



NSW BUDGET | HALF-YEARLY REVIEW 2015-16

The NSW economy strengthened in 2014-15 and last month became the first half trillion dollar state economy in Australia. Independent economic barometers consistently declare our economy as the strongest in the nation.



Growth in NSW domestic demand was over three times the national rate over the year to the September quarter, with indicators for household consumption, the labour market and housing all positive. The outlook for the NSW housing sector remains strong as residential building approval levels are at highs not seen for almost 42 years.

There have been around 176,700 jobs created in New South Wales over the year to November 2015. This was almost double the next strongest state and accounts for more than half of all the jobs created nationally in the same period. Additionally, the NSW unemployment rate, at 5.2 per cent, was at its lowest level since January 2013, and the lowest among the states.

Ratings agencies Standard & Poor's and Moody's have recently reaffirmed NSW's triple-A credit rating with a stable outlook. Standard & Poor's praised the Government's "very strong financial management".

Last month's strong result with the long-term lease of TransGrid – for which we achieved gross proceeds of \$10.258 billion – will support our \$20 billion Rebuilding NSW program. This program will see unprecedented investment in productive infrastructure in coming years.

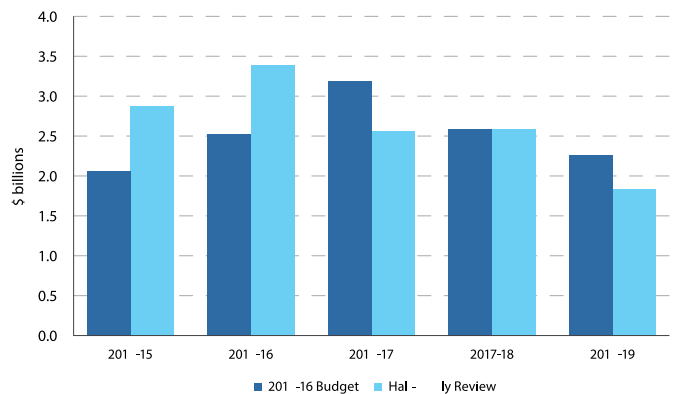
Even before the proceeds were realised we had managed to keep net debt down, using innovative financial solutions to fund infrastructure investment.

The Half-Yearly Review shows our discipline in managing expenses has paid off – surpluses averaging \$2.6 billion are predicted over the next four years. This couldn't have been achieved without our commitment to measures such as our wages policy – which is estimated to have avoided costs of around \$1.8 billion from March 2011 to September 2015.

Despite all this, we should not let our positive position distract us from the huge challenges we face in the future, particularly in relation to health funding. We will continue to lead the way in urging states, territories and the Australian Government to confront these looming challenges head on and we remain optimistic a solution can be reached.

Gladys Berejiklian MP
NSW Treasurer

Change in budget result since 2015-16 Budget



Half-Yearly Review highlights

- A Budget surplus of \$3.4 billion is forecast for 2015-16, an improvement of \$876 million since the Budget.
- The increased surplus is driven by an increase in transfer duty, particularly relating to the long-term lease of TransGrid and commercial transactions.
- The increase in revenue is partly offset by new Government spending decisions in 2015-16.
- The Budget is expected to remain in surplus over the forward estimates.
- Net debt is now projected to be only \$1.8 billion at 30 June 2016. It is also forecast to remain at levels lower than the Budget.
- The Government is committed to delivering a sustainable program of savings and driving efficiencies to control expense growth without compromising the quality of government services.
- There will be growing pressures on the budget over the medium term, due to the substantial reduction in the growth of Australian Government health and education grants from 2017.
- The NSW Government remains committed to securing sustainable payments from the Australian Government to enable the continued provision of services.

The Government's hard work since coming to office in 2011 has substantially improved the fiscal position, which will remain strong over the forward estimates.



Government achievements since the Budget

Since the release of the 2015-16 Budget, the Government has continued to support key policies and projects.

The Government has announced a move to a fairer funding model for fire and emergency services from 1 July 2017, which will see the current levy on insurance policies abolished and replaced with a levy paid alongside council rates. The introduction of a broader levy will see the costs of fire and emergency services shared more equitably across New South Wales.

Over four years, the Government is funding a range of critical initiatives. Highlights include:

- ✓ the allocation of \$630 million from Restart NSW to support metropolitan and regional road projects, and regional health and water projects
- ✓ \$66 million package to 2018-19 to help reduce domestic and family violence, reduce rates of recidivism and ensure adequate levels of support for victims
- ✓ \$47 million package for countering violent extremism in New South Wales, including counselling and support services to students and additional training for staff
- ✓ \$23 million for a counter terrorism package including security upgrades
- ✓ the implementation of NSW Digital Licences, which will provide faster and easier access to services for more than 23 million licensees through improved service delivery and regulatory practices
- ✓ the completion of the transfer of the last group of electricity generation assets from the State.





Building infrastructure

The 2015-16 Budget allocated a record \$68.6 billion over four years to provide critical infrastructure in key service delivery areas right across the State. This funding also supports the construction of productivity enhancing assets to boost economic growth.

Since the Budget, the Government has continued to provide further support for infrastructure by allocating \$1.1 billion for new infrastructure, including \$177 million for the development of the new Grafton Bridge, \$348 million for road connectivity and network enhancements for the new Northern Beaches Hospital and \$224 million for corrective services capacity.

The Government remains fully committed to Rebuilding NSW, which will boost infrastructure investment by \$20 billion across the State. Funding has been allocated to accelerate the delivery of the Rebuilding NSW package including Sydney Metro City and Southwest, Parramatta Light Rail and new schools in Ballina, Parramatta and Inner-Sydney.

Financial and cash reforms

Earlier this year the Government completed the amalgamation of the State's key funds management activities in NSW Treasury Corporation (TCorp).

The amalgamation has made the State's central financing authority TCorp a top 10 Australian investment manager with more than \$70 billion in funds under management and could save taxpayers millions of dollars.

A new strategy is also under development to underpin management of the State's cash, debt and financial investments to ensure the Government is earning the best possible returns while maintaining a prudent approach to liquidity management.

Derisking the balance sheet

The Government has recently announced that it is proceeding with the sale of superannuation administrator Pillar, allowing the State to invest the proceeds into vital services and infrastructure.

Pillar administers superannuation funds and retirement income streams for the public and private sectors. Pillar is currently undertaking a comprehensive business transformation process that requires significant investment from its shareholder. Following the sale of Pillar, the State will no longer be liable for these ongoing costs. The Government will prepare for a competitive trade sale and expects to call for expressions of interest in 2016.

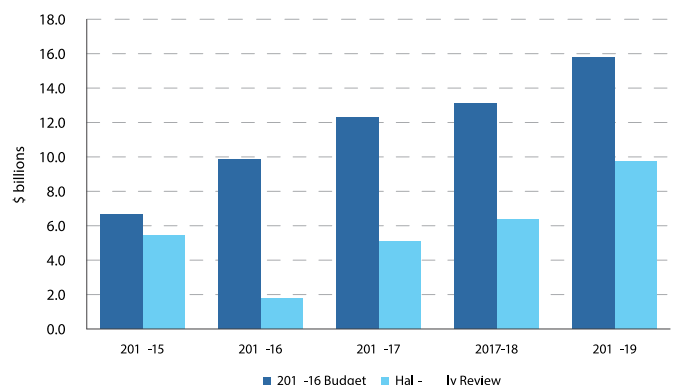
Net debt

The strength of the State's current fiscal outlook and the completion of the long-term lease of TransGrid is expected to reduce NSW net debt to \$1.8 billion as at June 2016. This is a reduction of \$8.1 billion since the release of the Budget.

Net debt is expected to increase to \$9.7 billion in June 2019 as infrastructure spending associated with the State's asset recycling strategy picks up.

Even before the long-term lease of TransGrid, NSW net debt was well below the 2011-12 peak of \$14.1 billion. The improved net debt position gives the Government room to invest in critical infrastructure projects over future years without placing additional pressure on the State's debt position and interest rates.

Comparison of net debt in general government sector





Increasing housing supply

The Government has been heavily focused on housing supply policies and in recent months housing approval levels have reached almost 42-year highs, with around 64,000 dwellings approved in the last 12 months. Nevertheless, a significant undersupply is expected to persist for some time due to the extent of the overhang and above-trend population growth going forward. This means a sustained increase in dwelling construction will be required.

A number of Government initiatives support new housing supply in the North West and the South West priority growth areas. To date, the Government has committed \$566.5 million to the Housing Acceleration Fund (HAF) to support the construction of 161,100 new dwellings and 1,200 hectares of employment lands. A further \$400 million from Restart NSW is being transferred into the HAF this year.

The Government continues to target First Home Owner Grants towards housing construction with 9,049 grants for new homes over the year to November 2015. This is 14.6 per cent higher than in the previous year.

Creating jobs



Over 176,000 jobs have been created in NSW over the year to November 2015



Over the last year, around one-quarter of jobs created were in regional areas

The number of jobs added in New South Wales over the year to November 2015 was almost double the next strongest state and accounts for more than half of all the jobs created nationally in the same period.

Most jobs have been created in service based industries, including professional services and healthcare services. The construction sector has also been a key contributor to jobs growth due to the strength of dwelling construction and record infrastructure expenditure. In the public sector, there are thousands more teachers, nurses and police than in 2011.

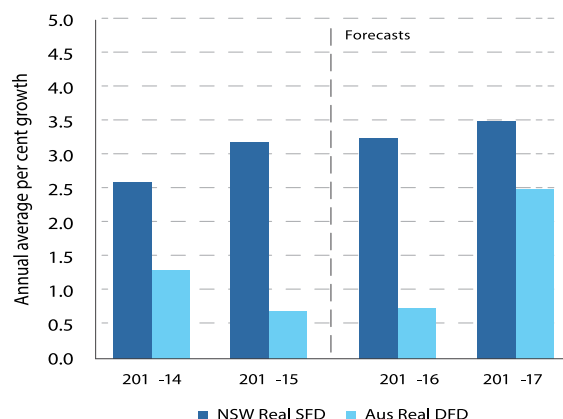
Net interstate migration to New South Wales has strengthened in recent years, as labour has been drawn into the State by its relative economic strength. This has been reflected in above-trend population growth and in the participation rate, which is at historical highs.

A strong economy

Over the year to September 2015, growth in economic activity in New South Wales was over three times higher than the national rate. This has been fuelled by robust household consumption and dwelling investment growth.

Over the next two years the NSW economy is well placed to build on this momentum as an unprecedented pipeline of planned infrastructure projects generates increased public spending and construction activity.

NSW outpacing the nation



Source: ABS 5206.0 and NSW Treasury