

Briefing Paper

2015/16 NSW Budget

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Stefanie Schulte
Policy Manager

Introduction

NSWIC attended the NSW Budget lock-up in Sydney on Tuesday 23rd June held before the public release of the budget documents.

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

Aside from the four Budget Papers, a document titled *Election Commitments 2015-19* was available at the lock-up. Furthermore, media releases from all portfolio Ministers were provided during the lock-up.

Full Budget documents are available at: www.budget.nsw.gov.au

This Briefing

This document does not purport to be a full summary of the entire Budget. It was prepared in the two hour timeframe available, so is focused on the key initiatives of relevance to our sector.

This Briefing Note is in three sections - a broad summary of budgetary measures; a deeper analysis of budget measures relevant to agriculture; and a detailed consideration of budgetary measures directly relevant to the irrigation sector in NSW.

Budget Speech

The NSW Budget speech was delivered by the Hon Gladys Berejiklian MP on 23rd June with the words '*NSW is at the verge of something special*'. Ms Berejiklian and Premier Mike Baird announced significant spending in both services and infrastructure as part of this year's budget.

The Budget Papers announced that the NSW Government will invest \$68.6 billion over the forward estimates to provide critical infrastructure in 'key service delivery areas' which include \$38 billion in roads and transport and \$5 billion in health (major hospital upgrades in NSW).

In addition, the \$20 billion will be available for the "Rebuilding NSW" Plan which will be funded from the lease of Ausgrid and Endeavour Energy (two of NSW's network businesses). Further information on water infrastructure funding under the "Rebuilding NSW" plan is provided below.

The budget speech stated:

'when people look back at this period in our State's history, they will remember it is a time for building'.

In addition to road and railway infrastructure, this year's budget contains funding for health and education in regional NSW.

- North Coast:
 - Hospital funding for Lismore, Grafton, Kempsey, Byron and planning funding for a new School in Ballina.
- Hunter:
 - Railway funding for Newcastle, hospital funding for Muswellbrook and Maitland.
- Central Coast:
 - Hospital funding, school upgrades and social housing.
- South East NSW:
 - \$15 million for Gocup Road between Gundagai and Tumut as part of the \$70 million commitment funding from the Regional Freight Pinch Point and Safety project and new Hospital in Bega.
- Western NSW:
 - Funding for hospitals in Wagga Wagge, Parkes, Forbes and Tamworth.

Broad Budget Measures

In line with last year's NSW Budget, the state economy is forecast to grow by 3 per cent in 2015-16 and 2016-17. This outlook is supported by low interest rates, strong population growth and the recent depreciation of the Australian dollar.

It is estimated that household consumption will remain strong which is supposedly underpinned by an assumption of strong labour income growth and robust employment growth. Furthermore, it is forecast that the announced investment funding for infrastructure and service will be joined by continuing solid dwelling investment which supports NSW's growth rates.

Employment growth is expected to rise to an above trend rate of 1 $\frac{3}{4}$ per cent in each of the next two years. However, strong population growth, in part due to the relative strength of the NSW economy will offset in parts the decline in unemployment. The unemployment rate is forecast to drop to around 5 $\frac{3}{4}$ per cent in 2015-16 and fall to 5 $\frac{1}{2}$ cent by the June quarter of 2017.

There was a challenge in reporting this year's budget aggregates as two estimates were provided – one with the impact of the "Transport Asset Holding Entity" and one without. Due to reforms in the public transport service a dedicated asset manager "Transport Asset Holding Entity" (TAHE) will be established from 1 July 2015. The TAHE will eventually hold all of the public transport assets for the State. The TAHE will also be responsible for the procurement and sale (including the NSW electricity networks) of assets in NSW.

While the budget aggregates indicate a stronger surplus in each year of the forecast period, the figures below provide the revenue, cost and budget results pre-TAHE¹.

	2014-15	2015-16	2016-17	2017-18
Revenue (\$m)	69,143	70,279	73,409	74,514
Expenditure (\$m)	67,085	67,085	69,566	72,654
Budget Results (\$m)	2,058	713	3,756	812

Matters Relevant to Agriculture

Revitalising Regional NSW

In aggregate, 30% of 'Restart NSW' investment portfolio is targeted at regions outside metropolitan areas of Newcastle, Sydney and Wollongong.

The 2015-16 Budget includes new expenditure commitments of \$453.3 million for projects in regional NSW, including:

- \$39.3 million for the fixing Country Roads program.
- \$85 million for Regional Freight Pinch Point and safety program.
- \$127.4 million for Water Security for Regions program (further details below).

To date, around \$1.5 billion has been budgeted for expenditure commitments in regional NSW. This includes the ongoing commitment to allocate 3 per cent of the funds from Restart NSW to the Resources for Regions program for mining-affected communities.

Drought Assistance

Budget Paper 3 announces \$50 million in concessional loans under the Farm Innovation Fund to assist primary producers to prepare for future drought conditions.

In addition, last year's announcement of \$13 million for the support of primary producers in NSW to become more resilient and better prepared for future drought conditions consistent with the terms of the intergovernmental Agreement on National Drought Program Reform is restated in this year's budget.

Local Land Services

The expenditure for Local Land Services is expected to increase slightly from last year's budget. In 2014-15 expenditure for LLS for \$160.4 million and it is forecast to be \$161.7 million in 2015-16.

Infrastructure funding for Local Land Services (LLS) is forecast to increase to \$5.3 million in 2015-16 mainly due to office integration.

¹ These budget aggregates do not include the impact of the electricity network lease transaction and the establishment of the Transport Asset Holding Entity. This means that the impact of the infrastructure investment under 'Rebuilding NSW' are also not included.

According to Budget Paper 3, the cluster grant funding for LLS will reduce significantly from \$32 million in 2014-15 to \$4.1 million in 2015-16.

The financial position of LLS was better than budgeted. In last year's budget it was forecast that LLS would be running a deficit of 2.264 million in 2014-15, however the actual figures show a slight surplus of \$991,000. However, the forecast for 2015-16 show a deficit of \$39.622 million due to employee related expenses.

Mining and CSG

Budget Paper 2 outlines that Restart NSW aims to improve the economic growth and productivity of the State by funding essential infrastructure, which includes local infrastructure in regional areas affected by mining operations.

Electricity

According to budget paper 2, the \$20 billion for "Rebuilding NSW" arise from the proceeds of the 49 per cent long term lease of the NSW electricity network.

In addition, there is a \$7.8 billion investment in energy projects to ensure a reliable electricity supply, meet forecast demand and maintain and replace assets as required, as well as deliver essential distribution and transmission upgrades. However should the long term lease proceed, the capital program will be significantly reduced in the next budget.

Under Minister Speakman's portfolio, a further \$34 million will be set aside to improve energy productivity and competitiveness of the NSW economy.

Water and Irrigation Specific Matters

Minister Blair announced around \$620 million in water related projects as part of this year's budget (not all of this is new funding):

- \$127.4 million for Water Security for the Regions (new funding). This includes 16 local infrastructure projects and an initial \$52.3 million to secure emergency water supplies for Broken Hill as part of Restart NSW. This includes \$7 million which was provided from Restart NSW to Water NSW in 2014-15 to fund investigation works.
- \$110 million has been reserved under Restart NSW for regional town water supply in 71 communities across NSW. Funding will be allocated to individual projects once they have been further developed and been subject to an assurance process.
- \$186 million to assist eligible NSW households with the financial costs for the supply of potable water.
- \$130 million for water saving infrastructure projects, funded under the Commonwealth's Water for the Future program, to assist in 'Bridging the Gap'.
- \$38 million to secure long-term potable water supplies and manage effluent effectively in regional communities.
- \$16 million to implement water reform initiatives in the Murray Darling Basin.
- \$11 million for programs to improve water and sewerage for eligible Aboriginal communities.

Water Security for the Region program

The previous budget included \$325 million from 'Restart NSW' for the Water Security for Regions Programs. This funding was in addition to the \$40.9 million reserved for water infrastructure in previous years. This year's budget includes NEW expenditure commitments of \$127.4 million for *Water Security for Regions*.

There were 93 expression of interest for funding under the Water for the Regions Program from Local Governments and Water Utilities.

Specific projects under the Water Security for the Regions are outlined in appendix B3 in Budget Paper 2.

Budget Paper 2 also states that the Government will continue to improve water infrastructure so that 'every community has water that meets drinking water quality and effluent guidelines, and has a secure, sustainable and affordable water supply'. Further detail on affordability was not provided.

Budget Paper 2 also outlined the strategic water priorities for the government. Some key priorities include:

- Managing the resources for the Murray-Darling Basin to achieve economic, social and environmental outcomes for basin communities.
- Increasing the level of support and investment in non-metropolitan urban water supply.
- Maintaining and securing infrastructure for water storage and delivery.

In addition, the budget papers outlined that the NSW Office of Water will continue to produce strategic water policy and planning advice while developing and enhancing a range of water monitoring, regulation and reporting functions to support productive and sustainable management of the State's water resources.

Some of the projects that NOW currently runs or will commence in the next five years include:

- CSG Monitoring bores in Narrabri and Gloucester (\$1.8 million)
- Regional Water Monitoring Strategy (\$22.8 million – 2016 to 2020). This project is in response to the recommendations by the Chief Scientist and Engineer Mary O'Kane.
- Long term water solutions for Cobar and Broken Hill (funding is not available) – the planning funds to finalise a business case for a proposed long term water security solution for Broken Hill and Cobar is yet to be finalised.

Water NSW

Budget Paper 3 again refers to the amalgamation of State Water Corporation with the Sydney Catchment Authority (however this time without a reference to the 'increased efficiency and improved services'). The Bill enabling this amalgamation commenced 1 January 2015.

The budget papers also outlined that the amalgamation has led to a staff transfer between the department and WaterNSW. However, exact FTE figures for Water NSW are no longer provided.

In last year's budget Water NSW received cluster grant funding of \$38.544 million and will receive \$42.301 million in 2015-16.

Unsurprisingly, Budget Paper 2 again shows that WaterNSW has under-spent on its CAPEX in 2014-15 (budgeted at \$95.7 million in 2014-15 and actual of \$75.1 million). Forecast CAPEX for 2015-16 is \$134.6 of which \$18.11million is allocated to state-wide metering (down from \$20.841 million in last year's budget), \$10.42 is allocated for the Chaffey Dam Upgrade (down from \$31.589 million) and \$8 million is allocated for CARMs (up by \$7 million from last year's budget). There are also smaller budget allocation under 'integrated surveillance monitoring, automation and remote telemetry' of \$3.9 million and reservoir upgrades (\$8 million).

In total major works for WaterNSW is estimated to be \$92.546 million in 2015-16 and \$42.084 million for minor works.

Water Administration Ministerial Council

Budget Paper 3 outlines the revised expenditure for the Water Administration Ministerial Council (WAMC). In 2014-15 WAMC spend \$70.2 million (about \$7 million more than budgeted). The 2015-16 budget for WAMC is \$76.7 million (an increase of 9.2 per cent).

The Cluster Grant Funding for the Water Administration Ministerial Council was moved from 2014-15 to 2015-16.

Like the previous Budget, FTE for the NSW Office of Water are no longer reported and no information on staff numbers for NOW can be extracted for the budget papers. FTE for the Department of Primary Industries will remain reasonably constant (up by 11 FTEs from 2014-15). Despite the constant FTE numbers the restructure within the Office of Water is not mentioned in the budget papers.

According to the financial statement, the operating expenditures for WAMC was lower than budgeted (0.2 million) , however it is estimated to increase by over \$6 million in 2015-16. Revenue for the Water Administration Ministerial Council were up by \$2 million and are expected to increase by a further \$3 million in 2015-16. In addition the WAMC experienced a loss of \$75,000 which is not specified further. The budget position for WAMC has deteriorated from a deficit of \$3.634 million estimated in the 2014-15 budget to a deficit of \$16.123 million in actuals and \$12.222 million in 2015-16.

We have sought clarification from Minister Blair's office on this budget position.

Murray-Darling Basin Commitments

Budget Paper 3 outlines the previously announced \$31 million over two years to support the regional economies impacted by the Murray Darling Basin Plan.

Budget Paper 2 states that the previous budget allocation for Water Reform in the Murray Darling Basin was \$1 million of which only \$250,000 was spent in 2014-15. The 2015-16 budget allocates \$400,000 to Water Reform in the Murray-Darling Basin.

In addition Budget Paper 1 states that the funding for implementing water reform in the Murray Darling Basin will decrease from \$15 to \$13 million, despite Minister Blair's media release that \$16 million will be spent on water reform.

We have sought clarification from Minister Blair's office on these figures.

Finally, no MDBA funding figures are provided in this year's budget.

ENDS.