

1. BUDGET OVERVIEW

1.1 Delivering on our promises, maintaining budget discipline

After being re-elected for a third term in March 2019, the NSW Government is getting on with the job of building a better New South Wales for communities across the State.

The 2019-20 Budget continues the Government's legacy of strong financial management, delivering its election commitments, making unprecedented investments in frontline services and infrastructure, easing the cost of living for families and cutting taxes. At the same time, the Government is also laying the foundations for a stronger economic and financial future.

The Budget delivers sustainable operating surpluses – averaging \$1.7 billion per annum over the next four years. New South Wales continues to have the lowest net debt in Australia, projected to be negative \$8.8 billion at June 2019. The State is now one of only five sub-national jurisdictions around the world to have the highest possible credit rating, rated triple-A by both major credit ratings agencies.

Families and communities across New South Wales are seeing tangible benefits following eight years of Government fiscal discipline, as the proceeds of the Government's successful asset recycling program bear fruit in the form of new transformational infrastructure like North West Metro, which opened in May this year. The 2019-20 Budget builds on this momentum by projecting the largest infrastructure program in the State's history at \$93.0 billion over the next four years.

This once-in-a-generation infrastructure program includes continued construction of new and upgraded schools and hospitals on a historic scale. The Government is also making record levels of investment in rural and regional areas, including replacing country bridges, repairing local roads and investing in regional water security, to create new and better economic opportunities in our regions.

Through careful management and ongoing discipline, the infrastructure program is being rolled out without burdening future generations with excessive debt, while also steadily increasing the value of the overall asset base owned by the people of New South Wales. The State's net worth has surpassed a quarter of a trillion dollars, the highest of any Australian state, and continues to grow towards one third of a trillion dollars by June 2023.

This Budget also ensures the people of New South Wales will benefit from exceptional services, no matter where they live or what their circumstances. A massive increase in frontline personnel includes 4,600 extra teachers, 5,000 extra nurses and midwives and 1,500 more police.

This Budget delivers much needed drought assistance to help communities across regional New South Wales.

Households will benefit from more cost saving measures like doubling the \$100 Active Kids Rebate voucher and the new \$50 weekly Opal Travel cap. The Government's commitment to reducing the cost of living means the Budget invests in better services and world-class infrastructure without increasing taxes or imposing new fees or charges.

Despite a period of exceptional growth, the New South Wales economy is not immune to the global and local headwinds affecting the nation as a whole. A moderating housing market has resulted in revisions to revenue forecasts, as has the recent announcement by the Commonwealth Government of reductions in forecast GST receipts. Significant drought conditions continue to impact the State, especially regional communities. This Budget responds to these fiscal pressures by maintaining responsible levels of public expenditure and reinforcing the State's strong fiscal foundations to ensure New South Wales remains well placed to manage future economic headwinds and revenue volatility.

This Budget further advances expenditure and balance sheet reforms already underway, while also opening new avenues of economic and revenue reform. In doing so, the Government continues to lay foundations for a stronger future for our State and its people.

This Budget introduces a four pillar strategy to ensure a sustainable fiscal and economic future for New South Wales:

- the NSW Economic Blueprint – a roadmap to deliver the next wave of state economic growth, identifying emerging opportunities and a pathway to capitalise on them
- the NSW Generations Fund (NGF) – an innovative approach to balance sheet reform that helps maintain debt at sustainable levels consistent with a triple-A credit rating and helps lower the debt burden for future generations
- a Review of Federal Financial Relations from a state perspective – an independent panel will provide the people of our State with options to give New South Wales more autonomy and flexibility in federal financial relations, while making the State's taxes lower, simpler and fairer
- driving outcome budgeting across Government – outcome budgeting widens the spotlight during decision making. It is not just the finances that matter, but how success will be tracked and how citizens will be kept informed throughout delivery.

1.2 Economic outlook – returning to trend by 2020-21

The New South Wales economy has shown exceptional strength in recent years. It has outperformed – both in the number of jobs created and in the State's contribution to national growth since 2013-14. Solid economic fundamentals and a wave of policy stimulus should see the State's economy continue to perform well, despite near-term challenges.

New South Wales has had the lowest unemployment rate of all the states over the last 12 months and employment growth has stayed well above average. These conditions have facilitated the State's highest ever workforce participation rate, particularly boosted by female participation.

However, some risks (especially those related to the global and national economy) have either intensified in recent months or are starting to be realised. Solid conditions in the labour market and the Government's record infrastructure program means the New South Wales economy is in an advantageous position to manage headwinds to growth.

For the financial year about to end (2018-19) and the year ahead (2019-20) growth in real gross state product is expected to dip slightly below trend, at 2¼ per cent per annum. However, there is a stronger outlook further ahead (see Chart 1.1)¹. Government initiatives are making a valuable contribution to this comparatively strong outlook, supporting jobs and helping to partially offset headwinds from the household sector.

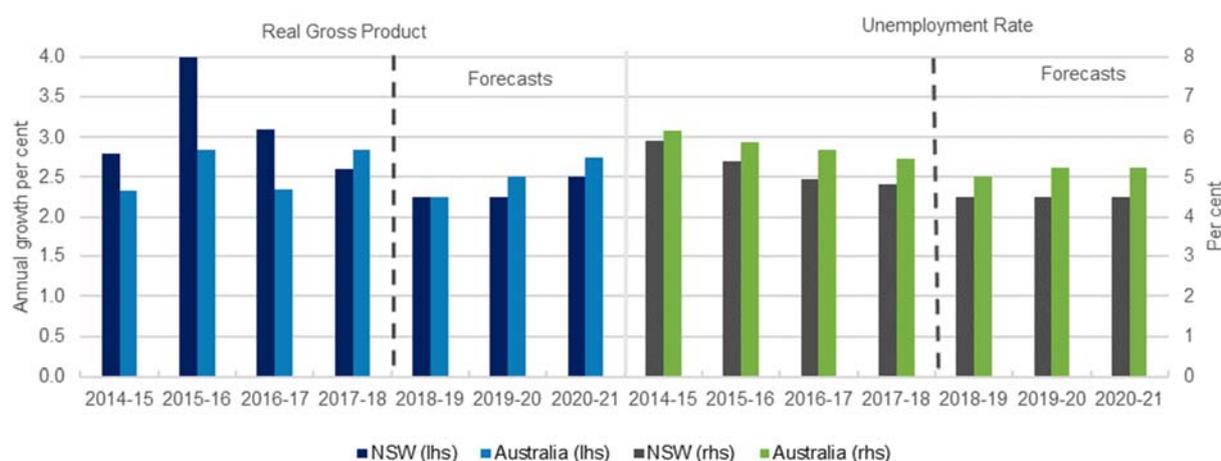
¹ Trend economic growth is projected at 2½ per cent a year over the medium term driven by the supply capacity of the economy.

Underpinned by the Government's record infrastructure program, public investment is expected to contribute ½ a percentage point a year to economic growth this year and over the next two years, which is around five times its historical average.

Conditions in the household sector are expected to improve by mid-2020, particularly as stimulus measures (including income tax cuts and lower interest rates), stronger wages growth and improved housing market conditions drive a consumer-led recovery. When added to a recovery in the rural sector, strength in the non-residential construction sector and above-trend population growth, the economy is forecast to experience a return to trend growth by 2020-21.

Following a period of near-term weakness, external demand conditions are expected to improve as the national and global economies strengthen. This will help to stimulate demand for the State's exports and provide a more favourable environment for local businesses to hire and invest.

Chart 1.1: Economic growth returning to trend and the labour market to remain tight



Source: ABS 5220.0, 6202.0 and NSW Treasury

1.3 Strong fiscal discipline without raising taxes

The 2019-20 Budget is underpinned by strong financial management and fiscal responsibility. It forecasts average budget surpluses of \$1.7 billion over the budget and forward estimates.

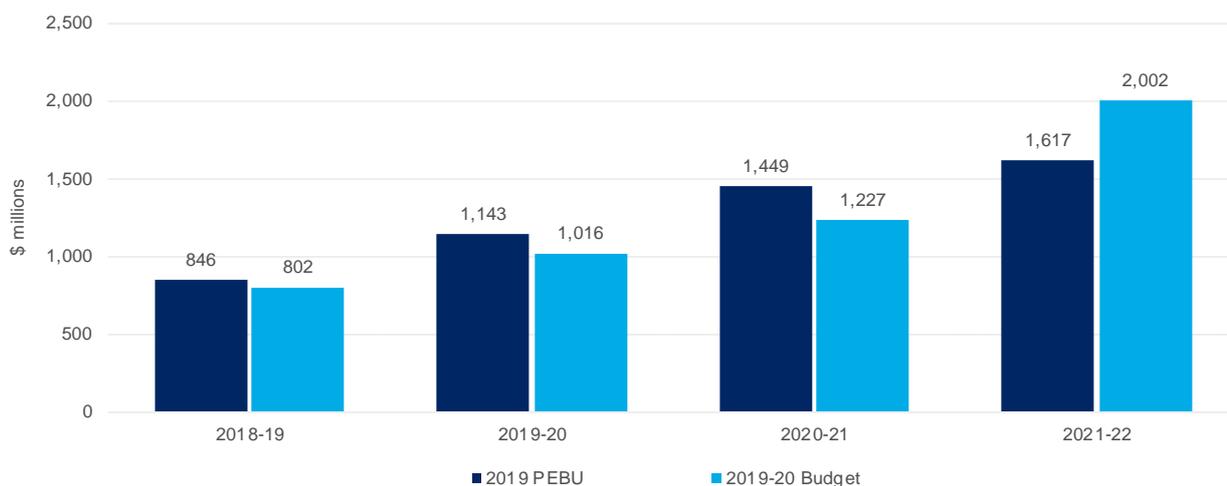
Table 1.1: Key general government sector 2019-20 Budget aggregates

	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22 Forward Estimates	2022-23 Forward Estimates
Budget Result (\$m)	802	1,016	1,227	2,002	2,599
Per cent of GSP	0.1	0.2	0.2	0.3	0.3
Capital expenditure (\$m)	17,864	22,345	17,750	17,247	14,349
Per cent of GSP	2.9	3.4	2.6	2.4	1.9
Net debt (\$m)	(8,818)	12,354	22,973	32,884	38,640
Per cent of GSP	(1.4)	1.9	3.4	4.6	5.2
Net worth (\$m)	262,022	266,946	280,816	293,500	311,013
Per cent of GSP	41.8	41.1	41.4	41.3	41.7

Budget surpluses are being maintained despite the State facing revenue pressures. This Budget sees the Government continue to manage transfer duty pressures, with a further write-down of \$232 million over the four years to 2021-22, having already written down more than \$10 billion since the 2017-18 Budget.

The impact of these transfer duty revisions has been compounded by revisions to the State's GST revenue, which has been revised down by \$2.3 billion across the four years to 2021-22 since the 2019 Pre-election Budget Update. This was largely a result of the 2019-20 Commonwealth Budget and its revision of the forecast national GST pool.

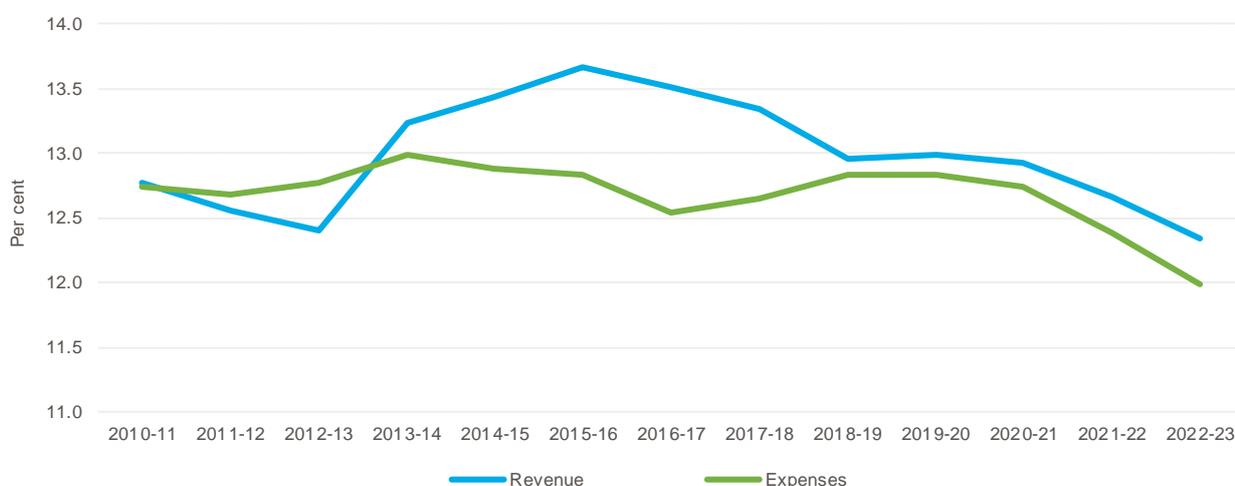
Chart 1.2: Budget result: 2019-20 Budget compared to the 2019 Pre-election Budget Update



Despite these fiscal challenges, the 2019-20 Budget delivers the NSW Government's election commitments. The investment in this Budget spans health, education, transport, drought relief and cost of living relief – all done without raising any State taxes.

Much of this investment will be in front-line services, with more teachers, police and nurses added to improve services. Meanwhile, this Budget continues the Government's focus on efficient use of taxpayer resources. This discipline will enable the Government to keep expenses in line with expected revenue (see Chart 1.3).

Chart 1.3: General government revenues and expenses as a share of GSP



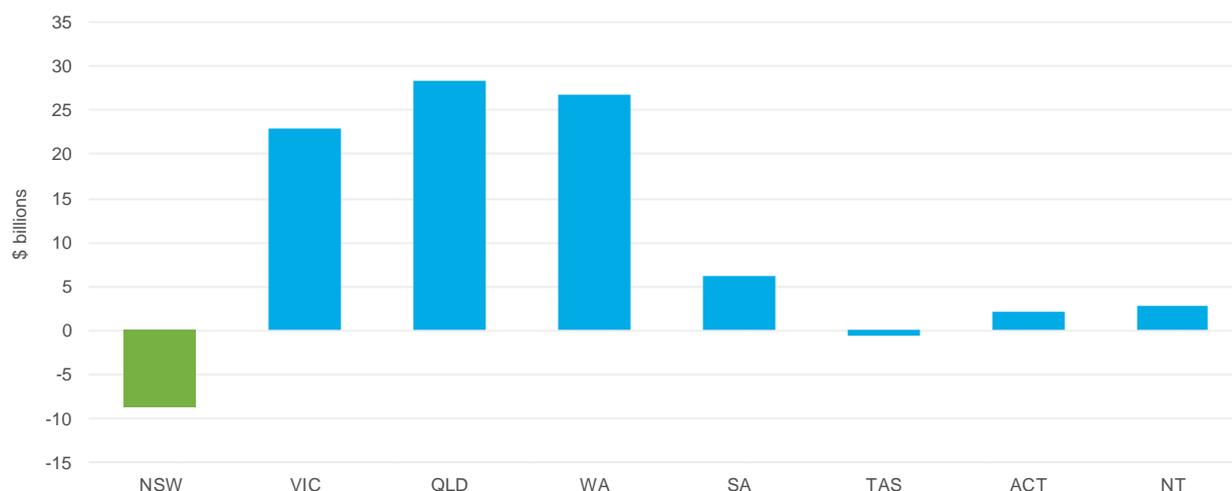
This Budget continues the Government's record investment in infrastructure which will allow people to get home to their families sooner, while also providing state of the art hospitals and schools. This has been supported by the Government's successful asset recycling strategy, which has funded much needed infrastructure across metropolitan and regional New South Wales, with many projects reaching completion and delivering benefits to the community.

Through its sound financial management, the Government is on track to deliver ongoing budget surpluses, a once-in-a-generation infrastructure program and sustainable debt levels.

The State's balance sheet is strong. A fourth consecutive year of negative net debt (negative \$8.8 billion) is projected for June 2019. This result is \$852 million better than projected in the 2019 Pre-election Budget Update, driven by better than anticipated financial asset returns. From 1 July 2019 the new Australian accounting standard, AASB 16 *Leases*, comes into effect. It impacts all Australian Governments and will negatively impact the State's net debt by \$3.2 billion at June 2023 – see Box 6.1 in Chapter 6 for more detail.

New South Wales' net debt at June 2019 is the lowest of all states and territories (see Chart 1.4). Across the four years to June 2023, net debt is forecast to increase as the Government continues its record infrastructure program. However, by using asset recycling proceeds and budget surpluses to fund investment, the Government is able to ensure its borrowings remain at sustainable levels.

Chart 1.4: *General government net debt compared to other States and Territories, as at June 2019^{(a)(b)}*



(a) Queensland's reported net debt is adjusted for its superannuation asset treatment, making comparisons consistent across all jurisdictions.

(b) South Australia shown as at 2018-19 Mid-Year Budget Review, all other jurisdictions are shown as at 2019-20 Budget.

The State's net worth is forecast to reach \$311.0 billion by the end of June 2023 driven by balance sheet reform and the use of budget surpluses and asset recycling to fund new infrastructure investment.

1.4 The NSW Generations Fund

As the Government invests the proceeds of asset recycling into its record infrastructure program, it is also setting the State up for the future with the NGF.

One year on – the NSW Generations Fund is up and running

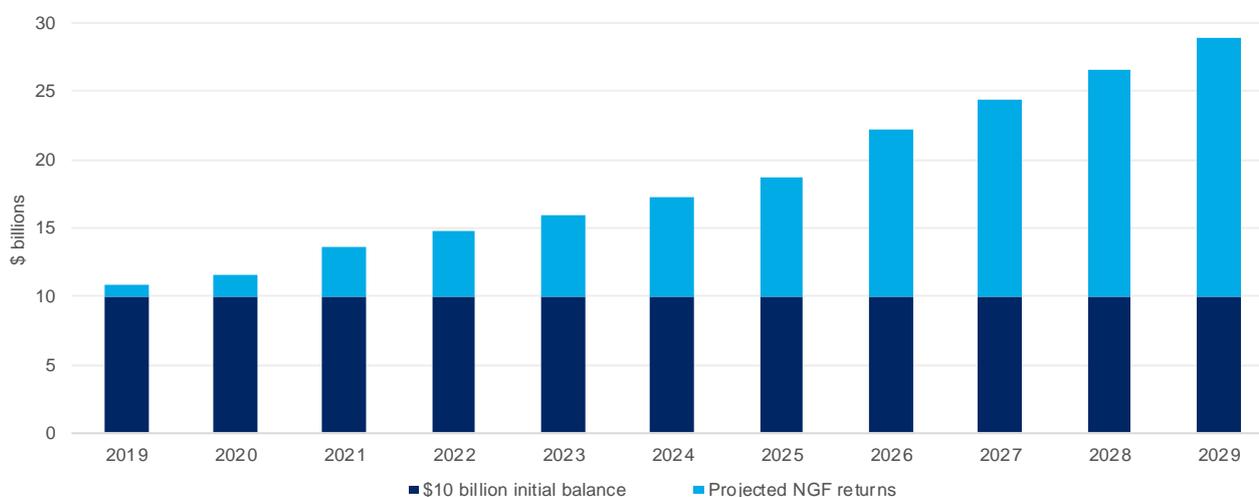
In late 2018, the State deposited \$10 billion into the NGF. The NGF Board convened for the first time in August 2018 and has overseen formation of the NGF's investment strategy and initial deployment into financial markets by the State's funds management arm, NSW Treasury Corporation (TCorp).

The NGF's investment strategy (i.e. the mix of assets it is invested in) is aligned to its long-term investment objective of returns of 4.5 per cent above inflation. Guided by the NGF Board, the Fund has invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure assets.

Investment performance has been well above expectations, resulting in a fund value of \$10.8 billion five months in. The NGF is projected to grow to more than \$28 billion by June 2029, helping further strengthen the State's balance sheet (see Chart 1.5).

The *NSW Generations Funds Act 2018* safeguards these assets for debt retirement. Both major credit ratings agencies (Moody's and S&P Global) have confirmed their recognition of the NGF as an offset to the State's debt. This allows the NGF to support the triple-A credit rating in a way that the State's other investment funds cannot.

Chart 1.5: The projected NGF balance is growing over the next 10 years ^(a)



(a) Projected NGF returns also include distributions from NGF equity interests.

As the NGF grows, it also delivers for today's communities through the My Community Project initiative. Over 1,850 applications have been received, with community members able to vote online for their preferred project from July this year. This innovative approach will allow communities to have a direct say in the projects that get delivered in their local area.

1.5 Delivering the Government's priorities for everyone

The 2019-20 Budget delivers on the Government's priorities, including its suite of election commitments. This is the budget that brings everything together and focuses on delivering for everyone in the community, whether you're a commuter on your way home from work, a family with school-aged children, a farmer in regional or rural New South Wales, a business owner, or someone who needs a helping hand.

Building a better New South Wales

The 2019-20 Budget continues the Government's program to build a better New South Wales. The Government's election commitments deliver new rail and road that will make it easier for people to get to their homes and their families. To support the State's economy and to provide the best possible services to the people of New South Wales, the Government is also embarking on a record investment program in schools and hospitals.

- **Sydney Metro City and Southwest** is planned to open in 2024 with twin 15.5 kilometre tunnels from Chatswood to Sydenham. It will deliver high-frequency services to new metro stations at Crows Nest, Victoria Cross, Barangaroo, Martin Place, Pitt Street and Waterloo. It will also deliver connections to the existing rail network.
- **Sydney Metro West** will be a game-changer for Western Sydney, doubling rail capacity through an underground metro railway line and providing a faster, easier and more reliable journey between Sydney CBD and Greater Parramatta (through Olympic Park and the Bays Precinct) with a journey time of around 20 minutes. It will begin construction in 2020 with services scheduled to start in the second half of the 2020s.
- **North South Metro Rail Link - Stage 1** will connect passengers and employees from St Marys (connecting to the existing T1 Western train line) to the Western Sydney Aerotropolis via Western Sydney International (Nancy-Bird Walton) Airport. This will provide a fast, continuous service with fully-automated driverless trains like the rest of the Sydney Metro system. The Commonwealth and New South Wales governments have a shared objective of having the metro operational in 2026 when the Western Sydney Airport is scheduled to open.

The Government is building world-class education infrastructure. In this Budget, the Government's total investment in school infrastructure is \$6.7 billion over the next four years. This includes \$917.4 million to **build eight new schools** and significantly **upgrade a further 32 schools**. In addition, the Government is providing \$500 million over four years to support non-government schools to build, extend or upgrade their facilities.

Vocational education and training infrastructure is getting much-needed investment with:

- \$79.6 million over four years to deliver the **new TAFE Western Sydney Construction Hub** located close to the Western Sydney Airport
- a further \$61.7 million over four years to **construct eight new TAFE Connected Learning Centres** in rural and regional locations.

This Budget continues the Government's commitment to providing a world-class healthcare system to everyone in New South Wales. Over \$10 billion is being invested over the next four years in health infrastructure to continue current works and commence upgrading and building a further 29 hospital and health facility projects. Within the next four years, this will enable:

- **delivery of new hospitals** at Tweed, Maitland, Macksville and Mudgee as well as commencement of works at Bankstown-Lidcombe and Eurobodalla
- **completion of hospital upgrades** at Blacktown / Mt Druitt, Concord, Dubbo, Manning, Nepean, Wagga Wagga, Westmead and Wyong

- **commencement of hospital upgrades** at Ryde, Shoalhaven and St George
- acceleration of work at Nepean, Randwick, Tweed and Westmead
- completion of the Rural Ambulance Infrastructure Reconfiguration program, the Sydney Ambulance Metropolitan Infrastructure Strategy and the regional Multipurpose Services Strategy.

This Budget invests in the planning and delivery of **new urban road projects** across Sydney, the Central Coast and the Lower Hunter and in measures to reduce congestion and improve safety. This Budget provides a \$695 million commitment for technology upgrades to reduce congestion, as well as a \$450 million commitment to address a further 12 pinch points at intersections along major arterial roads and regional links around Sydney. The Budget also includes further investment in Western Sydney roads, including upgrades to Mamre Road and Mulgoa Road.

This Budget also invests \$500 million for **Fixing Country Bridges** and \$500 million for the **Fixing Local Roads Program**. This supports regional councils with repairing, maintaining and sealing council roads.

Delivering for people in the bush

The Government understands the significant impact the drought has had on our rural and regional communities. This Budget has increased the total investment in drought support to over \$1.8 billion. This includes:

- an additional \$350 million added to the **Farm Innovation Fund**, bringing the Fund to \$1.0 billion, which provides concessional interest rate loans to primary producers to support farming communities affected by the drought
- an additional \$185 million to continue existing **drought assistance programs**, including transport rebates for fodder, stock and water (\$70 million), one-year relief from Local Land Services annual rates (\$50 million) and Farm Innovation Fund loan interest relief (\$10 million)
- a reservation of \$170 million for a special purpose **Drought Stimulus Package** to undertake water security measures, including new groundwater supply at Dubbo, augmenting supply to Coonabarabran and construction of new supply at Nyngan.

Additional water security funding provided in this Budget includes:

- \$45 million to **waive fixed charges for water licence holders** and **provide emergency water carting to secure town water supplies**, as part of the Government's drought assistance program
- \$32 million over three years to investigate the augmentation of the **Wyangala Dam**
- \$5.1 million to further **enhance water regulation** through the recently established Natural Resources Access Regulator
- \$2.9 million to continue implementation of **enhancements to dam safety**
- \$13 million over four years to **rehabilitate high priority free flowing bores and drains in the Great Artesian Basin** to enhance reliability of water supply to reduce the impact of drought.

Digital connectivity is critical for everyone in our regions, whether it's farmers and businesses or individuals accessing education or social networks. This Budget is allocating \$518.8 million over four years for the **Regional Digital Connectivity Program** to provide mobile black spot towers and data centres to improve internet connectivity and reliability in the State's regions.

Delivering world-class services

The Government is committed to delivering world-class services to everyone across New South Wales. The 2019-20 Budget provides for more teachers, nurses, police officers and other front-line staff to make this commitment a reality. This includes:

- **4,600 extra teachers** across government schools in New South Wales over the next four years to meet population growth and provide more targeted support to the students that need it most, delivering the highest number of teachers in government schools in the State's history
- **5,000 nurses and midwives** including mental health and palliative care nurses, as part of a \$2.8 billion initiative to recruit 8,300 frontline health staff over the next four years, with 45 per cent in regional New South Wales, which also includes:
 - 1,060 medical staff (e.g. doctors, psychiatrists and specialists) to enhance response times for patients waiting in emergency departments, for elective surgery and for psychiatric care
 - 880 allied health staff including pharmacists, social workers, physiotherapists, occupational therapists and psychologists
 - 1,360 hospital support staff.
- **1,500 more police** to deliver on the Government's commitment to invest in increasing the State's crime fighting capability and keep the community safe (\$583.6 million over four years)
- To help parents of school-aged children, an **investment in before and after school care** (\$120 million over four years) to make it available to all parents with children at public primary schools by 2021
- To keep our children safe, \$18.5 million for **300 new school crossing supervisors** across NSW primary schools by 2022. There are currently 1,200 supervisors at around 800 crossings funded by the Government, and 69 schools have already been identified as eligible for one of the new crossing supervisors
- Extending the **Local Landcare Coordinator Initiative** with \$22.4 million over four years, which will see a continuation of an ongoing partnership between Local Land Services and Landcare NSW, supporting ongoing sustainability and oversight of Landcare NSW
- On the back of the success of making Service NSW a world-leading one-stop shop for government services, an additional **ten new Service NSW centres** will be rolled out across Metropolitan Sydney (\$55 million expenses and \$15 million capital over four years) as will **four one-stop shop Service NSW buses** to service communities throughout the State.

Making it easier to do business

It is critical for the State's success that New South Wales is the place where businesses want to set up and thrive.

- The Government is continuing to implement payroll tax cuts, **progressively raising the payroll tax threshold** to \$1.0 million by 2021-22, providing tax relief for those small to medium sized businesses.
- To enable businesses to reduce red tape and opt in to communications about policy or regulatory changes affecting their industry, the **Easy to do Business program** (\$27 million expenses and \$22 million capital in 2019-20) will provide a concierge service and interface with local councils and government bodies for small businesses in five sectors (cafes,

housing construction, clothing retail, printing and road freight) to reduce the time it takes to either open or expand a small business.

- In February 2019 the Government launched a major **procurement policy to help small, medium and regional enterprises** to do business with Government. The policy encourages Government agencies to prioritise small and medium businesses when considering suppliers.
- From 1 July 2019 payroll tax changes make it **easier to do business and cut red tape**. Monthly payroll tax returns are replaced with single annual returns for businesses with payroll tax liabilities up to \$20,000 per annum. Pre-set monthly payments will also be available for businesses with liabilities between \$20,000 and \$150,000 per annum.
- The **Energy Switch program** has been extended to small businesses, helping them gain access to lower cost energy providers.

Helping families with the cost of living

The Government understands the impact of cost of living pressures on households across the State. Since the 2017-18 Budget, this Government has provided numerous measures and rebates to assist in easing the cost of living. This Budget continues that momentum.

- On the back of the success of the **Active Kids program**, the Government will expand the number of Active Kids vouchers from one to two \$100 vouchers per child each year to encourage children's participation in organised sport and physical activity outside school hours (\$291.1 million over the next four years).
- The **Creative Kids program** will continue, providing parents and guardians with a \$100 Creative Kids voucher each year to help with the cost of their school-aged kids' participation in creative and cultural activities (\$92.1 million in 2019-20).
- The Government is **reducing early childhood costs** with universal access to two years of early childhood education through the Start Strong program, supporting preschool education in both community preschools and long day care centres across New South Wales (\$526.7 million in 2019-20). This continues the commitment made in the 2018-19 Budget, with funding support to be provided for all three-year olds in community preschools from 1 January 2019.
- The Government is also providing **free dental care for primary school kids** (\$70 million over four years), providing access to dental checks and basic dental care for up to 136,000 primary school children each year through 35 new free mobile dental clinics for primary school children in Western Sydney, the Mid North Coast and the Central Coast.
- We will provide new parents with the **NSW Baby Bundle** containing welcome essential items to assist in their child's early health and development (\$7.9 million in 2019-20).
- The Government will **expand the Toll Relief program** from 1 July 2019 to assist with the motor registration costs of toll road users. Eligibility will be extended so that drivers spending \$15 a week or more will receive 50 per cent off their motor vehicle registration for one vehicle. This brings the total toll relief program to \$385 million over three years.
- This Budget announces a **new energy rebate for independent retirees** (\$42.1 million over four years). This is in addition to the total \$1.1 billion over four years for energy rebate programs that support low income households to manage rising costs of energy.
- Seniors across regional New South Wales will become eligible for the **Regional Seniors Transport Card** providing \$250 per year in 2020 and 2021 towards fuel, taxi travel or NSW TrainLink tickets for aged pensioners living in regional New South Wales (\$90 million over three years).

- To support people in gaining vocational education qualifications, this Budget provides an **additional 100,000 fee-free TAFE and VET courses**, including 70,000 fee-free courses for young job-seekers combining work and study through a traineeship, and 30,000 free TAFE places for mature-aged workers seeking to retrain or re-enter the workforce (\$71 million over four years).
- The Government is delivering on its election commitment to **reduce the weekly Opal Travel cap** (\$69.6 million over four years). From 1 July 2019, approximately 55,000 commuters will benefit with savings of up to \$686 a year by reducing the Opal Travel cap to \$50 per week for adults and \$25 per week for child/youth and concession travel on all train, bus, ferry and light rail services.
- From 1 July 2019, all New South Wales home buyers will benefit with the **annual indexation of transfer duty thresholds** to the Sydney Consumer Price Index. This is estimated to save homebuyers around \$330 on an average-priced dwelling purchased by 2021-22.

Helping the most vulnerable

This Budget continues the focus on helping those in our communities who are most in need.

- It continues the Government's commitment to a **halve street homelessness** by 2025.
- The Government will support Foodbank NSW and ACT Limited with \$8 million over four years to expand the **School Breakfast 4 Health Program** to a further 500 schools.
- Mental health in schools is a serious issue for our community. This Budget includes funding for:
 - an **additional 100 school counsellors or psychologists**, 350 student support officers, as well as dedicated services for rural and remote students (\$88.4 million over four years) to ensure public high school students across the State have access to mental health and wellbeing support
 - **funding for Lifeline and Kids Helpline** (\$23.5 million over four years) to expand capacity
 - funding for **towards zero suicides initiatives** across New South Wales (\$19.7 million in 2019-20).
- This Budget continues support for **world-class medical research** with \$15 million over five years to support research associated with spinal cord injuries.