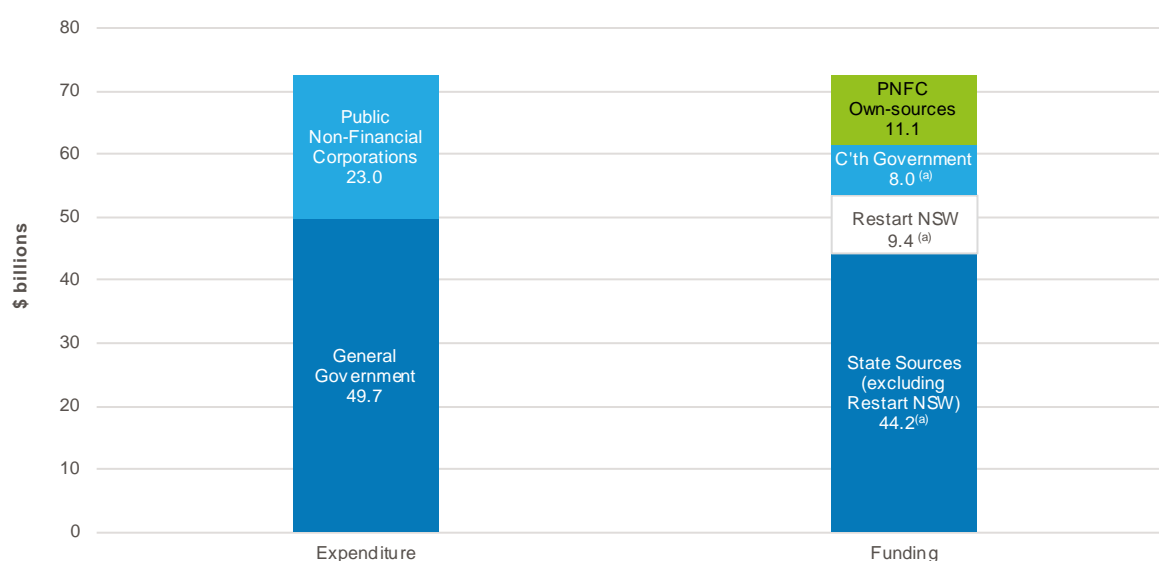
## Sources of funds

The State's capital program is funded from a number of sources including:

- taxation, other own-source State revenues and borrowings
- Restart NSW (which includes the Rebuilding NSW plan), through asset recycling proceeds, windfall tax revenues, investment returns on proceeds prior to capital deployment and the issuing of Waratah Bonds
- Commonwealth grants
- public non-financial corporations (PNFC) own-source funding (including from equity, retained earnings and borrowings).

Section 1.5 further discusses the funding of the capital program.

Chart 1.1: Summary of capital expenditure and funding sources - 2017-18 to 2020-21



- (a) Total committed funding from Restart NSW is \$17.5 billion of which \$11.9 billion will be spent on Rebuilding NSW projects. There is an additional \$12.1 billion in Restart NSW reservations, which are not included in the budget aggregates.

### Box 1.6: The economic benefits of infrastructure investment

Quality infrastructure is crucial to a well-functioning economy. Investment in infrastructure creates jobs and stimulates the economy in the short term during construction. In the long term, the overall economy is more productive and quality of life is improved.

**Infrastructure construction phase and jobs growth:** Infrastructure investment has an immediate economic benefit by boosting employment in construction. For example, over 10,000 jobs are expected to be created during the total construction period of WestConnex.<sup>7</sup> The CBD and South East Light Rail will deliver over \$4 billion worth of economic benefits and create 10,000 jobs for NSW.<sup>8</sup>

**Long-term productivity growth:** A larger infrastructure stock increases the productive capacity of the economy over the long term by removing bottlenecks and supply constraints. This enables goods to get to destination markets more quickly and at lower cost. Infrastructure also creates larger integrated markets, stimulating higher levels of innovation and specialisation. Deloitte Access Economics estimates that by 2035-36, the Government's \$20 billion Rebuilding NSW infrastructure program will support over 120,000 additional full-time jobs, and increase economic output by \$30.9 billion in 2013 dollar terms.<sup>9</sup>

<sup>7</sup> Sydney Motorway Corporation, M4 East Project Overview, WestConnex, Sydney, 2015.

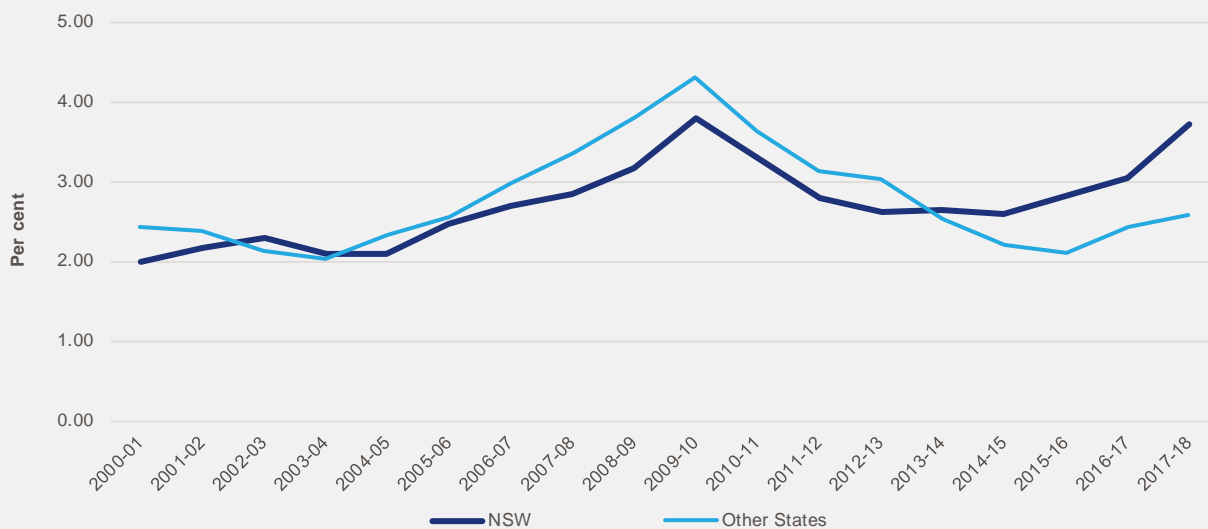
<sup>8</sup> Transport for NSW, CBD and South East Light Rail, Project update no. 5, Sydney, 2014.

<sup>9</sup> Deloitte Access Economics, Economic Impact of State Infrastructure Strategy – Rebuilding NSW, Deloitte Australia, Sydney, 2014.

**Box 1.7: Infrastructure spend across states**

The Government's significant investment program has resulted in New South Wales overtaking other states on the level of infrastructure spending. NSW's capital spend as a proportion of GDP is expected to be 3.7 per cent in 2017-18, the highest of all the mainland states. This compares with an average of 2.6 per cent for all other states.

Chart 1.2: Capital spend to GDP <sup>(a)</sup>



(a) Non-financial public sector – purchases of new non-financial assets, percentage of GDP

Source: ABS cat no. 5520.0 & 5512.0 for years 2000-01 to 2015-16. State Budget papers and NSW Treasury calculations for 2016-17 and 2017-18.

**1.2 Four year capital program**

The Government's capital spending program is forecast to be \$72.7 billion to 2020-21. Table 1.1 provides a reconciliation between the 2016-17 and 2017-18 Budget. Movements in the profile of capital expenditure across years for individual projects are captured at an aggregate level in 'other' variations.

Capital expenditure associated with Transgrid, Ausgrid and Endeavour Energy is no longer included in the State's capital program following the electricity network transactions.



Table 1.1: Capital expenditure reconciliation

	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
<b>Capital - 2016-17 Budget</b>	21,833	20,017	18,715	12,772	n.a.
<b>Policy measures</b>					
New capital works	536	793	733	662	n.a.
<b>Parameter and other variations</b>					
Lease of Ausgrid	-749	-751	-706	-661	n.a.
Other	-204	-36	175	112	n.a.
<b>Capital - 2016-17 Half-Yearly Review</b>	21,416	20,023	18,917	12,885	n.a.
<b>Policy measures</b>					
New capital works	n.a.	1,526	1,937	2,422	1,713
<b>Parameter and other variations</b>					
Lease of Endeavour Energy	n.a.	-267	-270	-316	-313
Other	437	992	2,228	599	n.a.
<b>Capital - 2017-18 Budget</b>	21,853	22,274	22,812	15,589	12,004

The 2017-18 Budget provides for record State investment in education and health following the announcement of large increases to schools and hospital programs. More than half of the Government's capital program is dedicated to roads and transport funding, sustaining record levels of investment.

The breakdown of capital expenditure by functional sector is shown in Table 1.2 below.

Table 1.2: State capital spending by sector <sup>(a)</sup>

	2017-18 Budget	2018-19	2019-20	2020-21	Four year total	
	\$m	\$m	\$m	\$m	\$m	%
Transport	13,841	14,537	8,340	4,732	41,449	57.0
Health <sup>(b)</sup>	1,547	1,990	2,070	1,533	7,139	9.8
Education and Skills	942	1,314	1,213	1,148	4,616	6.4
Justice	1,994	1,457	515	280	4,247	5.8
Housing	638	682	738	615	2,673	3.7
Electricity <sup>(c)</sup>	518	487	512	450	1,967	2.7
Water	1,390	1,356	969	1,347	5,061	7.0
Venues, Arts and Culture <sup>(d)</sup>	492	383	324	281	1,481	2.0
Other	913	607	909	1,617	4,046	5.6
<b>Total <sup>(e) (f)</sup></b>	22,274	22,812	15,589	12,004	72,680	100

(a) Expenditure only includes Rebuilding NSW projects where a formal commitment has been made. When fully implemented, capital spending is expected to increase in later years.

(b) Health spending on capital is expected to total \$7.7 billion over the four years to 2020-21. Table 1.2 does not include \$149.2 million in 2017-18, \$149.4 million in 2018-19, \$148.3 million in 2019-20 and \$145.7 million in 2020-21 in capital expensing relating to certain expenditure associated with the construction of health capital projects, which fall below the capitalisation threshold and is not classified as capital expenditure under accounting standards.

(c) No longer includes capital expenditure from TransGrid, Ausgrid and Endeavour Energy following the electricity network transactions.

(d) The \$1.6 billion ICC Sydney was completed in December 2016, and is no longer included in the four year total.

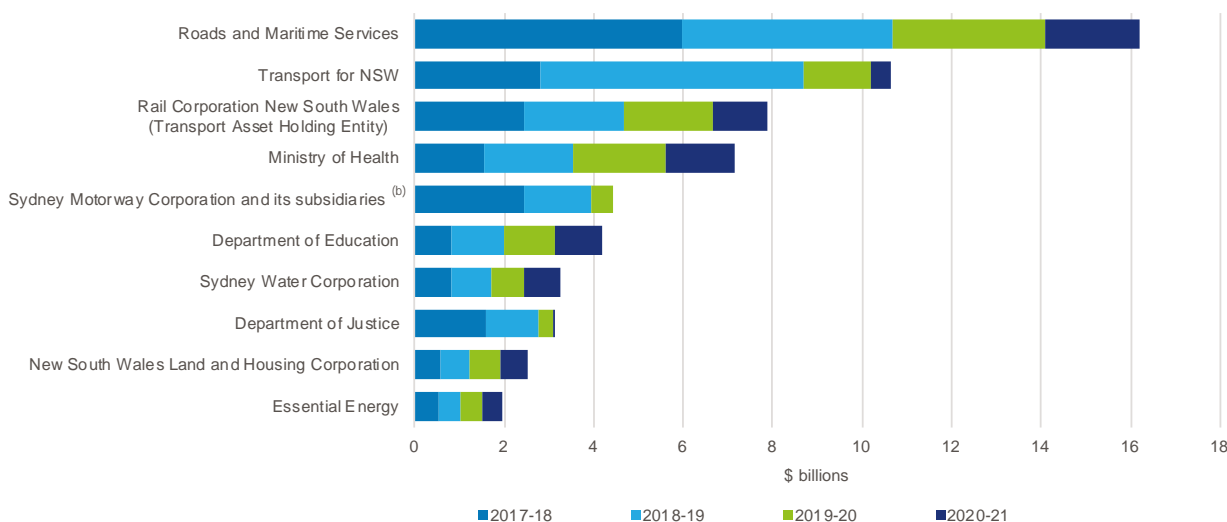
(e) Functional sectors are based on grouping of similar agencies and do not align with the Classification of the Functions of Government - Australia (COFOG-A) classifications published in Budget Paper No.1 *Budget Statement*. "Other" includes investment in family and community services, and general public services.

(f) Spending excludes capital expenditure by public financial corporations.

## 1.3 Capital investment by agency and sector<sup>10</sup>

The ten largest agencies by level of capital investment account for \$61.3 billion, or 84.4 per cent, of the total budgeted investment program over the four years to 2020-21 as shown in Chart 1.3 below.

Chart 1.3: *Distribution of capital investment by agency* <sup>(a) (b)</sup>



(a) This Budget does not include the full impact of the Rebuilding NSW plan.

(b) Sydney Motorway Corporation is delivering the WestConnex project. The capital investment shown in the chart above is funded by a combination of State Government investment, Commonwealth Government investment and private sector investment.

### Building world class health facilities

Health systems are facing growing demand for health services, driven by a growing and ageing population, the increasing prevalence of chronic diseases and the impact of new healthcare technologies. Health Infrastructure, a department in NSW Health responsible for delivering infrastructure, is a key enabler in supporting new models of care, advances in medical technology and increasingly sophisticated treatments.

This Budget invests an additional \$2.8 billion over four years to 2020-21 bringing the total investment over that period to a record \$7.7 billion.<sup>11</sup> This will enable NSW Health to deliver new facilities, upgrades and redevelopments across NSW. It will also ensure commencement of the remaining 2015 election commitments by this Government relating to health infrastructure, as well as continuing to deliver major capital works across the State.

The new major works commencing in 2017-18 include:

- the reconfiguration and expansion of Randwick Hospital Campus (ETC \$720.0 million)
- the Campbelltown Hospital Stage 2, Mental Health and South West paediatric service (ETC \$632.0 million)
- the Nepean Hospital and Integrated Ambulatory Services redevelopment and the Nepean Hospital Car Park (ETC \$576.0 million)

<sup>10</sup> Sectors are based on grouping of similar agencies and do not align with the Classification of the Functions of Government - Australia (COFOG-A) classifications published in Budget Paper No.1 *Budget Statement*.

<sup>11</sup> Includes \$592.6 million over the four years to 2020-21 relating to certain expenditure associated with the construction of health capital projects, which fall below the capitalisation threshold and are classified as recurrent not capital expenditure. Budgeted capital expenditure is \$7.1 billion over four years.

- a new Tweed Hospital on a greenfield site (ETC \$534.1 million)
- the Concord Hospital upgrade (ETC \$341.2 million).

Other new projects announced in the 2017-18 Budget include capital investment in 2017-18 of:

- nearly \$48 million towards redevelopment of rural and regional hospitals at Albury, Coffs Harbour, Cooma, Goulburn, Inverell, Lismore, Shellharbour, Wagga Wagga, and Wyong
- \$36.0 million towards building new hospitals at Macksville, Maitland, and Mudgee
- \$24.0 million towards stage 2 of the Hornsby Hospital redevelopment (including \$4 million for the car park)
- \$15.0 million for a State-wide Mental Health Program and to plan future capital works at Rouse Hill, Griffith, Tumut, Liverpool and St George Hospitals
- \$13.7 million for car parks at Campbelltown, Shoalhaven and St George hospitals
- \$10.0 million towards Phase 2 of the Medical Research Infrastructure Initiatives.

## Investment in more and better schools and skills

A record NSW Government investment of \$4.6 billion has been allocated for capital works in schools and TAFE to 2020-21. This represents a \$1.7 billion, or 56.6 per cent, increase on the four years to 2019-20 included in the 2016-17 Budget. This investment by the NSW Government will accompany the establishment of School Infrastructure NSW, a new specialist unit responsible for the delivery and management of public school infrastructure across the State.

The NSW Government's investment in the 2017-18 Budget in public schools and TAFE NSW includes:

- \$4.2 billion for new and ongoing schools capital works projects over the next four years including:
  - new capital works projects to be commenced by School Infrastructure NSW in 2017-18 and 2018-19 with an estimated total cost of \$2.2 billion over 5 years. This funding is expected to deliver around 90 new school and major upgrade projects to respond to unprecedented forecast enrolment growth in government schools
  - \$849.5 million over four years to finalise major works in progress across the State, including the construction of a new world class high-rise school in inner Sydney, the transformation of Parramatta Public School and Arthur Phillip High School into vertical schools, and new schools in Ballina, Bella Vista, Lindfield, Narellan, Dubbo and Richmond
  - \$392.9 million over four years to finalise the delivery of three new schools and 16 major school upgrades as part of the School Infrastructure Strategy announced in the 2016-17 Budget. This will include new primary schools in North Kellyville and the Drummoyne peninsula, as well as major upgrades to Rutherford Public School, Carlingford Public School, Epping Public School, Wamberal Public School and Belmont High School (in addition to previously announced projects).

- \$410.6 million over four years for investment in TAFE NSW colleges and major technology improvements including:
  - a new student management system to deliver enhanced enrolment and business systems within TAFE NSW
  - new Connected Learning Centres, digitally enabled, next generation learning environments in convenient locations across regional New South Wales, to provide opportunities to learn and train without leaving the community.

## Sustained investment in transport and roads

The State is continuing its focus on transport to meet the needs of a growing population, to ease congestion and to support future economic growth. Over the next 15 years, transport infrastructure will need to support 40 per cent more train trips and 30 per cent more car trips.<sup>12</sup> The Government is aiming to meet these needs through the provision and funding of major transport projects.

Key highlights of initiatives to reduce congestion and freight constraints across both metropolitan and regional areas include:

- delivery of WestConnex Stage 3 with the announcement of the sale of at least a 51.0 per cent stake in Sydney Motorway Corporation, the company delivering WestConnex, and its subsidiaries
- funding committed for the Berry to Bomaderry Upgrade of the Princes Highway.<sup>13</sup> This upgrade will complete a minimum four-lane route between Sydney and Nowra and will improve road safety and traffic efficiency, and acknowledges the heavy reliance on road freight to transport vital goods to and from the New South Wales South Coast
- award of the contract in December 2016 to deliver the key infrastructure to support the delivery of B-Line rapid bus service, including car parks at Mona Vale, Warriewood, Narrabeen and Manly Vale to create over 900 new spaces and 18 new bus stops
- commencement of procurement for a new fleet of trains to replace regional New South Wales' ageing XPTs.

Over the next four years the Government is undertaking \$41.4 billion<sup>14</sup> of major capital works in the transport sector including:

- rail projects including the fully funded Sydney Metro City and Southwest (\$4.9 billion over the Budget and forward estimates period towards the total cost of the project), the Sydney Metro Northwest (\$4.0 billion), New Intercity Fleet (\$1.6 billion), Fixing the Trains Investment (\$45.8 million) and growth trains and network upgrades for the suburban rail network (more than \$1.2 billion over the next four years)
- the CBD and South East Light Rail (\$1.8 billion), planning for the Parramatta Light Rail (\$25.0 million), new buses (\$811.5 million) and funding for Newcastle Light Rail (\$313.4 million)
- Central Walk, a new underground concourse at Central Station (\$48.0 million in 2017-18)

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<sup>12</sup> *New South Wales Government, 2016, Sydney Metro City and Southwest, Final Business Case Summary Sydney, viewed 1 June 2017, <https://www.sydneymetro.info/sites/default/files/Sydney%20Metro%20CSW%20Business%20Case%20Summary.pdf>*

<sup>13</sup> Amount is commercial-in-confidence.

<sup>14</sup> Excludes government funding reservations from Restart NSW and Rebuilding NSW.

- major upgrades for vital link roads, including Princes Highway (\$789.9 million), Western Sydney Growth Roads (\$422.2 million), Great Western Highway and Bells Line of Road (\$62.4 million) and completion of the duplication of Pacific Highway<sup>15</sup>
- development funding of \$103.0 million in 2017-18 for Western Harbour Tunnel and Beaches Link
- Western Sydney roads to support Sydney's second airport at Badgerys Creek (\$1.9 billion)
- the Fixing Country Roads, Regional Growth Roads, Regional Growth Roads Freight Corridors and Bridges for the Bush Programs (\$1.7 billion allocated in this Budget) to fund road and bridge upgrades in rural and regional areas<sup>16</sup>
- the Transport Access Program (\$716.9 million) to provide a better experience for public transport customers by delivering accessible, modern, secure and integrated transport infrastructure
- B-Line (\$301.4 million) to deliver faster, more reliable bus journeys
- planning and geotechnical study funding of \$15.0 million for the F6.

In addition, the State Government will contribute approximately \$463.4 million to the \$3.0 billion NorthConnex project, which will link the M1 and M2 motorways.

## Social infrastructure

Investment in family and community services, and social housing in the four years to 2020-21 includes:

- \$2.7 billion for social housing projects including \$1.7 billion towards capital works for social housing
- the NSW Government has also provided \$1.1 billion for the Social and Affordable Housing Fund. The Fund supports the private and not-for-profit sector to deliver homes and integrated support coordination for social and affordable housing tenants. In the Fund's first phase, service providers will deliver an additional 2,200 social and affordable homes
- \$203.4 million in the remainder of the Family and Community Services Cluster includes child protection IT system improvements, works on accommodation for people with a disability (including large residential centre redevelopments), office relocation and centralisation projects and language services infrastructure.

## Investing in culture and sport

The Budget includes additional spending on culture and sports including:

- \$160.5 million in 2017-18 to continue the construction of the Western Sydney Stadium in Parramatta, including seating for 30,000 people, five levels of corporate and function spaces, and advanced technology including Wi-Fi to provide for a world class spectator experience
- funding reserved for the Regional Sports Infrastructure program under the \$1.0 billion Regional Growth: Economic Activation Fund
- \$244.3 million over five years for Sydney Modern to transform the Art Gallery of NSW into a global art museum<sup>17</sup>
- \$190.0 million over four years for the Sydney Opera House renewal program

<sup>15</sup> The Commonwealth Government will contribute up to \$5.64 billion from 2013-14. The NSW Government is contributing \$364.5 million in 2017-18.

<sup>16</sup> Includes grants to local councils, which are classified as recurrent not capital spending.

<sup>17</sup> The Gallery is also anticipating significant contributions from private donors.

- \$67.9 million over three years for the construction of new and upgraded production, studio, rehearsal and performance venues at the Walsh Bay Arts Precinct
- \$100.0 million over four years for a Regional Cultural Fund.

### **Box 1.9: Sydney Modern Project**

The Sydney Modern Project represents a once-in-a-generation opportunity to transform the Art Gallery of NSW into a global art museum for a global city. Realisation of the project will significantly increase exhibition space, which will enable New South Wales to host more major international exhibitions and increase the ability to share the Gallery's extraordinary art collection.

The Sydney Modern Project will enhance the Gallery's digital capability to offer interactive experiences for visitors and display new digital art forms.

The Government has committed \$244.3 million in funding over five years for the project. The project is in addition to significant funding for other cultural assets including the Sydney Opera House: Stage 1 Renewal project (refer to Box 3.6), and the \$100.0 million Regional Cultural Fund.

## **Investment in the criminal justice system**

Continued investment to strengthen the criminal justice system including:

- \$41.7 million in 2017-18 to build new or refurbish police stations across the State
- \$8.5 million in 2017-18 to continue providing additional court facility capacity in Parramatta and the Downing Centre
- continued investment in the Prison Bed Capacity Program, which commenced in 2016-17 with an allocation of \$3.8 billion over the four years to 2019-20.<sup>18</sup> This investment includes two rapid-build prisons
- the Grafton Correctional Centre public-private partnership.

## **Water utilities investment**

Capital investment for water and waste water programs in the four years to 2020-21 totals \$5.0 billion and includes:

- growth works to service urban development across Sydney, the Illawarra, the Hunter and the Blue Mountains and upgrades for dams, fishways and reservoirs
- the Broken Hill Water Pipeline to secure the water supply of Broken Hill. WaterNSW will build, own and operate a 270km pipeline from the Murray River at Wentworth to Essential Water's water filtration plant in Broken Hill by December 2018
- the Sydney Water information technology project CxP costing \$156.0 million. CxP will be a single enterprise solution for customer interactions that is quicker and more reliable and will deliver a new billing and customer management system. The new system will provide a platform for future customer service enhancements and more efficient processes.

Further details on the major projects listed above are included in the *State Infrastructure Plan* in Chapter 4 of this *Infrastructure Statement*.

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<sup>18</sup> The capital component of the \$3.8 billion program is \$2.4 billion.

## 1.4 Regional capital program

The NSW Government is supporting the regions by investing in social and economic infrastructure.

The regional capital program across New South Wales is significant. The Government is committed to 30 per cent of all Restart NSW spending going to regional projects. Of the \$20 billion Rebuilding NSW plan, \$6.0 billion is targeted for regional areas (refer to Chapter 3).

Major funding for regional projects in the 2017-18 Budget from Restart NSW includes:<sup>19</sup>

- \$1.0 billion reserved for the Regional Growth: Economic Activation Fund including:
  - Growing Local Economies
  - Regional Sports Infrastructure
  - Connecting Country Communities
  - Resources for Regions.
- \$1.0 billion of the Rebuilding NSW plan designated for the Safe and Secure Water program<sup>20</sup>
- \$582.5 million for the Regional Road Freight Corridor program
- \$341.3 million for the Regional Growth Roads program
- \$300.0 million for a Regional Growth: Environment and Tourism Fund<sup>21</sup>
- \$107.1 million for the Regional Waste Water and Backlog Water program
- \$38.6 million for the Bridges for the Bush program
- \$5.1 million for the Fixing Country Roads program.

There is also substantial investment occurring outside of Restart NSW in the 2017-18 Budget, including:

- \$200.0 million for a Stronger Country Communities Fund
- \$100.0 million for a Regional Cultural Fund
- significant health infrastructure projects across regional NSW including:
  - Tweed Hospital Redevelopment (ETC \$534.1 million)
  - New Maitland Hospital (ETC \$450.0 million)
  - Shellharbour Hospital Redevelopment Stage 1 (ETC \$250.6 million)
  - Wyong Hospital Redevelopment Stage 1 (ETC \$200.0 million)
  - Wagga Wagga Hospital Redevelopment Stage 3 (ETC \$170.0 million)
  - Coffs Harbour Hospital Expansion (ETC \$156.0 million)
  - Goulburn Hospital Redevelopment (ETC \$120.0 million)
  - Mudgee Hospital Redevelopment (ETC \$70.2 million)
  - Lismore Hospital Redevelopment Stage 3C (ETC \$52.5 million)
  - Macksville Hospital Redevelopment (ETC \$73.0 million)

<sup>19</sup> Amounts are additional commitments or reservations since the 2016-17 Budget.

<sup>20</sup> The Safe and Secure Water program repurposes the \$1.0 billion Rebuilding NSW Regional Water Security and Supply Fund, including the existing commitment to the Broken Hill Water Supply project, which is commercial-in-confidence.

<sup>21</sup> To date, \$24.4 million has been committed from Restart NSW with the balance reserved.

- Inverell Hospital Redevelopment (ETC \$30.0 million)
- Albury Base Hospital Emergency Department Expansion (ETC \$30.0 million)
- Cooma Hospital Redevelopment (ETC \$10.0 million).
- significant school projects across regional NSW including upgrades at:<sup>22</sup>
  - Rutherford Public School
  - Ballina High School (new school)
  - Belmont High School
  - Dubbo Networked Specialist School (new school)
  - Wamberal Public School.
- continuing major regional transport investments led by \$1.5 billion in 2017-18 to upgrade the Pacific Highway, as well as focussed investments that directly benefit local communities, for example:
  - Barton Highway Improvements (partially Commonwealth funded)
  - Kings Highway, Replacement Bridge at Nelligen (Planning)
  - Sportsman Creek Replacement Bridge (ETC \$29.0 million)
  - commencement of procurement to replace regional XPTs.

In addition to these investments, in March 2017 the Government appointed retired Lieutenant General Ken Gillespie as Regional Infrastructure Coordinator to advise the Government on how to deliver key local infrastructure projects with a focus on the regions.

## 1.5 Funding of the capital program

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The capital program can be divided into three broad categories based on funding source:

- the State funded program, including expenditure in the general government sector, public transport PNFCs, Restart NSW (including Rebuilding NSW), Darling Harbour Live, the Broken Hill Water Pipeline and the State funded contribution to WestConnex
- the Commonwealth Government funded program sourced from grants to New South Wales, including for major road projects and social housing, and through the Asset Recycling Initiative
- the commercial PNFC program funded by its own sources including borrowings and retained revenues.

### State funding remains strong

The State funded program, including funding from Restart NSW, is \$53.6 billion over the four years to 2020-21. Chart 1.4 shows the growth in the State funded capital investment program since 2009-10. The program increases to an average of \$13.4 billion per annum over the four years to 2020-21, 31.2 per cent higher than the four years to 2016-17 and 102.9 per cent higher than the four years to 2012-13.

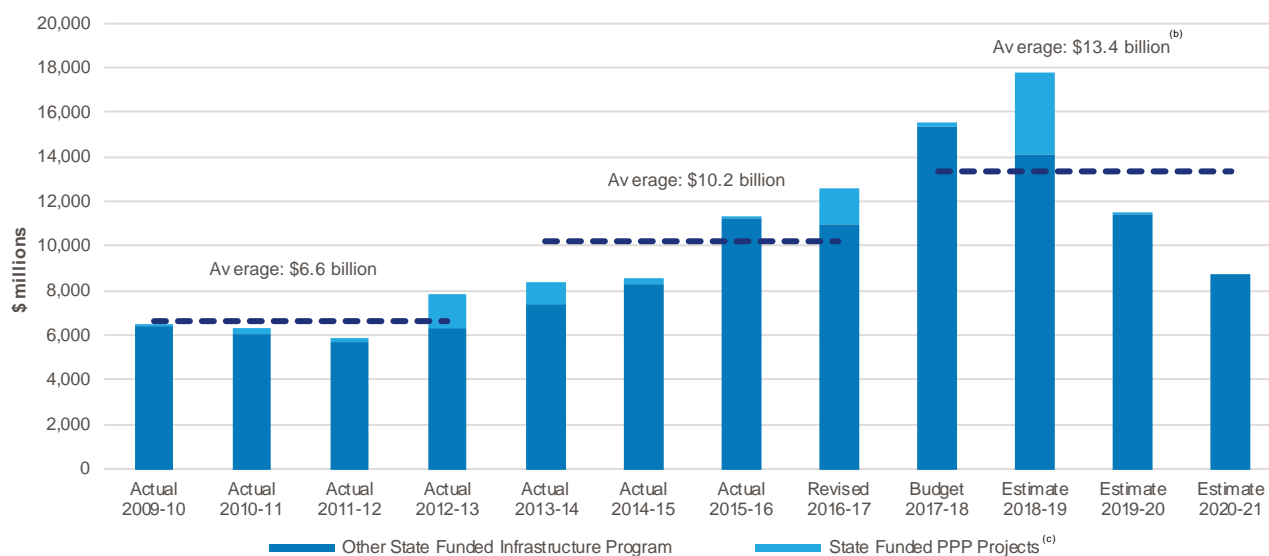
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<sup>22</sup> Funding amounts for schools is commercial-in-confidence.



The increase in capital expenditure over the four years to 2020-21 is driven by spending on major transport projects such as Sydney Metro City and Southwest, WestConnex, Sydney Metro Northwest and CBD and South East Light Rail, as well as regional roads programs funded from Restart NSW.

Chart 1.4: State funded capital expenditure program <sup>(a)</sup>

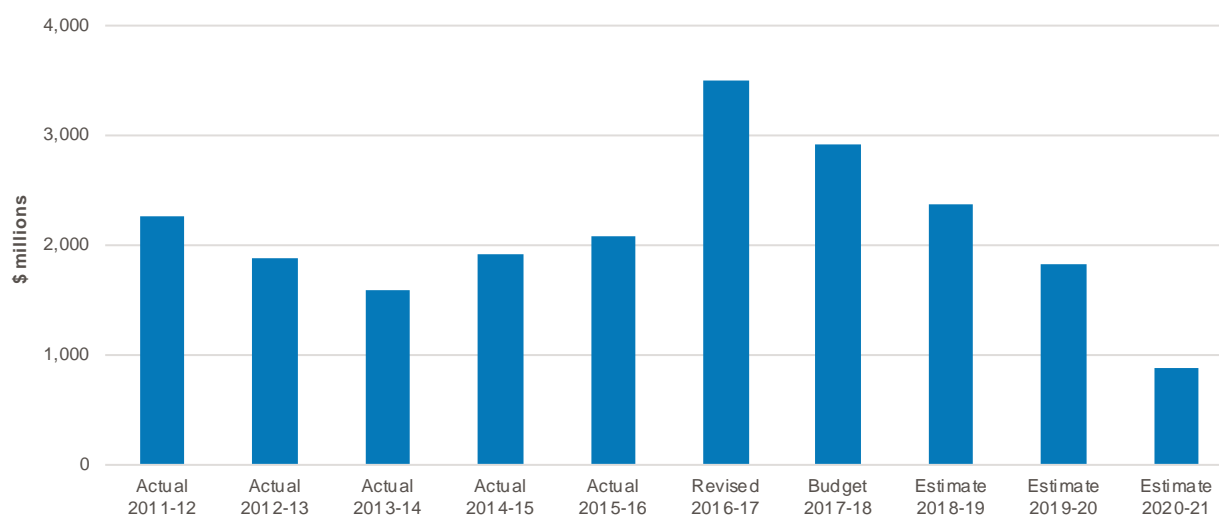


- (a) The State funded capital program includes expenditure in the general government sector, public transport PNFs, Darling Harbour Live, the Broken Hill Water Pipeline and the State funded contribution to WestConnex.
- (b) Does not include Restart NSW reservations being considered by Infrastructure NSW before commitments are made, which will result in significant increases in later years.
- (c) Public-private partnership (PPP) projects in 2018-19, include Sydney Metro Northwest, Northern Beaches Hospital and CBD and South East Light Rail.

## Commonwealth Government funding

The Commonwealth Government will contribute \$8.0 billion to the New South Wales capital investment program over the four years to 2020-21. Chart 1.5 shows the Commonwealth Government contribution to the capital program over the years 2011-12 to 2020-21. This does not include Commonwealth Asset Recycling Initiative payments not yet received. Commonwealth Government-funded expenditure will account for around 11.0 per cent of the State's infrastructure program in the four years to 2020-21.

Chart 1.5: Commonwealth Government contribution to State capital expenditure program



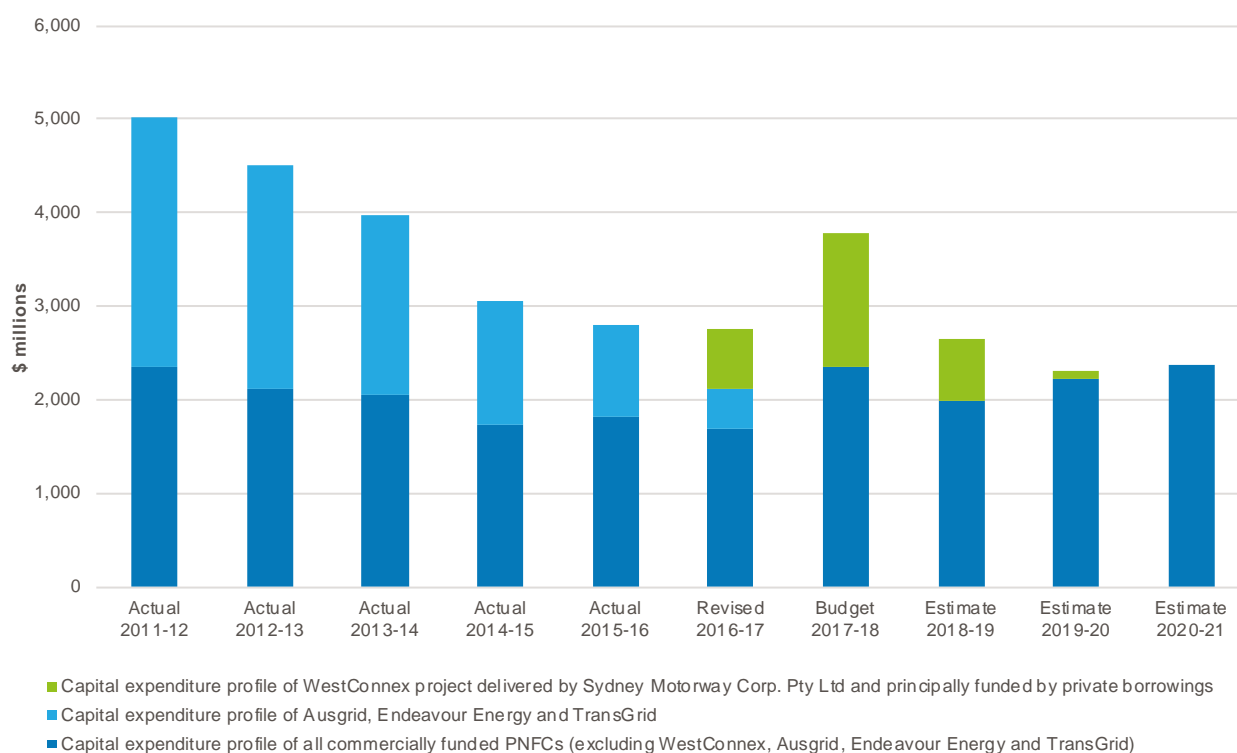
## PNFC capital investment funding

PNFC capital investment expenditure<sup>23</sup> will total \$11.1 billion over the four years to 2020-21. TransGrid, Ausgrid and Endeavour Energy are no longer included in the NSW Government's capital investment program following the successful electricity network transactions.

Chart 1.6 shows that the PNFC funded capital program between 2011-12 and 2015-16 moderated. This is in part due to the divestment of Government businesses, principally ports and electricity generation. Also contributing to the decline is the Government's strategy, announced in the 2012-13 Budget, to reduce electricity sector investment at a time of reduced demand, relieving pressure on consumer electricity prices.

The increase in expenditure from 2016-17 onwards reflects spending on the delivery of WestConnex.

Chart 1.6: PNFC own funded capital investment program <sup>(a) (b)</sup>



- (a) The PNFC funded capital program excludes general government funded capital expenditure, public transport, Commonwealth contributions to social housing, Darling Harbour Live, the Broken Hill Water Pipeline and WestConnex capital expenditure funded through the budget.
- (b) The chart splits out the capital investment program of Ausgrid and Endeavour Energy, which from 2017-18 no longer form part of the Government's capital expenditure program as well as TransGrid, which was part of the program until 2016-17.

<sup>23</sup> Excluding public transport, Darling Harbour Live, the Broken Hill Water Pipeline and Government funding for WestConnex, and social housing, which is Commonwealth funded

## 1.6 Existing assets and maintenance program

### Existing assets

The State's physical assets comprise land and buildings, plant and equipment and infrastructure systems. Key assets include hospitals, public schools, transport networks, police and court facilities, TAFE NSW facilities, public housing and recreational facilities, as well as water storage and supply networks, electricity transmission and distribution networks and roads. Physical assets exclude inventories, intangibles and assets held for sale.

Table 1.3 shows that the State's physical assets across both the general government and PNFC sectors had a value of \$304.7 billion in June 2016. The State's physical assets are estimated to have a value of around \$306.9 billion in June 2017.

Table 1.3: State owned physical assets: value by sector <sup>(a)(b)</sup>

As at 30 June	2014 Actual	2015 Actual	2016 Actual	2017 Revised	2018 Budget
	\$m	\$m	\$m	\$m	\$m
General Government Sector	148,010	158,340	164,414	173,792	185,997
Public Non-Financial Corporations <sup>(c)</sup>	126,994	134,629	140,303	132,779	139,252
<b>Total <sup>(c)(d)</sup></b>	<b>275,005</b>	<b>292,969</b>	<b>304,717</b>	<b>306,915</b>	<b>325,280</b>

(a) Net of depreciation.

(b) Includes investment properties.

(c) Includes assets of businesses prior to their sale or lease.

(d) Consolidated total may not equal the sum of the individual sectors due to differences in classification between the individual sectors, and the consolidated sector.

Chart 1.7 shows the components of the State's physical assets. The largest component of these assets in June 2016 was infrastructure systems (\$151.5 billion) which includes railways, roads, ports, dams and pipelines. The remaining components comprised buildings (\$73.8 billion), land (\$62.2 billion) and plant and equipment (\$17.3 billion). The land component value of physical assets has been separated from buildings providing a clear distinction between built and non-built infrastructure.

Chart 1.7: State owned physical assets: value by type, as at 30 June 2016

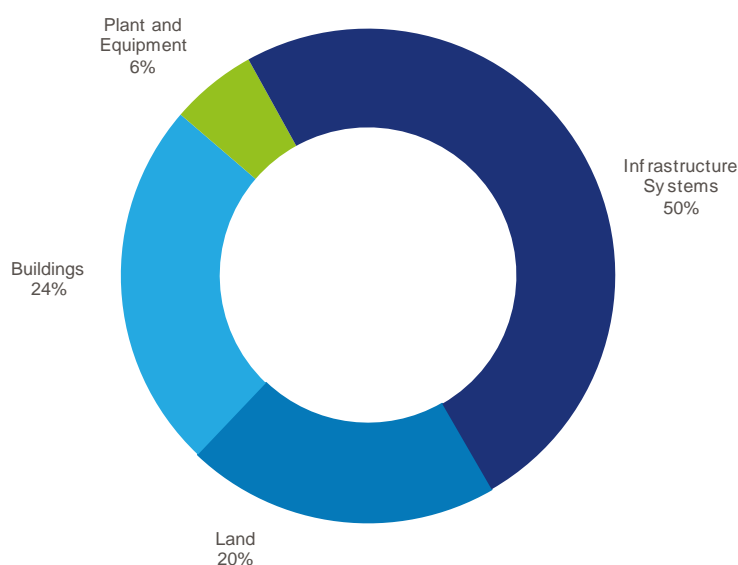
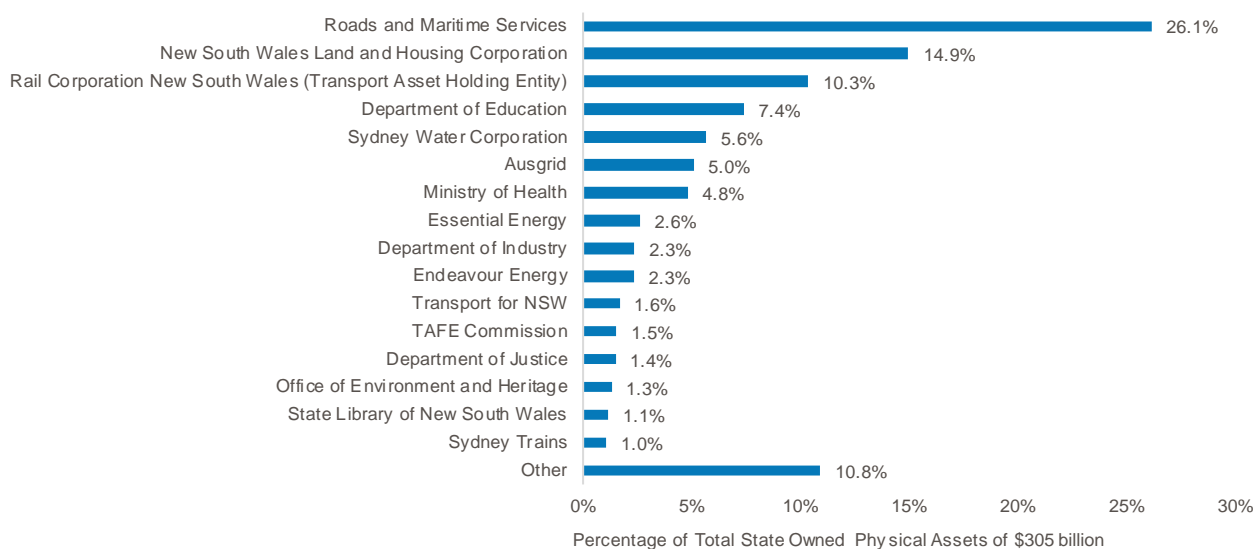


Chart 1.8 shows the agency distribution of the State's physical assets. The chart demonstrates that assets are concentrated in transport, housing, education, water, electricity and health, comprising 89.2 per cent of the State's physical assets. Ausgrid and Endeavour were still included as part of State owned physical assets as at 30 June 2016, prior to the completion of the partial lease transactions in December 2016 and June 2017 respectively.

Chart 1.8: Distribution of physical assets by agency as at 30 June 2016 <sup>(a)</sup>



(a) Where applicable, agency names in the chart have been adjusted to take into account changes to reporting entities as a result of the *Administrative Arrangements (Administrative Changes - Public Service Agencies) Order 2017* effective 1 April 2017.

## Infrastructure maintenance

Agencies must ensure their infrastructure continues to support the planned delivery of services and therefore is adequately maintained.

Treasury guidelines require direct employee, contractor and external costs on infrastructure maintenance activities to be reported as part of an agency's maintenance expenditure. Table 1.4 shows the maintenance expenditure estimates for the general government and PNFC sectors.

Table 1.4: Maintenance expenses

	2016-17		2017-18	2018-19	2019-20 <sup>(a)</sup>	2020-21 <sup>(a)</sup>
	Budget	Revised	Budget	Forward estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
General Government Sector	1,976	2,001	2,198	1,918	1,976	2,124
Public Non-Financial Corporation Sector	2,261	2,183	2,210	2,201	2,275	2,245
<b>Total</b>	<b>4,223</b>	<b>4,165</b>	<b>4,393</b>	<b>4,104</b>	<b>4,236</b>	<b>4,353</b>

- (a) The maintenance expenditure profile over the budget and forward estimates reflects the Government's allocation of \$747.4 million over the next four years to address maintenance in schools.
- (b) Total spending may not equal the total of general government and PNFC expenditure due to intra-sector purchases.