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Briefing Paper
2013/14 NSW Budget
130618

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Introduction

NSWIC attended the NSW Budget lock-up in Sydney held before the public release of documents. NSW Treasurer Michael Baird briefly attended the lock-up, which was well received.

Treasury officials were available to answer general questions or to refer specific questions to Departmental officials via telephone.

Aside from the five Budget Papers, a Performance Report "NSW 2021" and three additional brochures (*Rebirth of Newcastle*, *Infrastructure Overview*, *NSW Budget 2013-14 overview*) were provided during the budget lockup.

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

This Briefing

This document is a summary of the full Budget. It was prepared in the two hour timeframe available in the lock up and hence may not be as accurate as we would like.

This Briefing Note is in three sections - consideration of broad Budget measures, of matters relevant to agriculture and matters of specific interest to irrigated agriculture.

Broad Budget Measures

The key theme of this year's budget is the expenditure trifecta - slower expenditure growth, greater spending on infrastructure and reduction in net debt. Focus remains on large infrastructure expenditure (\$59.7 billion over the next four years). The infrastructure funding is available for the West Connex motorway, the Pacific and Princess Highway, the F3 and F4 motorways and upgrades to the North West and South West rail link.

The NSW Government also announced today that it intends to proceed on a long-term lease of the Port of Newcastle (subject to a scoping study). Should this be successful, \$340 million of the proceeds will go towards the revitalisation of Newcastle.

Overall, the budget results for 2013-14 and future years are materially affected by amendments to the accounting standard relating to employee benefits (AASB 119). The impacts of the amended standard amount to a \$1.6 billion increase to superannuation accrual expenses in 2013-14.

Abstracting from the impacts of the amended AASB 119 - a deficit of \$329m is expected in 2013-14, compared with a deficit of \$374m for 2012-13. A return to surplus is projected for 2014-15, steadily growing to \$1.5 billion by 2016-17.

Incorporating the amendments to AASB 119, the following budget aggregates are forecasted for the following four years;

	2013-14	2014-15	2015-16	2016-17
Revenue (\$m)	62,573 (5%)	65,731 (5%)	68,615 (4.4%)	71,001 (3.5%)
Expenses (\$m)	64,462 (7.5%)	66,295 (2.8%)	68,459 (3.3%)	70,466 (2.9%)
Budget Result (\$m)	-1.890 (-0.4%)	-563 (-0.1%)	157 (0%)	535 (0.1%)
Budget Result (\$m) if AASB 119 is removed	-329 (-0.1%)	829 (0.2%)	1.305 (0.2%)	1.526 (0.3%)

Factoring in the impact of AASB 119

2012-13 revenue growth is now anticipated to be only 0.9% compared to 2.2% growth projected in the previous budget. A major contributor for the lower revenue growth is lower Commonwealth government payments (i.e. GST) and lower royalty receipts and state taxes. It is however anticipated that state taxes will grow by an average of 6.6% per annum over the four years to 2016-17.

On a traditional expenses basis, depreciation alone is estimated to have added nearly \$1.5 billion to expenses over 4 years, largely as a result of asset revaluation in *Roads and Maritime Services*. Some offsets are provided by lower superannuation and interest payment associated with lower debt.

The Budget speech declares that the Budget delivers for rural and regional NSW;

- Over four years, there is \$4.4 billion for the *Pacific Highway* and \$735 million for the *Princes Highway*.
- Of the \$1.2 billion health capital works upgrades, almost a third will be spent on health facilities in the regions - in Bega, in Kempsey, in Wollongong, in Port Macquarie, in Dubbo, in Lismore.
- *Restart NSW* is funding \$120 million for the **Resources for Regions** program to deliver infrastructure for communities affected by mining activities.
- The fund is also providing a \$135 million contribution over four years towards *Bridges for the Bush*, a program for replacing and upgrading 17 bridges in regional NSW.

Matters Relevant to Agriculture

According to the *Appropriation Bill 2013* - a total of \$1.09b is appropriated for Primary Industries.

The following initiatives are projected to be implemented to meet the 2021 targets;

- Investing 30% of Restart NSW in regional infrastructure projects;
- Allocating \$100 million to the Restart NSW Illawarra Infrastructure Fund;
- Implement the Strategic Regional Land Use Policy;
- Implement Local Land Services;
- Deliver programs to control noxious weeds to improve agricultural productivity and protect the environment.

The threshold at which Payroll Tax increases from \$689,000 to \$750,000 which means around 1,300 fewer businesses will have to pay payroll tax and the remaining will have their payroll tax bill cut by an average of \$3,000.

There is an increase in the payroll tax rebate from \$4,000 to \$5,000 for each new job supported under the Jobs Action plan. The 2013-14 budget also provides support for small businesses with a second Small Biz Bus to provide face-to-face practical advice for small businesses throughout NSW.

The Rural Assistance Authority sees a large upward revision in their total expenditure from \$16.46m (2012-13 Budget) to \$58.99m for 2012-13, with the majority being financed through grants and contributions. The 2013-14 budget estimates total expenses to be \$49.24m with total revenue being roughly equal to this figure. There is also a downward revision of employee figures (on FTE basis) for the Rural Assistance Authority to 21.

FTE figures for the Catchment Management Authorities has been revised down to 500 (compared to 534 in 2012-13 budget) and is forecasted to be reduced further to 290 FT in 2013-14. However the 2013-14 does not include 128 FTEs relating to the Commonwealth "Caring for our Country" program, as Commonwealth funding has not been confirmed. CMAs specific detail is provided in Budget Paper 3.

Water and Irrigation Specific Matters

Change to reporting on NOW FTEs

Since the previous budget, the reporting practices in respect of the NSW Office of Water have changed significantly. Employee numbers are no longer reported individually. As highlighted in the last budget paper, this change should be seen as a negative outcome - especially since charges to Water Access License holders in respect to NOW are being based to a significant part on employee expenses and FTEs. In the absence of a full IPART review, it is not possible to determine from the Budget if NOW is meeting the IPART determined FTE level. This is a significant reduction in transparency.

Performance Measures

As highlighted in the previous budget paper, reporting against performance measures is reduced to last year. License conversion percentages are not to be reported against, nor are free flowing bore numbers. Water Sharing Agreement percentages (percentages of areas covered by WSPs) is still reported. The forecast last year for 2012/13 was 90. 90 was achieved. 100 is forecast for 2013 - 14.

Specific Projects

Key initiatives for the Primary Industries include;

- \$102 million for State Priority Projects funded under the Water for the Future program.
- \$11 million to control noxious weeds to improve agricultural productivity and protect the environment.
- \$9.8 million as the State's share of operating costs and works programs for irrigation areas to improve agricultural productivity.
- \$56 million for the Country Towns Water supply and Sewage program to secure long term portable water supplies and manage effluent effectively in regional communities.
- \$5 million in additional funding to accelerate to processing of Crown roads disposal application from rural land users.
- \$4.8 million as the State's contribution to inter-jurisdictional national biosecurity arrangements to manage risk posed by pest, weeds, diseases and contamination and to minimise their impact on the state.
- \$17 million for clean-up and recovery grants for primary producers under the National Disaster Relief and Recovery arrangements.
- \$11 million to ensure food safety and compliance with food standards from production on farm.

No further details were provided on these programs.

State Water

SWC is deemed a Private Trading Entity (PTE) by the Treasury. Much of the reporting of PTE (Water) rolls Sydney Water, Hunter Water, Sydney Catchment Authority and State Water Corporation together. It is therefore difficult to determine individual expenses and revenue issues.

According to Budget Paper 1, State Water's forecasted net profit after tax is \$27 million lower in 2012-13 than estimated in the 2012-13 budget, which is predominantly driven by the accounting treatment of grant funded assets.

Overall, the operating performance of the water business is currently forecasted to grow by 10.4% over the four years to 2016-17 from \$1.4 billion in 2012-13 to \$1.6 billion in 2016-17. Water sector dividends and tax equivalent are forecast to be relatively stable across the forward estimates, although lower overall than forecast at the time of the 2012-13 budget. Budget paper 1 indicates that the profitability of Hunter Water and State Water in future years is forecast to be negatively impacted by lower regulatory cost of capital allowance based on prevailing market rates.

Capital expenditure across the forward estimates in the water sector is expected to be lower than forecast last Budget. It now totals \$3.8 billion over the four years to 2015-16, compared to the previous Budget forecast of \$4.0 billion for the corresponding period.

Over the four years to 2016-17, water sector capital expenditure is forecast to be relatively stable, from \$948 million in 2013-14 to \$956 million in 2016-17, totalling 3.9 billion over the period. The four year capital expenditure program is forecast to be predominantly financed from increased borrowings. Net debt is forecast to increase by \$2.0 billion to \$9.6 billion at the end of 2016/27 financial year and average gearing is expected to increase to 49%.

Budget Paper 4 reports on the Government's infrastructure investment program including major new works and work-in-progress for State Water.

New works include;

- Burrendong Cold Water Pollution (complete 2014) - allocated 2013-14: \$2.5m
- Computer Aided River Management (completed 2018) - allocated 2013-14: \$126.000 with total cost of \$16.99 million.
- State Wide Metering (completed 2018) - allocated for 2013-14: \$15m with total cost of \$151.56 million

Work-in-progress include;

- Dam upgrades and augmentation (various) and integrated surveillance, monitoring and remote telemetering with total allocated in 2013-14 of \$79.14m

This makes a total allocated to State Water of \$115.57million.

Water Administration Ministerial Corporation

Budgeted expense (including losses) in 2012/13 was \$51.33m. This was revised up to \$54.33m. The estimate for 2013-14 is an increase to \$55.53m.

This contrasts with budgeted revenue in 2012/13 of \$46.30m that was revised up to \$49.30m. The estimate for 2013/14 is \$50.50m. As both expenses and revenue is expected to increase by roughly the same proportion, the estimated net position still sees the WAMC to operate a deficit of \$5.03m.

ENDS.