

# BUDGET OVERVIEW

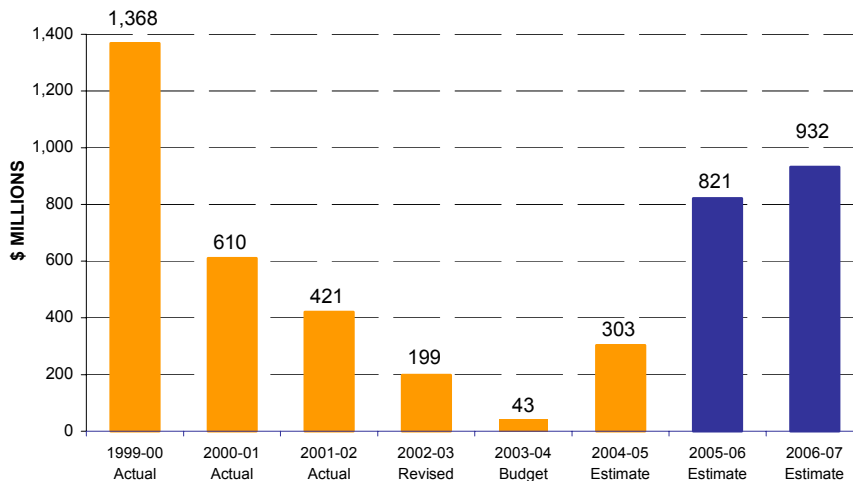
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## FISCAL POSITION AND OUTLOOK

*The Budget delivers a general government surplus of \$43 million in 2003-04, surpluses in each of the forward years, and further reductions in net debt of the general government sector.*

The Budget surplus of \$43 million in 2003-04, increasing to \$932 million by 2006-07, continues the pattern of consecutive surpluses over recent years (Chart 1).

**Chart 1: Budget Result (Net Lending of the General Government Sector), 1999-2000 to 2006-07**



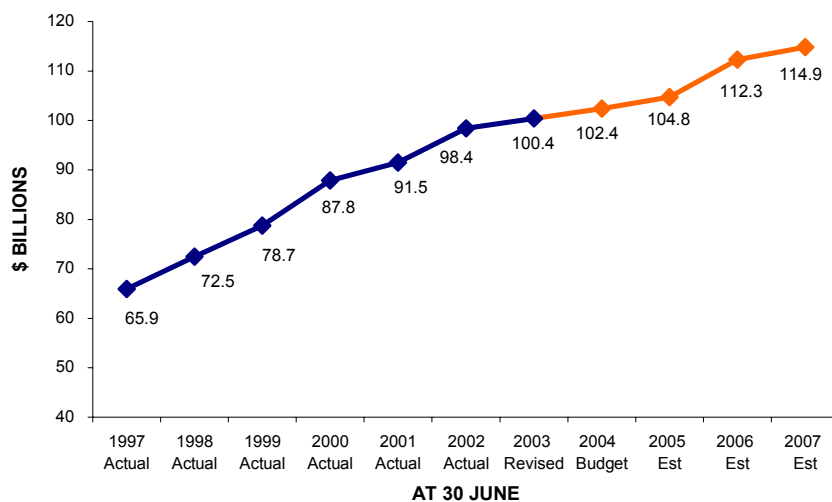
SOURCE: Chapter 1.

*Net financial liabilities fall as a percentage of gross state product, and net worth hits \$102.4 billion.*

The financial strength of the State has improved significantly, with an average annual real increase in general government sector net worth of 5.0 percent from June 1997 to June 2003 (Chart 2).

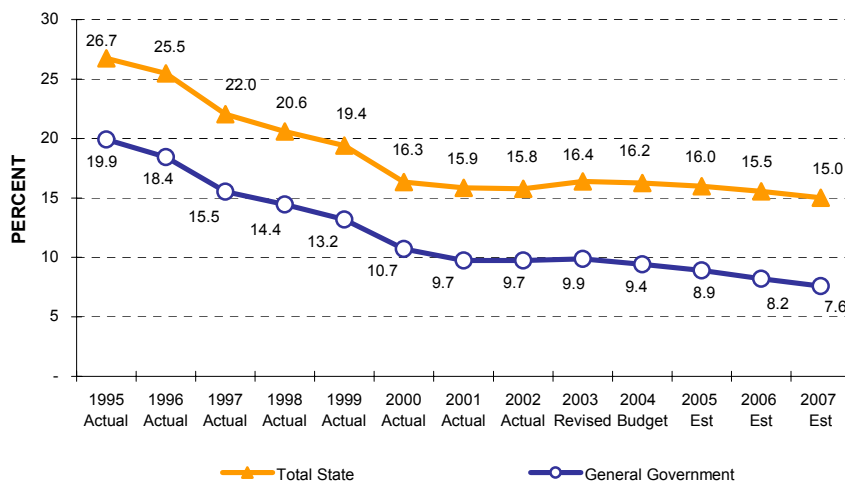
General government net financial liabilities will have declined from \$32.8 billion (19.9 percent of GSP) in June 1995 to \$25.8 billion (9.9 percent of GSP) in June 2003, and should decline further to \$24.9 billion (7.6 percent of GSP) by June 2007 (Chart 3). Underlying net debt has also fallen significantly over the same period, both in dollar terms and as a proportion of GSP (Chart 4).

**Chart 2: General Government Sector Net Worth, Nominal Terms**



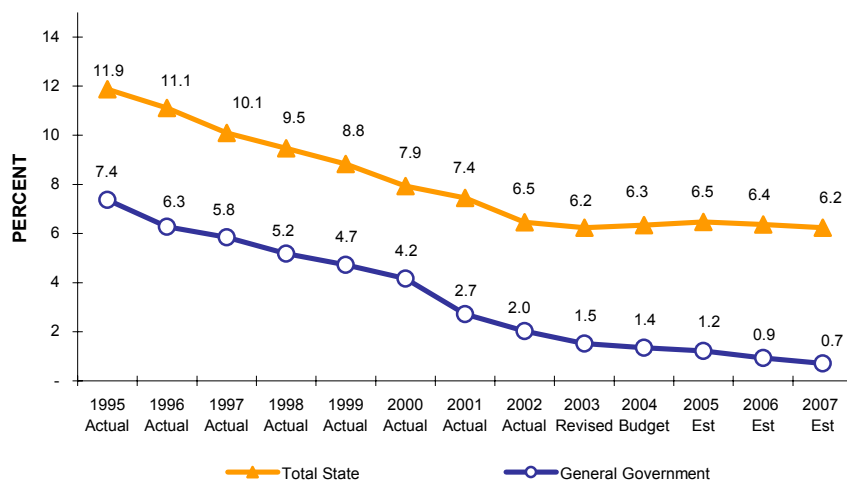
SOURCE: Chapter 4 for data from 1999.

**Chart 3: Net Financial Liabilities as a Percentage of Gross State Product at 30 June, 1995 to 2007**



SOURCES: Chapter 4 for net financial liabilities from 1999; GSP from ABS (actual) and NSW Treasury (estimates from 2002-03).

**Chart 4: Underlying Net Debt\* as a Percentage of Gross State Product at 30 June, 1995 to 2007**



\* Excluding prepayment/deferral of superannuation contributions.

SOURCES: Chapter 4 for underlying net debt from 1999; GSP from ABS (actual) and NSW Treasury (estimates from 2002-03).

The revised budget surplus for 2002-03 of \$199 million is slightly higher than the budget estimate of \$168 million. Above-budget revenue and a strong balance sheet enabled the Government to increase expenditure in priority areas, while delivering a surplus that contributed to a reduction of debt and other financial liabilities.

This Budget is framed within a fiscal strategy that aims to enhance service delivery in key areas; strengthen the State's balance sheet and maintain a AAA credit rating; and maintain ongoing benefits to business and consumers of the Government's tax reduction program since 1998-99.

In 2003-04, the expected rural recovery and moderate world growth will boost exports, but a modest housing downturn is expected to slow domestic demand and employment growth. Although aggregate output should improve in 2003-04, growth in domestic demand and employment will likely be slower than in 2002-03, with the balance of economic risks weighted to the downside (details in Chapter 5).

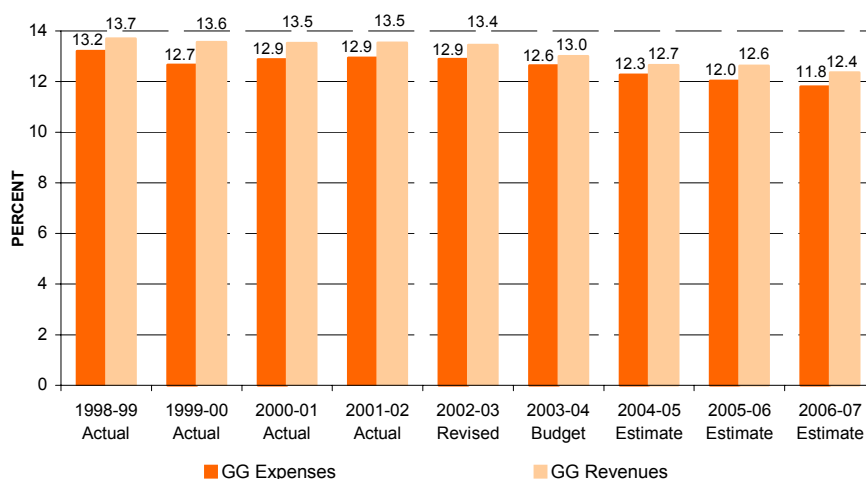
This Budget does not rely on a continuation of past rates of growth in volatile property markets. The smaller surplus in 2003-04 relative to previous years comes mainly from the expected slowdown in revenue growth. Nonetheless, the Government has still planned for additional expenditure growth in health, education, transport and social welfare.

Consistent with the fiscal strategy and the economic outlook, budget surpluses on a ‘no policy change’ basis will increase after 2003-04.

***Fiscal outcomes are on track, with surpluses of \$2.6 billion generated in the four years to 2002-03. Estimated surpluses in this Budget total \$2.1 billion in the four years to 2006-07. Debt and net financial liability ratios remain low by historical standards.***

New South Wales’ fiscal fundamentals remain strong, with international credit rating agencies again reaffirming this State’s AAA domestic debt rating and upgrading the foreign currency rating to AAA in 2002-03. The State is well positioned for a period of weaker revenue growth anticipated in this Budget. Both revenues and expenses will grow by less than nominal GSP in 2003-04 (Chart 5).

**Chart 5: General Government Revenues and Expenses\* as a Percentage of Gross State Product, 1998-99 to 2006-07**



\* Exclude Commonwealth payments through the State to third parties.

SOURCE: Chapter 1 for estimates from 2001-02.

Financial liability management measures are directed at maintaining a sustainable fiscal position, enabling progress towards medium and long-term fiscal targets. These measures include full funding of the Treasury Managed Fund self-insurance scheme by 2003, and periodic review of superannuation employer contribution levels. (See Chapter 4 for details on balance sheet management measures and trends in financial liabilities and net worth).

Chapter 1 of this Budget Paper summarises progress against the principles and targets in the *General Government Debt Elimination Act* and provides detail on the fiscal strategy, fiscal position and outlook for this Budget. Table 1 below summarises key fiscal aggregates for the general government sector.

**Table 1: Key Fiscal Aggregates, General Government Sector**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual	Actual	Actual	Actual	Revised	Budget	Est	Est	Est
<b>IN \$BILLIONS:</b>									
- Revenues	28.9	30.5	32.1	33.8	35.2	35.9	37.0	39.1	40.6
- Expenses	27.9	28.5	30.6	32.3	33.8	34.9	35.9	37.3	38.7
- Budget Result	(-) 0.1	1.4	0.6	0.4	0.2	.... <sup>(a)</sup>	0.3	0.8	0.9
- Net Financial Liabilities	27.9	24.1	23.1	24.3	25.8	26.0	26.1	25.4	24.9
- Underlying Net Debt	10.0	9.4	6.5	5.1	4.0	3.7	3.6	2.9	2.4
<b>NOMINAL ANNUAL GROWTH % <sup>(b)</sup>:</b>									
- Revenues	5.8	5.5	5.2	5.1	4.3	2.1	3.1	5.6	3.7
- Expenses	7.2	2.2	7.2	5.5	4.7	3.4	2.9	3.9	3.8
- GSP	5.3	6.6	5.5	5.0	5.0	5.5	5.9	5.9	5.9

(a) A surplus of \$43 million.

(b) Table shows nominal growth for consistency with the requirements of the fiscal principle on expenditure constraint in the General Government Debt Elimination Act 1995.

SOURCE: Chapter 1.

## SERVICE DELIVERY

***The Government has committed \$34.9 billion in this Budget for expenses and \$3.5 billion for capital investment by the general government sector.***

This Budget provides for both new and ongoing measures that meet the Government's strategic objectives. These objectives include responsible fiscal management; improved public transport services; healthier and safer communities; improved student outcomes; and improved environmental and natural resource management.

General government expenses increase in nominal terms by 3.4 percent in 2003-04 and by an annual average 3.5 percent in the four years to 2006-07.

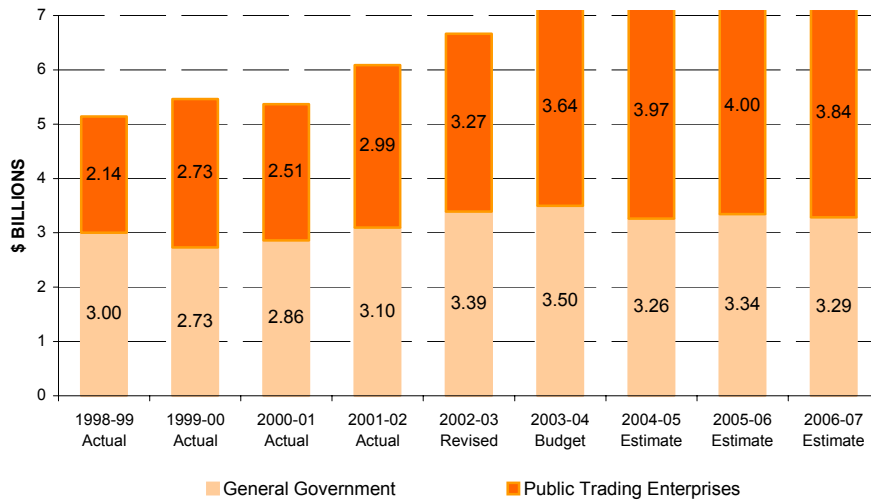
This Budget provides for initiatives affecting general government sector expenses worth \$314 million in 2003-04. Savings in non-salary operating expenses of \$99.5 million in 2003-04 will partly fund new spending. (See Chapter 2 for more details on general government sector budget initiatives and Budget Paper No.3 for expenses by portfolio and by agency.)

Total State capital spending of \$7.1 billion in 2003-04 is 7.2 percent more than in 2002-03 (Chart 6), and includes \$1.2 billion of new works commencing in the budget year and with an estimated total cost of \$3.4 billion.

General government sector capital investment of \$3.5 billion in 2003-04 includes new works worth \$380 million in 2003-04 and with a total estimated cost of \$1.6 billion.

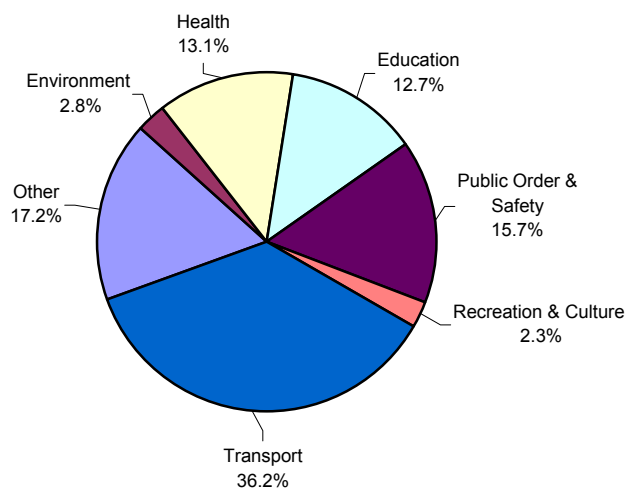
Transport, public order and safety, health and education account for the bulk of general government investment in 2003-04 (Chart 7). Budget Paper No. 4 provides further details of the State asset acquisition program.

**Chart 6: State Asset Acquisition Program, 1998-99 to 2006-07**



Source: Budget Paper No.4.

**Chart 7: General Government Asset Acquisitions by Policy Area, 2003-04**



**Total = \$3,499 million**

SOURCE: Budget Paper No. 4.

## REVENUES

*This Budget introduces a number of revenue measures over the next two years.*

Closing loopholes and base-broadening will account for most of the estimated impact (\$32 million in 2003-04) of new tax measures to be implemented in 2003-04. In addition, club and hotel gaming duty changes to be introduced from the 2004-05 financial year will be phased in over a period of seven years.

These measures reflect the Government's commitment to maintain a sound fiscal position over the course of an economic cycle, while at the same time ensuring predictability and stability of the tax regime.

Notwithstanding these latest measures which increase revenue, all tax policy changes implemented since 1998-99 will result in annual tax revenue being \$1.4 billion less in 2003-04 than it would otherwise have been. This includes payroll tax rate reductions (cumulative \$638 million), abolition of debits tax (\$312 million) and general insurance duty rate reductions (\$231 million).

Chapter 3 provides details on State own-source revenue including the impact of tax policy measures, and Chapter 7 discusses Commonwealth payments to New South Wales.