

Briefing Paper

2011/12 NSW Budget

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Introduction

Full Budget documentation is available at www.budget.nsw.gov.au

Enquiries of the Minister for Water's Office indicate no major changes in the agricultural water sector.

A media release issued by the Minister noting an "investment of \$260m" appears to be the recurrent management expenses. Noting that expenses of the Office of Water in respect of activities associated with irrigation are largely cost-recovered, significant impacts from the State Budget were not expected.

Further, given the service-provision focus of State level expenditure, major budgetary shocks are relatively rare.

This Briefing

This document does not purport to be a full summary of the entire Budget.

This Briefing Note is in two sections – consideration of matters directly relevant to irrigation and a brief consideration of wider Budgetary matters that have relevance to the irrigation sector more generally.

Water and Irrigation Specific Matters

NSW Office of Water

Budget Paper No. 3 provides the agency specific details. These analyse both the 10/11 Financial Year actuals and the Estimates for the forward period.

The NSW Office of Water sits within the Trade and Investment, Regional Infrastructure and Services cluster, the reports of which are in chapter 8. See specifically 8-19, where the report is contained on a single page.

Service measures in water management compare actual results from 08/09 and 09/10, estimated actual results from 10/11, forecast 10/11 results and forecast 11/12 results.

Formal water sharing arrangements were to be at 84% in 10/11, up from the 54% achieved in 09/10. The estimated actual achievement sits at only 64%, with an 11/12 forecast to reach 86%. This seems unlikely given the time to realise achievements to date.

Conversion of licenses from the 1912 Act to the WMA was at 45% in 09/10. This was forecast to rise to 59% in 10/11. 58% was achieved. The forecast for 11/12 is to reach 74%, which should be achievable given NSWIC-supported moves to expedite the process.

Employee numbers within NOW (the largest financial centre) were at 554 (FTE) in 09/10, which was estimated to rise to 622 in 10/11 against a forecast of 578. Numbers will continue to increase to 634 in 11/12. These numbers were part of the IPART Determination process.

On financial indicators, there was an underspend of around \$6m in 10/11 of estimates against budget. An anticipated increase of \$38m year on year is forecast for 11/12. Again, these figures were considered by IPART.

Capital expenditure in 10/11 was \$18.3m against a budget of \$5.4m, seemingly a massive blowout. Note, however, that the "other operating expenses" line item reduced by some \$13m, equivalent to the "blowout". We're advised that this represents a transfer of funds for the Hawkesbury River Recovery Project (including metering) from recurrent to capital expenditure. The 11/12 budget is \$2.3m.

Water Administration Ministerial Corporation

WAMC achieved total revenue of \$45m in 10/11 with estimated income at \$40.6m next year. It recorded an operating loss of \$3.4m this year and anticipates a further \$3.2m next year, entirely comprised of depreciation and amortisation. That is, WAMC operates at a cost/revenue neutral arrangement.

It's assets are valued at \$743m, primarily comprised of infrastructure systems (\$739m). It has no debt against assets.

State Water

Chapter 8 of Budget Paper No 2 deals with Public Trading Enterprises, including State Water.

Significant dividends (and income tax equivalent payments) to the Government are slated from PTEs, specifically from "network electricity and water businesses". It appears that returns in the water category are primarily from urban supply operations.

Grossed up figures across Sydney Water, Sydney Catchment Authority, Hunter Water and State Water are provided, which are relevant in a global Budget context but are of very little use to customers of any single entity. Again, the IPART process is the primary driver of our interest in their commercial results.

The Papers note that "strong earnings growth is largely driven by Sydney Water Corporation and Hunter Water Corporation". Further, the determination not to proceed with Tillegra Dam in the Hunter is cited for a decline in reduced capital expenditure across the businesses.

\$4.7b over the Budget and forward estimate period, capital expenditure across the sector sits at \$4.7b. Whilst not breakup of this is provided, "dam safety program expenditure by the State Water Corporation to meet modern day safety requirements

for extreme events” is individually listed. The suggestion that dam safety expenditure is part of a flood mitigation strategy is interesting. Of further interest is the suggestion that the capital program is financed from a “mix of retained earnings and debt finance”. We’ll be watching closely to ensure that this is not specifically the case within State Water.

Budgetary Measures More Generally

The short term economic outlook is characterised as “challenging”. Real Gross State Product growth is reported as 2.25% as a 10/11 estimate with a forecast at 2.5% to 11/12 growing to 3% in 12/13.

Unemployment is forecast as largely unchanged, at 5.1% in 10/11 growing slightly to 5.25% in both 11/12 and 12/13. Interestingly, slight unemployment growth is forecast to occur at the same time as the wage price index (at 3.8% in 10/11) increases to 4% in both 11/12 and 12/13.

At a macroeconomic level, the Budget forecasts a deficit of \$718m in 11/12, returning to surplus with both increased revenue (\$61.9b) and increased expenditure (\$61.6b) in 13/13. The expected deficit represents some 1.2% of revenue, so whilst it will likely be the focus of media (and Opposition) attention in coming days, it is hardly a significant economic story.

At an agency level, health, education and police lead the additional recurrent expenditure. You’ll hear plenty about 4,000 “new nurses, teachers and police officers”.

There is also the commencement of funding for a range of transport and infrastructure projects.

On the other side of the ledger, an increase in mining royalties that was widely leaked has been confirmed.

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