NSW GOVERNMENT

2021-22

The NSW BUDGET

HALF-YEARLY REVIEW

YOUR FAMILY,
YOUR *future*

NSW Treasury
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NSW Budget

2021-22 Half-Yearly Review

Released by The Hon. Matt Kean MP, Treasurer

Acknowledgement of Country

This Half-Yearly Review was prepared by NSW Treasury on the traditional lands of the Gadigal people of the Eora Nation.

NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork: 'Regeneration' by Josie Rose 2020

The 2021-22 Half-Yearly Review

The *Government Sector Finance Act 2018* requires the Treasurer to release a Half-Yearly Review by 31 December each year. The Half-Yearly Review should be presented in a consistent manner to the preceding Budget to allow for ease of comparison.

Best available information

Actual financial statements have been prepared based on financial information for the year ending 30 June 2021. At the time of writing the *Total State Sector Accounts 2020-21* has not been released.

The Estimated Financial Statements have been prepared to reflect best estimates of economic and financial data, including Government decisions taken up to 14 December.

Any estimates or assumptions made in calculating revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time.

The Estimated Financial Statements have been prepared in accordance with *Appendix A Statement of Significant Accounting Policies and Forecast Assumptions*.

Notes when reading this report

The Budget year refers to 2021-22, while the forward estimates period refers to 2022-23, 2023-24 and 2024-25.

Figures in tables, charts and text have been rounded and any discrepancies between totals and sums of components reflect rounding. Percentage changes are based on unrounded estimates.

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1. OVERVIEW

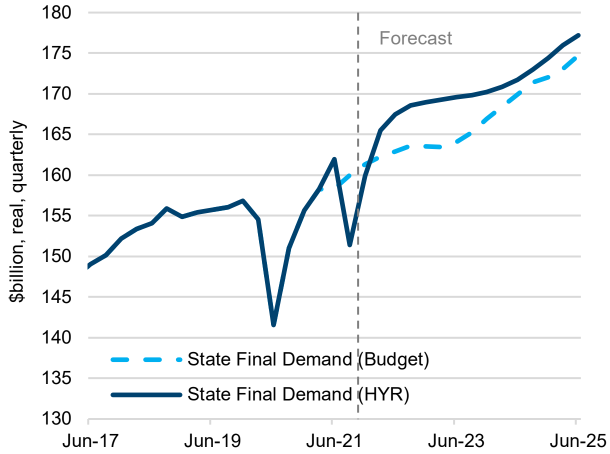
2021-22 Half-Yearly Review Highlights

- Following the 2021-22 Budget, New South Wales was hit by another COVID-19 outbreak – in this instance, by the more contagious Delta variant. To reduce transmission and help keep people safe, the public health response included restrictions on activity in both Sydney and regional New South Wales.
- The pandemic and associated public health measures saw New South Wales record a contraction in economic activity in the September quarter of 2021. The impact, however, was less severe than in 2020 and a fast recovery is expected.
- Within the next six months (by the end of March quarter 2022) state final demand is forecast to exceed the levels recorded prior to the Delta outbreak. This should drive a recovery in the State's labour market.
- Since the Budget, the Government has committed economic and social support packages totalling $13.7 billion.[1] These include JobSaver payments to keep workers connected to employers and facilitate a rapid rebound in jobs, as well as other COVID-19 grants to support businesses and not-for-profit organisations.
- The investments since the Budget will not only help the State recover from COVID-19 but will also support long-term prosperity. The Government has announced a comprehensive $2.8 billion Economic Recovery Strategy. The $5 billion WestInvest initiative will also rejuvenate Western Sydney through improved parks, more open spaces and other community projects.
- The Government has also set aside $7 billion to invest in productivity reforms and as a COVID-19 contingency.
- While these measures have provided significant support to the community and the economy, the State's operating position has deteriorated since the Budget. Most of the impact is contained within 2021-22, increasing the deficit to $19.5 billion. The Government still remains on track to return to surplus by 2024-25.
- The Government's fiscal position is supported by strong balance sheet management. Sale of the Government's remaining interest in WestConnex was successfully undertaken in September 2021, enabling $11.0 billion of debt to be retired through the NSW Generations Fund. Borrowings for the general government sector at June 2025 are forecast to be $10.3 billion lower than at Budget. Net debt is projected to return towards 7 per cent of gross state product by June 2031, consistent with the target outlined at Budget.
- The Half-Yearly Review relies on forecasts and assumptions, detailed in Appendix A. The emergence of the COVID-19 Omicron variant adds significant uncertainty to the fiscal and economic forecasts, as will future variants of COVID-19.

[1] Includes Commonwealth Government contributions.

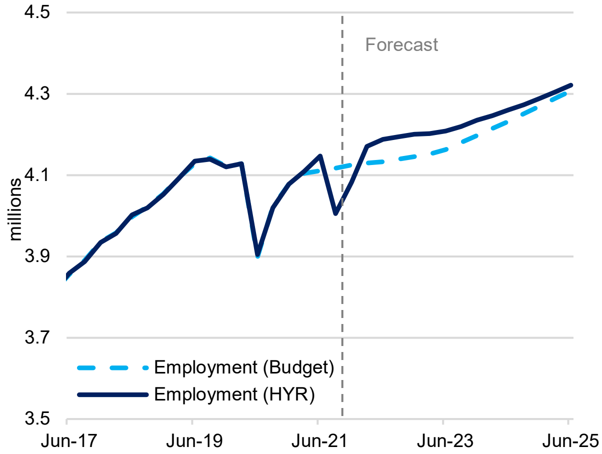
The Delta outbreak had a significant impact on the economy, but a second 'V-shaped' recovery is expected

Chart 1.1: Economic activity is expected to bounce back



Source: ABS and NSW Treasury

Chart 1.2: As is employment



Source: ABS and NSW Treasury

Shortly after the 2021-22 Budget was handed down, New South Wales was hit by the Delta outbreak. To protect the health of the people of New South Wales, the Government introduced public health restrictions in Greater Sydney and across regional New South Wales.

As a result, economic activity (as measured by state final demand) fell by 6.5 per cent in the September 2021 quarter. Over this period, 234,000 jobs were lost. While significant, this was a less severe impact than the shutdown in 2020, which saw state final demand decline by 9.7 per cent over the first half of 2020, with employment falling by 266,000 jobs.

As was the case in 2020, the shutdown is only expected to have a temporary impact on the economy. Significant government stimulus (Box 1.1) combined with high vaccination rates is forecast to see the NSW economy recover faster than after the shutdown in 2020.

In the first quarter of 2022, state final demand is expected to exceed pre-Delta levels and all jobs lost during the Delta outbreak are forecast to be recovered. The outlook across the forecast horizon to 2024-25 is for unemployment to be lower than forecast in the Budget. The emergence of the Omicron variant, however, adds significant additional uncertainty to the economic forecast.

An in-depth analysis on the State's economic outlook is available in *Chapter 2 Economic Outlook*.

Box 1.1: Securing a strong rebound

The Delta outbreak led to the loss of around 234,000 jobs across the state. With restrictions eased and the economy reopened, the expectation is that employment will recover strongly. Three policy responses will bolster the recovery:

1. Targeted support measures provided during restrictions (for an update on implementation, see Box 3.6)
2. A clear reopening roadmap
3. A comprehensive $2.8 billion Economic Recovery Strategy.

The expectation is all jobs will be recovered by the March quarter of 2022. By the end of the September quarter, the level of employment is projected to be 40,000 higher than prior to the Delta outbreak.

The Economic Recovery Strategy announced post-Budget

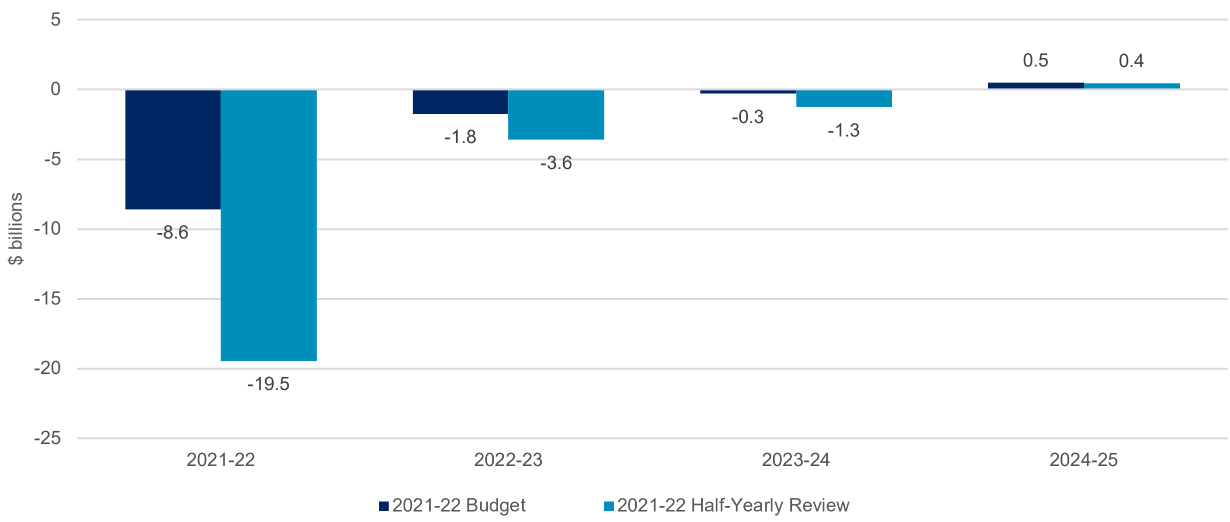
The Government announced a signature $2.8 billion Economic Recovery Strategy in October 2021. This includes:

- $739 million in household and social support, including:
  - housing support for vulnerable Aboriginal communities
  - expansion of solar rebates for low-income households
  - support measures for victims of domestic and family violence
  - vouchers to parents who have facilitated home learning for their children.
- $500 million to restore consumer and business confidence, including:
  - expansion of the Dine & Discover voucher program by providing two additional $25 vouchers per person
  - an expanded Stay & Rediscover accommodation voucher program.
- **$495 million in education support** to address learning gaps for children in need and to help schools adapt to future possible learning disruptions
- **$250 million to support jobs and skills**, including help for job seekers to retrain or upskill
- **$212 million to boost vital sectors of our economy**, including additional funding for the performing arts sector, an Alfresco Restart Package, and support to bring our cities back to life
- **$200 million to support businesses and communities in our regions,** including support for events, facilities and local infrastructure, and housing
- **$130 million for a mental health recovery package** to provide immediate access to help for people whose mental health has been impacted by the COVID-19 pandemic
- **$75 million to boost communities across the state**, including support for tourism, events, sport and recreation
- **support for business sectors still under pressure**, including Event Saver to support event organisers, and expansion of the small business rebate for fees and charges to include road tolls.

Further information is available at www.nsw.gov.au/covid-19/economic-recovery-strategy

The fiscal position is supporting investment in economic recovery and longer-term growth

Chart 1.3: Budget Result – 2021-22 Budget vs. 2021-22 Half-Yearly Review



Over the past two years, the Government has balanced spending on timely COVID-19 support with rebuilding the State's fiscal capacity to respond to future shocks and boost productivity.

To guide the fiscal strategy over the medium-term, the Budget set out objectives to return the State to surplus by 2024-25 and bring net debt down towards 7 per cent of gross state product by June 2031. These objectives support the Government's commitments under the *Fiscal Responsibility Act 2012*.

The Government's fiscal objectives remain on track, with the budget impact of the Delta outbreak largely contained to the near-term.

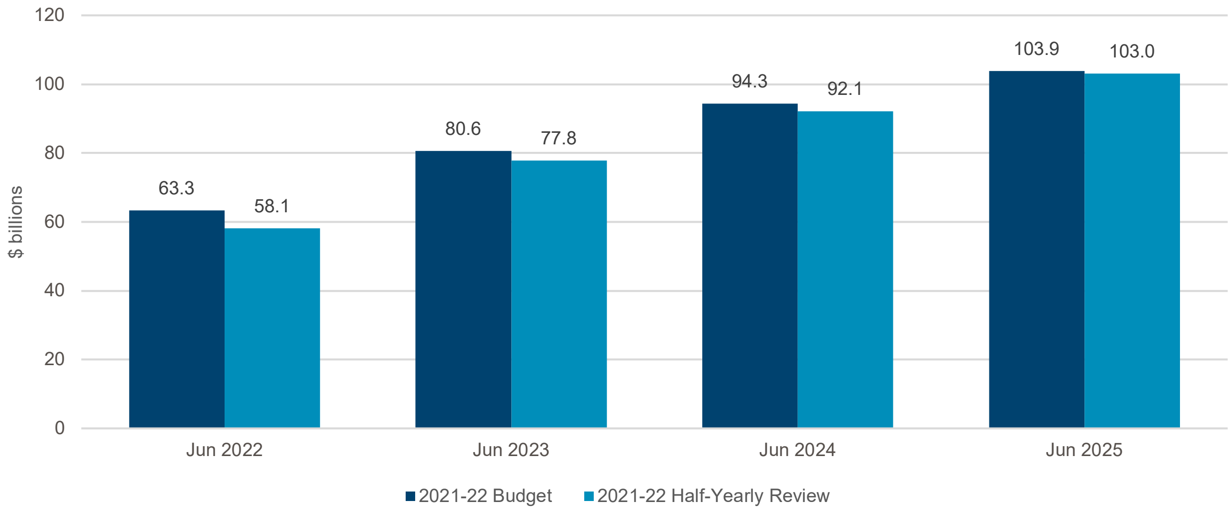
Since the Budget, the projected deficit for 2021-22 has deteriorated by $10.9 billion to $19.5 billion (see Chart 1.3). This revision is primarily driven by an increase in expenses as the Government provided economic and social support during the shutdown – including JobSaver payments and other grants to businesses and not-for-profit organisations.

For the three following years (2022-23 to 2024-25), expenses have increased by $9.7 billion. The higher expenses, however, are offset somewhat by a $6.9 billion increase in revenue over the corresponding period. This is driven by higher mining royalties, transfer duty and GST revenue. Overall, the projected operating position remains largely unchanged over the three years to 2024-25 since the Budget.

The Government remains on track to deliver a surplus in 2024-25.

The Government is delivering a record capital program of $110.4 billion over the four years to 2024-25. This is a net increase of $1.9 billion since the Budget, with the Delta outbreak and broader capacity constraints placing some pressure on delivery and costs.

Chart 1.4: Net Debt – 2021-22 Budget vs 2021-22 Half-Yearly Review



The net debt position has improved since Budget. Net debt is projected to be $58.1 billion at June 2022, which represents an improvement of $5.1 billion (see Chart 1.4 above). This result follows the successful sale of the State's remaining 49 per cent interest in WestConnex – a transaction which has returned more than $11 billion in proceeds. The net proceeds were deposited in the NSW Generations Fund, to enable retirement of an equivalent amount of debt.

In June 2025, net debt is projected to be $103.0 billion, slightly lower than projected at Budget. This decrease is supported by the Government's successful WestConnex transaction (and associated debt retirement) and an improved revenue outlook. This has been offset by additional expenditure on initiatives such as WestInvest (Box 1.2) as well as the funding set aside for future productivity reform and COVID-19 contingency.

The Government remains on track to bring net debt down towards 7 per cent of gross state product by June 2031. Further analysis on the fiscal outlook is available in *Chapter 3 Fiscal Position and Outlook*.

Box 1.2: WestInvest will deliver for Western Sydney

The NSW Government is committed to ensuring Western Sydney is both an economic powerhouse and a great place to live. In September 2021, the Government announced WestInvest, a $5 billion program that will drive transformation and aim to significantly lift liveability outcomes in the region. Investments will focus on economic, social, and environmental infrastructure.

Funding will be allocated to projects aligned to the six WestInvest themes:

1. Quality green and open spaces
2. Community infrastructure
3. School modernisation
4. Arts and culture facilities
5. High street activation
6. Local traffic programs

To ensure funding is accelerated into projects that benefit the people of Western Sydney, the Government will be announcing its first tranche of approvals in early 2022. Local communities will also be empowered to identify improvements and put forward projects. Community consultation will commence in early 2022.

The strategy ahead - reforms that make New South Wales even better

Looking beyond the immediate challenges of COVID-19, opportunities exist to drive growth within the state.

The *2020-21 NSW Intergenerational Report* (IGR) points to a range of economic reforms that would lift future living standards. A broad spectrum of opportunities exist – including taxation, regulation, health, education, and industry policy. Reforms in the *NSW Productivity White Paper* could lift gross state product by 2 per cent by 2041 and lift working age real incomes by an average of $1,700 per annum.

The 2022-23 Budget will be handed down in June 2022. It will set out the next phase of the Government's fiscal and economic strategy.

The Government will continue to pursue measures that lift overall economic productivity. It will continue to pursue opportunities for Government services to be more efficient and more effective. Much of the policy work and evidence base is already in place. The IGR has identified several opportunities, including:

- **Improving housing affordability.** Home ownership is closely linked with disparities in income and wealth, and home ownership rates have declined over recent decades. Reforms that build more homes, support housing affordability and ensure flexibility to needs and preferences will help to secure future living standards. The Government's property tax reform proposal continues to progress and would allow over 300,000 more people to own their own home.
- **Increasing productivity.** If productivity grows just 0.1 per cent faster each year, households would have an additional $11,000 in annual income by 2060-61 on average (in today's dollars) and the budget would be put on a more sustainable footing. A range of opportunities are set out in the *NSW Productivity White Paper* aimed at lifting productivity growth.
- **Increasing the workforce participation rate, particularly amongst women.** An increase in the women's participation rate to the same level as men's, implemented over the next 20 years, would lead to an 8 per cent larger economy in 2060-61. This is equivalent to an annual increase of $22,000 in income per household (measured in today's dollars), see Box 2.3.
- **Addressing climate risks.** More frequent and severe natural disasters are projected to have significant costs on the NSW economy, with further costs from other climate related changes. Ensuring new housing and infrastructure is resilient to climate risks will be critical in securing a safe and prosperous future for communities while minimising risks to the budget.
- **Managing the transition to net zero.** The NSW economy is projected to be $13 billion larger by 2060-61 by avoiding a 'slow and disorderly' transition. The Government has also set out a range of policies to achieve the net zero target, including the:
  - Electricity Infrastructure Roadmap – the largest legislative renewable energy policy in Australia's history
  - Hydrogen Strategy
  - Electric Vehicle Strategy
  - Net Zero Plan Stage 1: 2020-2030 and Implementation Update.

  The Government has committed to reducing the state's emissions by 50 per cent by 2030 compared to 2005 levels and is planning renewable energy zones to secure private investment and build a new net zero economy.

Box 1.3: Electricity Infrastructure Roadmap

The NSW Government's Electricity Infrastructure Roadmap is the largest renewable energy policy in Australia's history and will support the state's economic recovery, lay the foundation for a globally competitive economy and assist the state in meeting its net zero commitment by 2050. The Roadmap ensures households and businesses have access to affordable, reliable and sustainable energy and will:

- attract up to $32.0 billion in private investment for energy infrastructure by 2030
- support over 6,300 construction jobs and 2,800 ongoing jobs – mostly in regional New South Wales
- deliver savings on average NSW electricity bills of around $130 a year for households and $440 a year for small businesses between 2023 and 2040.

The 2021-22 Budget provided $412.9 million recurrent and capital expenditure over four years, including $379.6 million in new expenditure, to support the Roadmap including funding:

- to establish the administrative entities including the Consumer Trustee, Financial Trustee and the Regulator
- for the Energy Corporation of NSW to coordinate delivery of Renewable Energy Zones (REZs) across New South Wales.

Since the 2021-22 Budget, the NSW Government has made significant progress, including:

- accelerating the delivery of five REZs, including Central-West Orana, New England, South West and the Hunter-Central Coast REZs. The market response to Central-West Orana REZ alone was 27 gigawatts of new generation and storage projects, which is over 9 times the amount required to deliver the REZ
- appointing the independent Australian Energy Market Operator as the NSW Consumer Trustee and the Australian Energy Regulator as scheme regulator. The two entities will work with the Energy Corporation NSW to deliver the Electricity Infrastructure Roadmap.

The policy agenda for the next Budget is being developed within a fiscal strategy to maintain a sustainable operating position and sustainable levels of net debt over the medium-term.

Fiscal responsibility also means making sure that all public money is spent well, and that Government services and infrastructure deliver value to the community. Outcome Budgeting remains the foundation that ensures Government manages the performance of every dollar spent (see Box 1.4).

Box 1.4: A management approach that focuses on performance

The Government's approach to Outcome Budgeting is focused on driving a performance culture and using data to inform investment decisions. This is increasingly important as COVID-19 has introduced fiscal pressures. COVID-19 has also accelerated changes in how citizens deal with Government services.

Using an outcome perspective, the Government has been able to make agile and targeted investments. It has then been able to track what community impact those investments have delivered. The case study below illustrates how Outcome Budgeting enables the Government to focus on achieving specific outcomes with allocated spend.

Case Study: NSW elective surgery wait times

The Health Cluster is responsible for the State Outcome *'People receive high-quality, safe care in our hospitals'*. An important 'measure of success' is the proportion of elective surgery patients that are treated on time. The Government has been using real performance data to:

- understand in a measurable and objective way how the community has been impacted through COVID-19
- inform additional investment decisions (and track the results).

Following the COVID-19 outbreak, all non-urgent elective surgery was suspended across the nation in March 2020. While a staged recommencement began in late April, the wait times for non-urgent surgeries in New South Wales substantially deteriorated.

This performance metric informed the NSW Government decision to invest $458.5 million in 2020-21 to ramp up elective surgeries. It focused on patients whose surgery had been delayed by COVID-19. The investment allowed public patients to be treated in private hospitals while public hospitals also increased surgery capacity.

Following this measure, the December quarter of 2020 and the March quarter of 2021 witnessed a large increase in the number of elective surgeries performed. Data showed most of the uplift was driven by the utilisation of capacity in private hospitals for public patients. Equipped with this data, the NSW Government allocated a further $80 million in the 2021-22 Budget to continue fast-tracking elective surgeries and to improve hospital performance. The goal was to clear the remaining elective surgery backlog and take the additional pressure off the hospital system due to COVID-19.

The Delta outbreak then hit New South Wales and from 2 August 2021, all non-urgent elective surgery was (again) suspended in public hospitals in the Greater Sydney region. A return to full capacity commenced from 15 November 2021. The data is already showing that the effect of the suspension has been significant – likely greater than what was seen in 2020. Evidenced-based decision making means the Government is able to actively monitor the impact to continue making informed investments in this space, if required.

2. ECONOMIC OUTLOOK

Key points

- The 2021-22 Budget forecast a continued strong economic rebound in New South Wales from the impact of the initial phase of the COVID-19 pandemic. This reflected progress in easing social distancing measures and effective Government fiscal support.
- The subsequent spread of the Delta variant of COVID-19 temporarily halted the recovery. The large fall in activity in the September quarter 2021 lowers forecast growth in 2021-22 compared to Budget.
- However, there are signs of another strong rebound following high vaccination rates and the associated reopening of the economy. State final demand is forecast to exceed pre-Delta levels by the March quarter 2022.
- The medium-term outlook for the NSW economy has improved. Growth after 2021-22 is forecast to be above its long-run potential rate. This reflects stronger underlying economic momentum heading into the Delta outbreak and a more rapid recovery in employment than previously forecast.
- The emergence of the Omicron variant, however, has significantly raised the level of uncertainty associated with the recovery. Risks to the economic outlook will remain at least until more details of the new variant are known.
- In addition to the risks from Omicron and the possible emergence of other variants, the economic outlook remains subject to greater-than-usual uncertainty. Other risks include global supply chain constraints impacting global inflation, potential for weaker growth in key trading partners, and domestic labour shortages.
- Economic reform remains critical to securing the State's long-term success.

Table 2.1: Economic performance and outlook[(a)]

	2020-21 Outcomes	2021-22 Revised Forecast	2022-23 Revised Forecast	2023-24 Revised Forecast	2024-25 Revised Forecast
Real state final demand	2.9	2¾ (3½)	5 (1¼)	1 (2½)	2½ (3)
Real gross state product	1.4	2½ (3¼)	3¼ (1)	1½ (3¼)	2¼ (3¼)
Employment	0.4	½ (1¼)	2¼ (½)	1 (1¼)	1¼ (1¾)
Unemployment rate [(b)]	5.2	5¼	4½ (5)	4½ (4¾)	4¼ (4½)
Sydney consumer price index	1.5	2½ (1¾)	2¼ (1¾)	2½ (2¼)	2½ (2¼)
Wage price index	1.5	2¼ (2)	2¼	2½ (2¼)	2¾ (2½)
Nominal gross state product	3.0	8 (5½)	4¼ (2½)	2¼ (4)	3¾ (4½)
Population [(c)]	0.1	0.4 (-0.1)	0.7	1.1	1.2

(a) Per cent change, annual average, unless otherwise indicated. Budget forecasts in parenthesis where different.
(b) June quarter, per cent.
(c) Per cent change through the year to 30 June. Forecasts rounded to nearest 0.1 percentage point.

Source: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and NSW Treasury

2.1 The near-term outlook is dominated by the recent Delta outbreak and the subsequent recovery

The spread of the Delta variant set the recovery back temporarily

The 2021-22 Budget forecast a continued strong economic rebound from the disruption caused by the initial phase of the COVID-19 pandemic. This reflected the successful management of the pandemic, which allowed the removal of most domestic social distancing measures alongside significant and effective monetary and fiscal support from all levels of government and the Reserve Bank of Australia (RBA).

The spread of the Delta variant of COVID-19 from mid-June 2021 temporarily halted this recovery. State final demand fell by 6.5 per cent in the September quarter as case numbers jumped sharply and restrictions were reinstated to manage health risks. Employment, meanwhile, fell by 234,000 over the three months to September. Activity in the quarter was significantly supported by public spending, which grew by 3.1 per cent, helping to offset the large decline in private activity.

Growth in gross state product (GSP) in 2021-22 has been revised down to a still healthy 2½ per cent, reflecting the impact of the Delta outbreak on September quarter activity. This compares to expectations at the time of the 2021-22 Budget of 3¼ per cent.

As was the case in 2020, the drop in activity is expected to be temporary, with policy support such as JobSaver and business grants successfully sustaining businesses and supporting consumer incomes.

Positive signs the economy will recover quickly but Omicron is a risk

Economic activity is set to rebound strongly from the December quarter as pent-up demand in consumer spending is released and businesses re-employ temporarily stood down workers. Timely indicators such as retail sales and weekly payroll jobs already have revealed a sharp recovery in private sector activity. Additionally, strong consumer sentiment and business confidence suggest further gains to come.

State final demand, the broadest measure of economic activity available on a quarterly basis, is forecast to be above pre-Delta levels as soon as the March quarter 2022.

The recovery from the Delta outbreak is expected to be stronger than following the initial lockdown in 2020 for a variety of reasons. These include:

- the effective COVID-19 response within the State, most notably the rapid vaccination of the adult population, which will provide consumers and businesses the confidence to spend and invest
- significant levels of stimulus from all levels of government, which has provided additional support to incomes and balance sheets
- both businesses and consumers have better adapted to the latest outbreak through e-commerce and working from home
- stronger-than-expected activity in the June quarter prior to the latest outbreak provides a firmer base for recovery
- the reopening of international borders increasingly should support the recovery through 2022, alleviating labour shortages and boosting education exports.

New South Wales is expected to recover the 234,000 jobs lost through the Delta outbreak by the first quarter of 2022 (see Box 2.1 for the impact of Government support on the recovery). Demand for labour is strong, with job vacancies for November 2021 running at 41.5 per cent above the level seen in the year prior to the pandemic, as reported by the National Skills Commission.

The recent emergence of the Omicron variant, however, has significantly raised the level of uncertainty associated with the recovery. Until more details are known, there are significant risks surrounding the economic forecasts, particularly in the near term. The impact will depend on how effective vaccines are against the new strain, its level of infectiousness and the extent of the threat of serious illness.

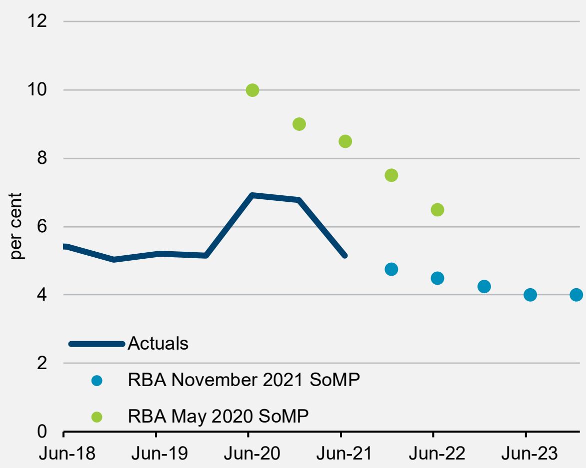
Box 2.1: The Government's fiscal support saved jobs and enabled a rapid rebound

NSW businesses were heavily affected by the Delta outbreak. The NSW Government moved quickly to support these businesses, with a package which included JobSaver, the COVID-19 Business Grant, and the COVID-19 Micro-business Grant. These were available to affected businesses throughout New South Wales in any industry. In total more than $10.2 billion in support has already been paid to businesses in New South Wales.

These broad-based fiscal measures were designed to help businesses survive the lockdown, so they could continue to support employment and the economy after restrictions lifted. Their impact has been significant. JobSaver, for example, has helped over 200,000 businesses, with the majority (over 150,000) being employing businesses.

A key objective of the support deployed during the pandemic has been to help maintain the relationship between employers and employees. These relationships are instrumental in ensuring a swift recovery in the labour market following lockdown. The Commonwealth's JobKeeper program successfully achieved this following the initial 2020 outbreak, with employment returning to pre-pandemic levels by early 2021. The unemployment rate during this period remained well below the expectations of many (including the RBA, see Chart 2.1).

Chart 2.1: RBA national unemployment rate forecasts



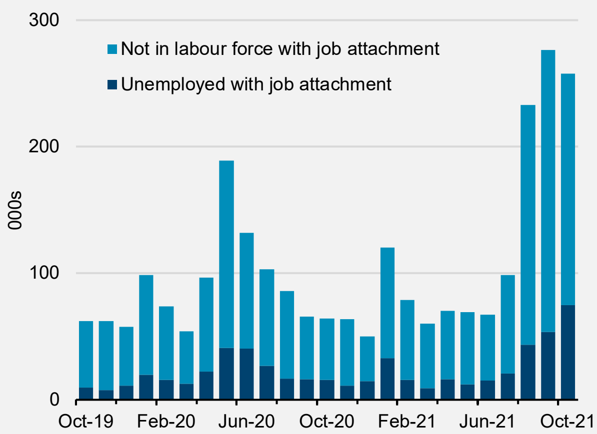
Source: RBA Statement on Monetary Policy (SoMP)

In responding to the Delta outbreak, the strategy of the NSW Government has largely remained focused on linking support to employment outcomes.

The results are evident in the latest ABS Labour Force figures, which showed that, at its peak in September 2021, there were almost 280,000 people in New South Wales classified as 'unemployed' or 'not in the labour force' but who identified as having a job that they remained connected to (Chart 2.2). That is around 90,000 more than during the initial lockdown in 2020.

It is expected these jobs will return quickly now that restrictions have eased. Recent payroll data confirm this is already occurring.

Chart 2.2: People who are not employed but have job attachment in NSW



Source: ABS and NSW Treasury

Feedback from business has emphasised the importance of the Government's support measures in keeping businesses afloat. 53 per cent of surveyed businesses indicated they "would be closed" without COVID-19 assistance programs.

2.2 The outlook for the global economy

Global growth slows but remains favourable

As global vaccine uptake gradually increases, countries have come out of lockdown and economic growth remains healthy. Since the 2021-22 Budget, the International Monetary Fund (IMF) slightly downgraded 2021 global growth by 0.1 percentage points to a still very strong 5.9 per cent and revised up 2022 growth by 0.5 percentage points to 4.9 per cent.

However, the global recovery remains uneven, with developing countries lagging because of limited vaccination coverage and less policy support to counteract the impact of COVID-19.

Global inflation pressures have picked up over recent months, which may affect the economic recovery. In November, annual consumer price inflation in the United States climbed to its highest rate in almost 40 years.

These price pressures predominantly are being driven by global supply chain bottlenecks and strong demand for goods. Inflation is expected to subside in 2022 as economies reopen, lessening supply chain issues, and more demand shifts from goods back to services.

Global COVID-19 risks and uncertainty still exist

New COVID-19 variants (including Omicron) or another large outbreak could lead to a deterioration in the global economic outlook. Ratings agencies have warned the Omicron variant poses a risk to the global recovery, as it may further constrict already strained supply chains and labour markets. While large-scale shutdowns are less likely, the reopening of international borders means economies and governments may need to adapt to newer strains. Large outbreaks, such as those being experienced in Europe, are another potential risk in those countries with waning or limited vaccine protection (see Box 2.2).

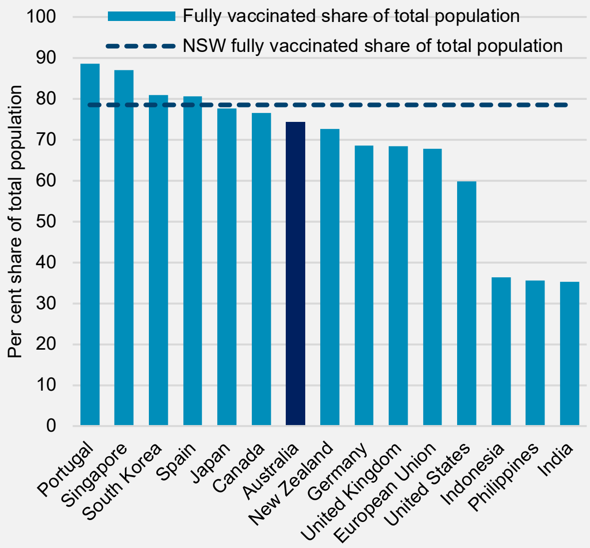
Another risk is the potential slowdown of the Chinese economy. China's economy grew by 4.9 per cent in the September quarter, the slowest rate in a year. China's ongoing policy effort to reduce leverage in the property sector has raised concerns around the ongoing financial viability of several large Chinese property developers, with potentially significant impacts on global capital markets. Combined with energy shortages and COVID-19 related restrictions, this presents a risk to China's growth and the global recovery.

Box 2.2: Vaccinations are a major piece in the economic recovery

2021 has seen the rapid rollout of COVID-19 vaccines across the developed world. This has allowed restrictions used to control the spread of the virus to be eased, and economic activity to rebound.

The easing of restrictions, and the confidence associated with vaccinations, have enabled pent-up spending and investment to occur.

Chart 2.3: Vaccinations rates across selected countries as at December 2021



Source: Our World in Data, NSW Health

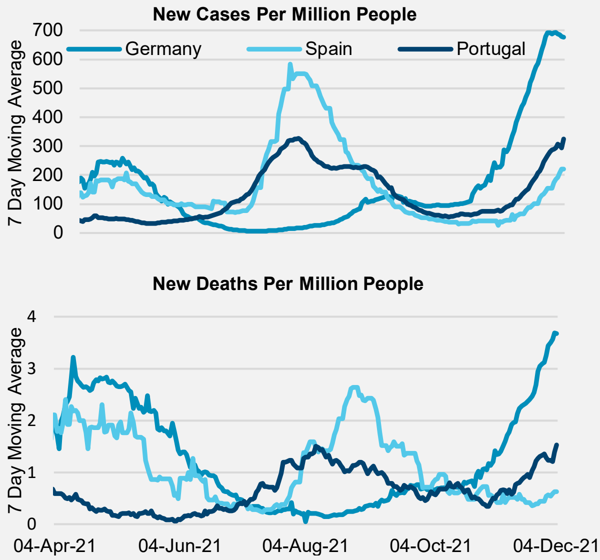
The importance of vaccines has clearly been demonstrated in Europe, which is currently experiencing a fourth wave of COVID-19.

Vaccine rates differ quite significantly across countries. Germany is lagging behind other countries like Spain and Portugal (Chart 2.3). This is resulting in marked differences in health outcomes.

Germany is not only experiencing high COVID-19 case numbers, but also a marked increase in hospitalisations and deaths. By contrast, Spain and Portugal are not only experiencing lower case numbers, but crucially are seeing much lower deaths (Chart 2.4).

This bodes well for New South Wales, with 78.5 per cent of our total population, and 93.1 per cent above 16 years of age fully vaccinated as at mid-December 2021. This is one of the highest vaccination rates around the world (Chart 2.3).

Chart 2.4: Cases and deaths – select countries



Source: Our World in Data, John Hopkins University

The Omicron variant has illustrated the potential threat of new strains and how quickly they can spread across nations. However, because of vaccinations, the world is in a better place to respond to any new variants that may emerge. Vaccine makers have the ability to alter vaccine designs to respond specifically to new variants quickly.

Moreover, by substantially easing the burden on health systems, vaccinations are reducing the impact of COVID-19 on economies, by reducing the need for harsh restrictions and increasing the confidence of the community that they can engage in social and economic activity safely.

That said, while vaccination rates in developing countries remain low, risks to the global economic recovery will remain. Low vaccination rates increase the likelihood of new COVID variants developing and spreading a wave of illness globally. Appendix D considers a scenario in which a new variant emerges.

2.3 The NSW economic outlook in the medium term

The medium-term outlook has improved

Beyond the current 2021-22 fiscal year, forecasts for state final demand have been revised higher (average of 2¾ per cent across the three years to 2024-25) compared to Budget (2¼ per cent across the three years to 2024-25). This reflects the stronger path for the economy prior to the latest shutdown, including the strength in asset values, combined with increased public spending to support the recovery.

State final demand already had surpassed pre-COVID levels by early 2021, far sooner than most had expected, and was 3.3 per cent above December 2019 levels by the June quarter 2021. This saw all of the 266,000 jobs lost during the initial wave of the virus recovered, plus an additional 38,000 by June 2021. Had the economy not experienced such a remarkable rebound, businesses and households would have entered the Delta outbreak in a much worse position, heightening the risk of more permanent damage to the economy.

Policy support measures are expected to sustain the economic recovery over the medium term. Alongside the successful health response and vaccination rollout in New South Wales, this will foster an environment for a successful and sustainable recovery in private sector activity by providing business and consumers with the confidence that they can resume normal activities.

Public spending will remain elevated this year before easing off, while monetary policy is expected to remain highly accommodative for some time. While some market interest rates have increased recently in response to emerging inflationary pressures (both domestic and abroad), the RBA is not expected to lift the cash rate from the current record lows until the second half of 2023. Even then, interest rates will take some time to reach levels normally associated with a ‘neutral’ monetary policy setting.

Low interest rates will continue to support asset values. This has positive spillovers to the rest of the economy via wealth effects, while providing a disincentive to accumulate savings. Low interest rates also support demand for new housing and increase turnover. With the pandemic and the associated policy response driving up household savings rates sharply over the past two years, there is a potential for households to unleash a wave of discretionary spending going forward.

There are, however, some risks to the outlook for the housing market. Macroprudential measures recently have been introduced in an attempt to head off any emerging risks to the financial system from a heated housing market. Regulators could move to tighten lending standards further. Higher interest rates will also provide a headwind, with a risk that the RBA raises the cash rate sooner than expected, as currently priced into financial markets.

Finally, new variants of COVID-19, such as Omicron, could hinder the recovery, particularly if existing vaccines prove ineffective. A spike in infections would have a negative impact on confidence and prevent people from attending work while infected (discussed in the risk to the outlook below, and *Appendix D Economic Scenario Analysis*).

The labour market is expected to recover quickly

The economic contraction caused by the Delta outbreak had another marked impact on the State's labour market.

For the most part, businesses responded cautiously to the Delta outbreak. While employment across New South Wales fell by 234,000 in the three months to September, this was less than the 266,000 drop seen in the first lockdown. Many businesses retained workers and instead reduced average hours or stood them down temporarily (see Chart 2.5). Reflecting this, hours worked deteriorated faster than employment, with total hours falling by 10.6 per cent in the three months to September; this compared to a 5.6 per cent decline in employment. Women experienced a disproportionate share of employment losses during both lockdowns. However, after the first lockdown these losses were offset by their strong participation in the employment recovery (see Box 2.3).

The unemployment rate lifted to 5.4 per cent as the state prepared to exit stay at home orders in October – well below the peak unemployment rate (7.1 per cent) following the 2020 lockdown. As was the case last year, a sharp fall in the participation rate (from a pre-Delta high of 66.1 per cent in May to a low of 61.8 per cent in September) tempered the increase in the unemployment rate.

Mirroring the 2020 outbreak, the impact of social distancing restrictions varied significantly across sectors. Employment declined sharply across sectors with in-person service provision like hospitality, recreation and retail, while the construction sector was also impacted by capacity restrictions as the number of workers on worksites were restricted.

The Government's response to the Delta outbreak provided crucial support in simultaneously managing the health risks (by providing income support to workers in hotspots) while keeping businesses afloat (through business grants and JobSaver, see Box 2.1). Together, these programs helped workers retain links with their employers.

The retention of this relationship is an important determinant of the pace of the labour market recovery. Data shows that many workers classified as 'not-employed' during the Delta outbreak continued to maintain some attachment to their employers (see Chart 2.2). This suggests that employment should recover quickly as restrictions are further unwound.

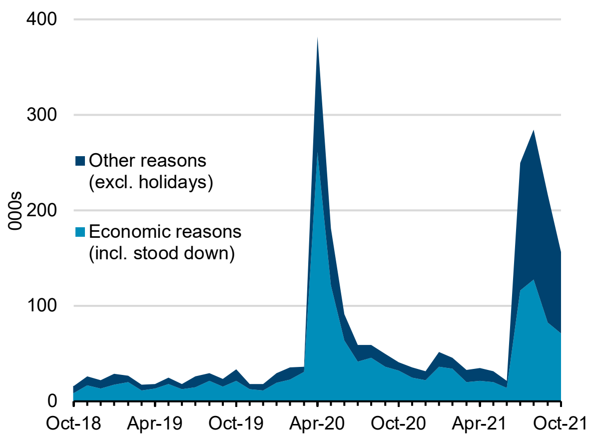
The October labour force survey was conducted prior to the reopening. As a result, it did not reflect the improvement in demand seen during the month. Given this, the 22,000 increase in employment was a positive result.

More recent data suggest the recovery is well underway. Payroll data show jobs rapidly returning to those sectors that experienced the sharpest losses as restrictions eased, with total payrolls in early November nearing their previous peaks (see Chart 2.6). At the same time labour demand remains strong, as evidenced by the elevated level of job advertisements. However, low levels of applicants per advertisement, relative to historical trends, highlights business concerns over labour shortages.

The reopening of international borders to students and skilled migrants will eventually help alleviate these skill shortages. International students, in particular, historically have played a significant role in supporting the hospitality, cleaning and retail workforce.

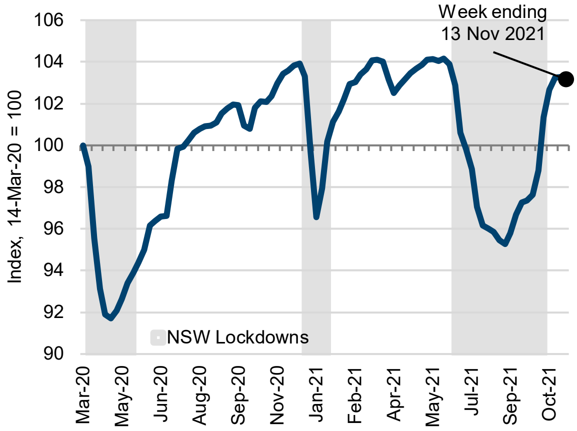
The Budget forecasts did not incorporate additional shutdowns and had the unemployment rate gradually returning to full employment[2] over the forecast horizon. The current forecasts expect the unemployment rate to peak in the December quarter 2021, as employment returns to pre-COVID levels in the subsequent quarter. The strong outlook for demand will see spare capacity ease more quickly than expected in the 2021-22 Budget, with the economy progressing towards full employment in mid-2023.

Chart 2.5: Employed people working zero hours in New South Wales



Source: ABS

Chart 2.6: NSW weekly payroll jobs



Source: ABS

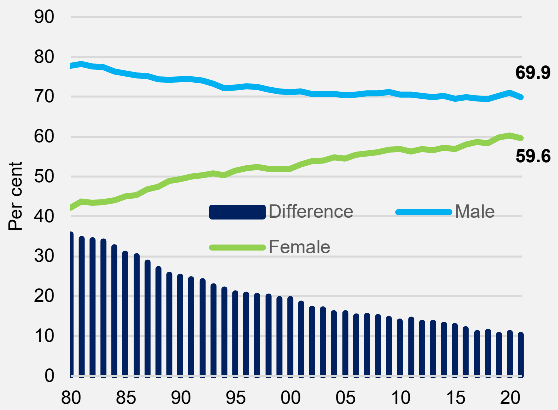
[2] Full employment is estimated to be around a 4½ per cent unemployment rate. This is considered the lowest rate of unemployment that can be sustained without accelerating inflation

Box 2.3: Female participation rates

Female participation rates in Australia and NSW have risen steadily over the past four decades. This reflects a range of factors including greater workplace flexibility, improved access to paid parental leave and affordable childcare, higher levels of education, and the shift towards more labour-intensive service industries.

Female participation has increased across most age cohorts. Some structural changes, especially improved workplace flexibility, have intensified with COVID-19, driving the female participation rate to a record high of 61.8 per cent in May 2021. However, female participation rates remain significantly lower than males (Chart 2.7).

Chart 2.7: Annual NSW participation rate – sex comparison



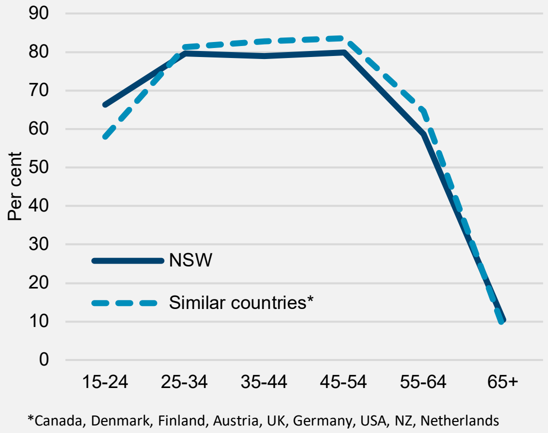
Source: ABS

While NSW has a high overall female participation rate by global standards – NSW would rank 8th in the OECD – the Netherlands, New Zealand, Switzerland, Sweden, and Norway rank higher.

The NSW female participation rate is boosted by the comparatively high participation of women at the start of their working lives. NSW female participation rates then fall behind similar countries between the ages of 25-64 (Chart 2.8)

Similarly, the major differences between male and female participation first appear in the 25-34 age bracket, when women generally begin to take the primary role in caring for children. Throughout the rest of their working lives, women in New South Wales do not reach the same levels of participation of men.

Chart 2.8: NSW female participation rate – age cohort international comparison



Source: ABS, OECD

This divergence is not experienced to the same magnitude in the Nordic countries, likely due to them having more advanced childcare and other family support policies.

There is a strong argument for policy action to support increases in female labour force participation. Achieving this would improve economic security for women by reducing the gender pay gap in lifetime earnings and boosting retirement incomes. This would in turn have a positive impact on the NSW economy.

The *2021-22 NSW Intergenerational Report* (IGR) found that lifting the rate of women's participation in paid work to equal men's over the next 20 years would lead to an economy that is 8 per cent larger by 2060-61. This is the equivalent of $22,000 more income per household (in today's dollars).

As part of the COVID-19 Economic Recovery Strategy, the NSW Government announced a review to identify barriers to women's economic participation and reform opportunities, including improvements to the accessibility and affordability of early childhood services and early childhood education outcomes.

The household sector is bouncing back strongly

Household consumption has been the biggest driver of swings in economic activity since the beginning of the COVID-19 pandemic. This sector is most affected by public health orders aimed at reducing mobility in order to limit the spread of COVID-19.

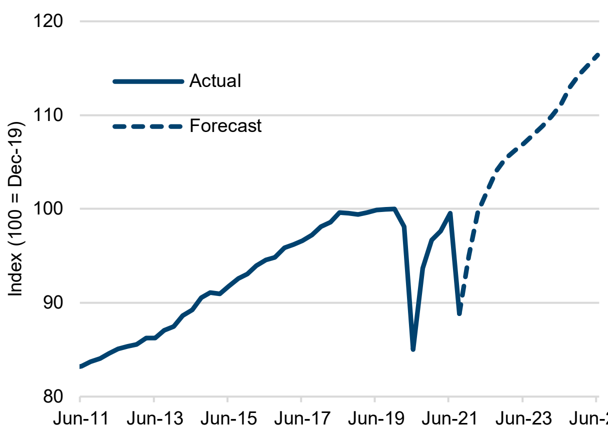
In the initial lockdown of 2020, consumer spending collapsed by 13.4 per cent. As restrictions eased through the latter part of 2020, and then the first half of 2021, there was a strong rebound in household spending. By the June quarter 2021, household spending was almost back to its pre-COVID level (Chart 2.9) having grown by 17.1 per cent compared to a year earlier.

This recovery was slowed significantly by the Delta outbreak. Household spending dropped by 10.8 per cent in the September quarter 2021. Once again, service components of consumption and discretionary goods, such as recreation, hospitality, transport services and clothing and footwear, were most affected. While significant, the decline in spending was smaller than the June quarter of 2020, despite the longer duration of the Delta outbreak. This clearly indicates consumers and businesses adapted better to the Delta shutdown as seen through stronger levels of consumer sentiment throughout the shutdown period.

Consumption is again expected to bounce back quickly now restrictions have eased. Positive consumer sentiment in New South Wales will provide support. The latest monthly retail sales data demonstrates this is already occurring with a jump of 13.3 per cent in New South Wales in October 2021 (Chart 2.10). Household consumption is expected to return to the pre-COVID level in the June quarter 2022.

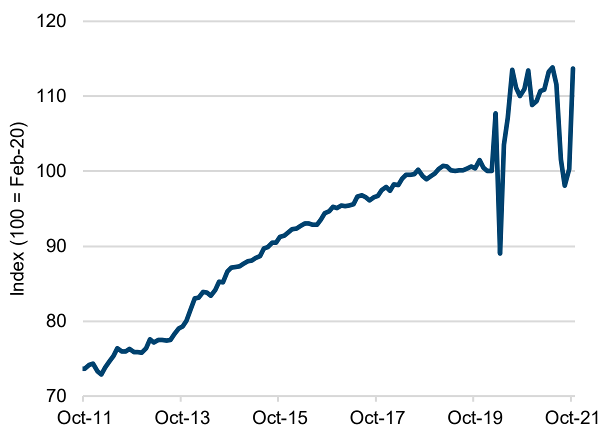
Further along the forecast horizon, spending should remain strong on the back of the tightening labour market, higher household wealth and the decreased uncertainty about COVID-19. Furthermore, consumers have built up a large pool of savings throughout the shutdown that will support additional spending.

Chart 2.9: NSW Household Consumption



Source: ABS and NSW Treasury

Chart 2.10: NSW Nominal Retail Trade



Source: ABS and NSW Treasury

A strong housing market but pressures building

Dwelling prices have increased alongside a resilient labour market, low interest rates and policy support. Sydney house prices are 36.7 per cent higher than pre-pandemic levels, further fuelled by a preference shift toward larger dwellings while activities and spending outside of the home were limited by the pandemic. Unit price growth has been modest by comparison, rising 10.0 per cent over the same period, driven primarily by lower migration and the preference shift to larger properties during COVID-19 (Chart 2.11).

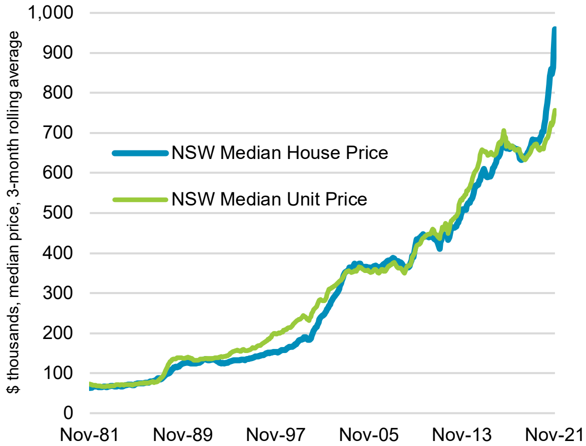
There are signs that the rapid increase in house prices is affecting affordability. According to the Housing Industry Association, affordability has fallen 8 per cent in New South Wales since the onset of the pandemic. This has contributed to a recent slowing in house price growth.

House prices have moved to the limits of affordability seen over the past 20 years. This is demonstrated by debt repayments of over 40 per cent of a monthly median income (Chart 2.12), while on current trajectory the median house price is expected to move to a level that entails debt levels greater than six times median household income.

In response, the Australian Prudential Regulatory Authority (APRA) has moved to tighten macroprudential measures owing to concerns over potential risks to the financial system and raised the interest rate buffer lenders use to assess a borrower's ability to service a loan from 2.5 per cent to 3.0 per cent. Further macroprudential measures are possible if house price growth continues, and credit and financial risks rise further.

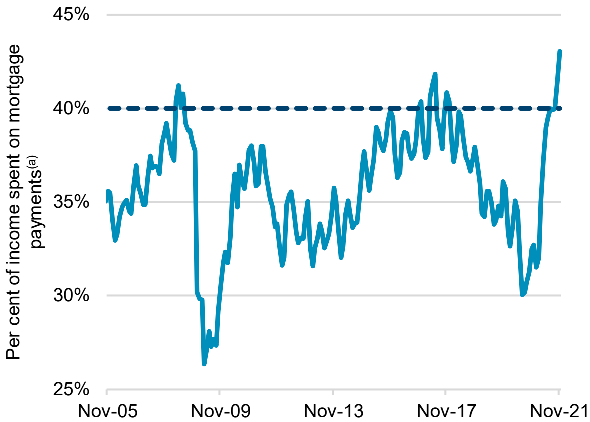
In addition, the RBA relinquished its target on the 3-year Commonwealth bond in November 2021, which has seen the 3-year fixed mortgage rate increase. Furthermore, the market has priced in RBA cash rate rises from 2022 (much earlier than the RBA have currently indicated themselves). Potential additional APRA measures and the movement in market interest rates adds to the uncertainty in the house price outlook.

Chart 2.11: NSW median house prices accelerate past units



Source: CoreLogic

Chart 2.12: The cost of owning a house in Sydney



Source: CoreLogic, ABS, RBA

(a) Mortgage repayments on a recently purchased house of median value. After tax income of a dual income household, on average incomes. Income growth estimate used for October and November 2021.

Strong capital expenditure plans will help drive the recovery

Private business investment fell sharply in the September quarter 2021 amidst the height of the Delta outbreak. The hit to activity during this outbreak appears to have been temporary, with firms looking through the short-term volatility and remaining optimistic of a strong rebound in the longer term. Business investment in aggregate is expected to contribute to growth in the economy over the course of 2021-22 and the forecast horizon.

Forward indicators are largely positive, with New South Wales business confidence remaining strong and forward orders starting their trajectory towards recovery. While the NAB's capital expenditure index has eased, it remains above its long-run average and pre-COVID levels.

New machinery and equipment investment is expected to be a key driver of this strength, with the latest ABS Capital Expenditure Survey showing firms across the country have upgraded their capital plans, with strong growth expected for 2021-22. This upgrade was stronger across the non-mining sectors compared with mining – this is a positive sign for New South Wales, as the non-mining sector makes up a greater proportion of capital expenditure.

Across the other major private investment categories, demand for new commercial buildings (which includes office and retail buildings) is likely to soften due to the movement towards more flexible working arrangements, along with a post-COVID shift towards greater online spending. This will weigh on non-residential construction. While higher demand for industrial buildings is expected to provide some offset, non-residential construction is still expected to be a drag on growth in the near term.

Business investment growth is expected to slow when Commonwealth Government tax incentives expire in the middle of 2023. However, investment is expected to remain positive reflecting the improvement in underlying economic conditions. In addition to its direct contribution to economic growth, business investment also will provide a key ingredient for driving future productivity growth as businesses adapt and implement new technologies.

Wages and inflation

The medium-term outlook for wages growth is stronger than at the time of the 2021-22 Budget. Initially, wages are expected to remain sluggish while existing enterprise agreements remain in place and businesses use measures other than raising base wages to retain and attract staff. The increase in the superannuation guarantee will restrict wages growth throughout the forecast period. Notwithstanding this, due to the upgraded labour market outlook and reduced spare capacity, annual wages growth is expected to gradually improve to be 2¾ per cent in 2024-25.

Inflation in Australia has picked up. Annual headline inflation reached 3 per cent in the September quarter, in part reflecting the weak base from 2020 (which in turn reflected in part Commonwealth childcare support). Higher fuel prices and costs for imported goods, such as cars, combined with strong housing demand and the ending of HomeBuilder subsidies have also driven the result. Underlying (trimmed mean) inflation recorded its highest level in over five years, though at 2.1 per cent was still only at the lower end of the RBA's target range.

Recent inflation pressures are expected to soften as consumption patterns normalise. In the near term, inflation is expected to remain around the middle of the RBA's 2 to 3 per cent inflation target band before declining slightly in 2022-23. Further out, the improvement in wages growth is expected to see inflation pick up again.

2.4 The State's economic reform agenda

Economic reform is critical to the State's long-term success

With the rebound from the Delta outbreak underway, supported by the Government's $2.8 billion Economic Recovery Strategy, attention needs to now shift towards boosting the drivers of economic prosperity. To do this, policy needs to focus on the longer-term economic drivers for the State (the 3Ps) – population, productivity and participation.

Prior to the pandemic, productivity growth across Australia including New South Wales had shown clear signs of slowing. Going forward, the best way to improve our productive capacity as we rebuild the State is to focus on productivity and participation.

The *2021-22 Intergenerational Report (IGR)* and the *NSW Productivity Commission White Paper 2021* both reinforced this, demonstrating that improving the economy's productivity is the most effective way of improving both living standards and the fiscal sustainability of the State. The NSW Productivity White paper has identified reforms that would lift GSP by 2 per cent and increase working age real incomes by an average of $1,700 per annum by 2041. The IGR also demonstrated the potential lift in per capita economic growth from increasing economic participation.

Prior to the Delta shutdown, the NSW Productivity Commissioner released the *Productivity Commission White Paper 2021, Rebooting the economy*. The paper identified 60 opportunities to guide the choices we make today to set up the foundations for long-term productivity and economic growth and make New South Wales a more attractive place to live, work, start a business, and raise a family. The Government has progressed some of these reforms and will continue to draw upon this work where opportunities can be realised (see Box 2.4).

In addition, the Government will continue to explore other reform opportunities including:

- increasing women's participation – the IGR highlighted the opportunity from lifting women's participation to the same levels as men over 20 years. It estimates that doing so would increase living standards ($22,000 per household by 2060-61) and reduce the fiscal gap (from 2.6 to 1.9 per cent of the economy)
- addressing home ownership challenges – to adequately house our workers and NSW citizens, measures to boost housing supply in the right locations would ease upward pressure on housing costs. In addition, property tax reform would increase home ownership by an estimated 7 per cent and ease dwelling prices and rents by 3–4 per cent over the long run
- fostering the development of new technologies (such as hydrogen and advanced manufacturing) – the NSW Productivity Commission (PC) has showcased the benefits from embracing new ways of doing things, with the PC estimating that more flexible rules for the use of drones in agriculture alone potentially delivering up to $500 million in net benefits as farming work is made more efficient and safe
- managing the decarbonisation of the economy and embracing opportunities arising from building a more sustainable economy. The Government already has introduced policies to reduce the State's greenhouse gas emissions by 50 per cent by 2030, however opportunities remain to build back greener and support a more sustainable economy.

Investment in these reforms will build on the work already underway as part of the Government's broader COVID-19 response and recovery agenda. Together, these measures will help secure a stronger rebound and ensure we build back a stronger, better, and thriving State.

Box 2.4: NSW Productivity Commission White Paper - Rebooting the economy

The NSW Productivity Commissioner released the Productivity Commission White Paper in May 2021 outlining a new productivity reform agenda for the State aimed at rebooting our productivity growth.

Since its release in May 2021, the Government has progressed at least 30 of the 60 opportunities outlined in the Productivity Commission White Paper to date. These include:

- **establishing the new Trades Pathways Program** (Rec 3.2) (commencing in the construction sector) to develop and pilot new flexible trades pathways and encourage more participation among women. During 2020, the Program has progressed several strategies, including:
  - partnering with its Smart and Skilled providers to launch a recognised prior learning pilot program in the building and construction sector to lift capabilities by leveraging workers' existing expertise
  - developing a women in trades strategy to boost employment opportunities for women and lift diversity in the industry.
- **retaining the COVID-19 regulatory relaxations** (Rec 4.1) following an evaluation of the costs and benefits of these changes where there is a net public benefit including:
  - greater flexibility for employees and businesses to access long service leave under the *Long Service Leave Act 1955*
  - more flexibility for strata owners' corporations, community land associations and incorporated associations to meet and vote electronically
  - allow with modification the 24/7 operation of supermarkets and pharmacies
  - allowing lower-risk licensed venues, including restaurants and cafés, to sell takeaway and home delivery alcohol under the *Liquor Act 2007*, subject to limitations including purchase with a meal and restrictions on amount purchased.
- implementing automatic mutual recognition of state-based occupational licences (Rec 4.2) to improve labour mobility and address NSW skills shortages
- **reviewing the rice vesting export arrangements** (Rec 4.11) to determine whether they are delivering a net public benefit, with a report provided to the Department of Primary Industries
- implementing the 29 recommendations of the NSW Productivity Commission's Review of Infrastructure Contributions to deliver a transparent and efficient contributions system (Rec 7.7).

In addition, the NSW Productivity Commission has released two reports showcasing the productivity benefits from embracing new ways of doing things:

- ***Regulating Emerging Technologies*** – this report explores the role of regulation in maximising the opportunities from emerging technologies such as drones, personal mobility devices, and e-bikes. This work builds on the analysis underpinning Recommendations 4.3–4.5 of the Productivity Commission White Paper.
- ***NSW Remote Working Insights 2: Why hybrid is here to stay and how to seize the opportunities*** – undertaken in partnership with the NSW Innovation and Productivity Council, this report presents some of the first data on where NSW remote working patterns may settle after the pandemic. It finds that remote and hybrid working could raise NSW productivity by 1.9 per cent or $6 billion a year in 2021 dollars, worth an extra $1,800 a year for the average NSW household.

2.5 Risks to the economic outlook

Despite the improved outlook, downside risks are apparent

The ongoing pandemic means that risks to the economic outlook from COVID-19 remain paramount. In particular, new variants of the virus may emerge that have more severe health impacts either due to changed properties of the virus or because the new variant renders vaccines less effective. This could adversely impact confidence, disrupt the workforce, and necessitate tighter health restrictions, which could impact economic activity.

As an example, the discovery of the Omicron variant led to Australia and other countries reimposing some border restrictions. While it is assumed that Omicron will be manageable with existing vaccines and boosters, future adverse information on the Omicron variant is possible.

Appendix D Economic Scenario Analysis considers in more depth a scenario in which a new variant emerges.

Aside from COVID-19, global risks include the possibility that China's economic growth could slow significantly, particularly due to weakness in the property sector. That would impact commodity prices and resource exports, as well as the State's international education and tourism exports. More generally, there also is uncertainty around the speed of recovery in international travel flows after nearly two years during which Australia's border has been shut and while the pandemic continues to evolve.

Global supply chains currently are stretched as a rapid recovery in global demand is occurring against a slower recovery in production capacity, resulting in supply shortages as well as a lift in global inflation. There is a risk that supply disruptions are more prolonged than expected and that renewed global inflation pressures continue for longer than expected. Higher wages growth could lead to earlier than expected interest rate rises globally and higher inflation domestically.

Domestic risks include the worsening of labour supply shortages due to a recovery in economic activity leading to wage and price pressures, prompting an earlier than expected removal of monetary stimulus.

Other domestic risks relate to the housing market, which is sensitive to unexpected changes in interest rates and macroprudential policies, as well as adverse weather conditions (such as the current floods in NSW) which could affect the agriculture sector as well as the broader economy.

On the upside, there is potential for a faster recovery in household spending, which would lift the broader economy given that households represent by far the largest share of the state economy. The household saving rate has been at elevated levels during the pandemic and households may draw on their accumulated savings more quickly than forecast. *Appendix D Economic Scenario Analysis* considers this upside scenario in more detail.

3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

Following the delivery of the 2021-22 Budget, the residents of Greater Sydney and parts of New South Wales were subject to a 16-week stay at home public health order to contain the spread of the COVID-19 Delta variant. In response, the Government provided extensive health support measures and significant economic stimulus to support businesses and communities. The State successfully increased vaccination rates throughout this period, with over 93 per cent of people aged 16 and over, and 77 per cent of children between the ages of 12 and 15, fully vaccinated against COVID-19 as of December 2021.

The State's high vaccination rate is the foundation of its fast economic recovery. However, significant volatility and uncertainty remains in the outlook, for both Australia and overseas. These risks are further outlined in *Section 3.6 Fiscal risks.*

The Delta outbreak had a significant impact on the Government's fiscal outlook, although this is largely contained to 2021-22. The 2021-22 Half-Yearly Review projects a budget deficit of $19.5 billion in 2021-22, a $10.9 billion deterioration since the 2021-22 Budget. This deterioration is driven by $18.2 billion in additional expenses, of which $13.7 billion is economic and social support funding provided in response to the Delta outbreak, including the JobSaver payment and $1.3 billion in 2021-22 as part of the $2.8 billion Economic Recovery Strategy. This has been offset somewhat by a $7.3 billion increase in State revenues, due to higher transfer duty, mining royalties, GST revenue and the Commonwealth contribution to JobSaver. Strong economic conditions has enabled the Government to set aside $7 billion[1] to support productivity reforms and as COVID-19 contingency for further unexpected events.

The Government's long history of strong financial management enabled extensive policy support, while maintaining the Government's record infrastructure program. As a result, the Government remains on track to achieve its key targets for fiscal recovery, including a return to a budget surplus in 2024-25 of $449 million (see Box 3.2 for more detail).

Table 3.1: General government sector operating position and outlook

	2020-21 Est. Actual	2021-22 Budget	2021-22 Revised	2022-23 Forward Estimates	2023-24	2024-25
Revenue ($m)	87,965	93,846	101,190	99,562	100,069	102,839
Revenue growth (%)	8.1	6.7	15.0	(1.6)	0.5	2.8
Expenses ($m)	95,038	102,450	120,647	103,174	101,336	102,390
Expense growth (%)	6.9	7.8	26.9	(14.5)	(1.8)	1.0
Budget Result ($m)	(7,072)	(8,604)	(19,458)	(3,612)	(1,267)	449
Per cent of GSP	(1.1)	(1.2)	(2.8)	(0.5)	(0.2)	0.1

[1] The $7 billion set aside to support productivity reform includes expenditure, revenue and capital expenditure impacts. Of the $7 billion, $5.75 billion has been provided for in the forward estimates to 2024-25.

The State's balance sheet has supported New South Wales during the pandemic and debt levels remain manageable

Prior to the Delta outbreak, the Government allocated around $29 billion in temporary and targeted response, recovery and reform measures to support businesses, families, and the community through the pandemic.

To support communities and businesses through the Delta outbreak, the Government has committed an additional $13.7 billion in economic and social support (including the Commonwealth contribution to JobSaver). A further $2.8 billion is provided to build on existing work underway as part of the Economic Recovery Strategy. This has cushioned the economic impact of the pandemic but has increased the State's short-term operating deficit and placed upward pressure on borrowings. However, the Government's decision to use the NSW Generation Fund to repay debt has resulted in the 2021-22 Half-Yearly Review forecast of a $5.7 billion decrease in the level of general government borrowings as at 30 June 2022, relative to the 2021-22 Budget.

Net debt is projected to improve by $0.9 billion to $103.0 billion by June 2025 (13.4 per cent of GSP) compared to 2021-22 Budget forecasts, supported by improvements in revenue forecasts and the planned retirement of $11 billion of debt following the sale of the State's residual share of WestConnex in October 2021. Over the decade, net debt to GSP is projected to return towards 7 per cent supported by improvements in the revenue forecast (see Chart 3.2).

The State's debt serviceability remains manageable with relatively low interest costs as a proportion of revenue (rising to 4.2 per cent by 2024-25). This is partly due to the extraordinary support provided by the Reserve Bank of Australia to support the Australian economy.

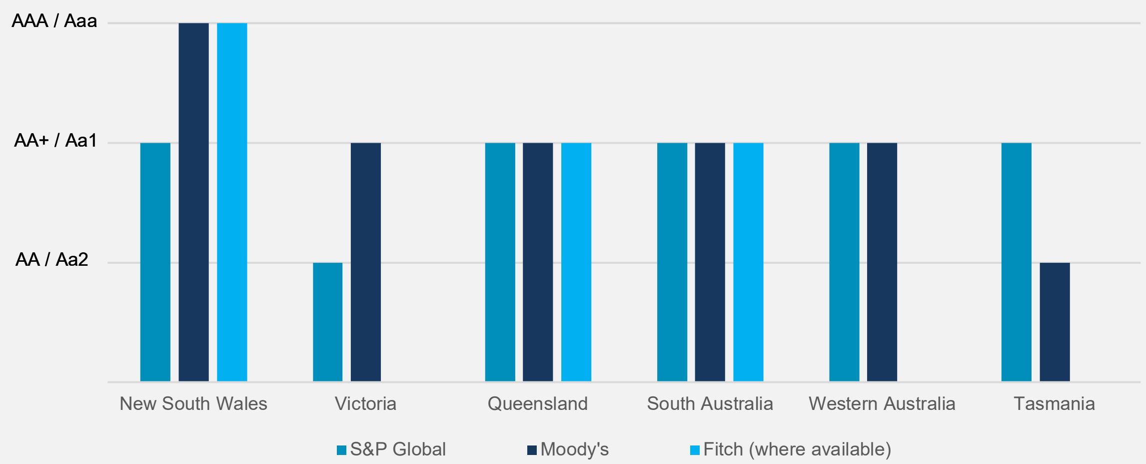
Following the release of the 2021-22 Budget, the three credit ratings agencies provided their 2021 credit opinion on New South Wales (see Box 3.1).

Box 3.1: Update on NSW credit ratings – Moody's, S&P Global and Fitch Ratings

Between September and November 2021, all three credit ratings agencies provided their credit rating opinion on New South Wales.

Both Moody's and Fitch assigned New South Wales a triple-A credit rating noting the State's proven history of strong fiscal management whilst S&P has maintained its double-A plus rating. This leaves New South Wales as the only state in Australia to have a triple-A credit rating, noting New South Wales holds two.

Chart 3.1: Credit ratings of Australian states as at November 2021(a)



(a) Fitch does not provide a credit rating for Victoria, Western Australia and Tasmania

The Government's strong financial management is further evidenced by the ability to meet its fiscal targets set out at the 2021-22 Budget (see Box 3.2). This position of strength has allowed New South Wales to borrow at low rates to assist the funding of its $110.4 billion infrastructure program and over $45 billion in response, recovery and reform measures to help the economy through the deepest recession since the Second World War.

Box 3.2: Rebuilding the State's fiscal capacity

As part of the 2020-21 Budget, the Government set two fiscal targets to guide rebuilding fiscal capacity and help ensure that the impacts of COVID-19 do not burden future generations.

The two targets are:

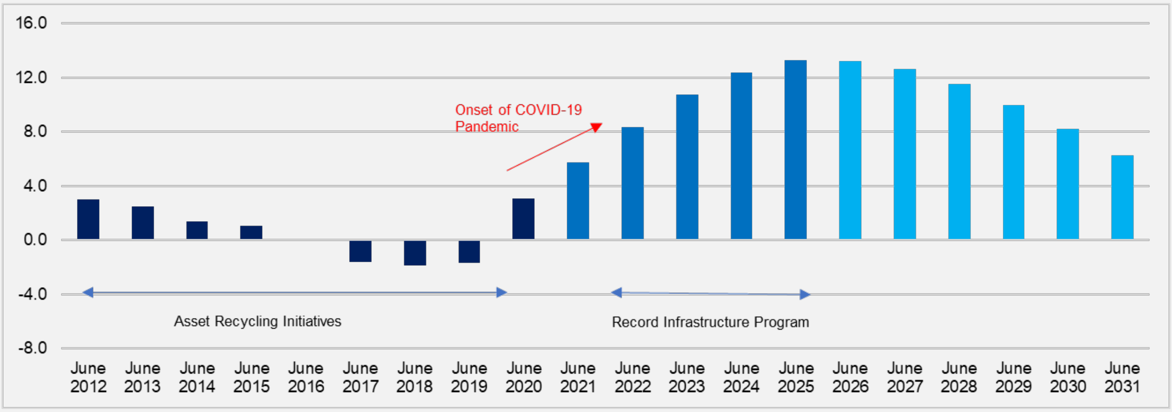
- return to budget surplus by 2024-25
- net debt towards 7 per cent of GSP over the medium term.

These targets will help guide the Government towards both a sustainable operating position and sustainable levels of net debt over the medium-term. This continues the Government's long history of strong financial management and will help the Government:

- meet legislative requirements under the *Fiscal Responsibility Act 2012*
- respond comprehensively to future economic shocks, such as bushfires, floods or another COVID outbreak
- manage existing service delivery and the record infrastructure pipeline
- deliver productivity enhancing reforms that support long-term growth.

The 2021-22 Half-Yearly Review shows the Government is on track to meet both targets (see Table 3.1 for projected surplus position and Chart 3.2 for projected net debt to GSP).

Chart 3.2: Projected net debt to GSP over the medium-term



The State's infrastructure program is supporting economic recovery

The State's infrastructure program is projected to reach a record $110.4 billion over the four years to 2024-25. This is a net increase of $1.9 billion since the 2021-22 Budget.

One of the main drivers of the increase is the Government's investment in Western Sydney communities as part of the $5 billion WestInvest initiative (see Box 1.2 for more detail).

The State's strong financial management has supported its strong credit rating and enabled the Government to continue delivery on its record $110.4 billion infrastructure program.

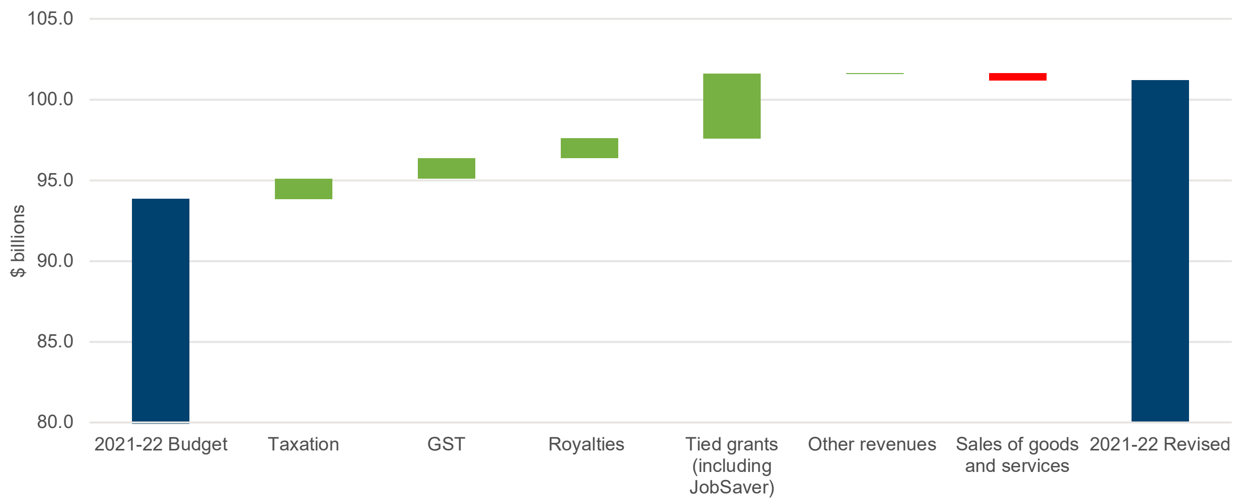
Table 3.2: The State's capital program and fiscal outlook

	2020-21 Est. Actual	2021-22 Budget	2021-22 Revised	2022-23 Forward Estimates	2023-24	2024-25	4 Years Total (2021-22 to 2024-25)
GGS Capital Expenditure ($m)	18,818	23,229	22,964	23,649	21,061	19,736	87,409
Per cent of GSP	2.9	3.3	3.3	3.3	2.8	2.6	
NFPS Capital Expenditure ($m)	24,462	30,350	29,829	30,290	26,552	23,731	110,402
Per cent of GSP	3.8	4.4	4.3	4.2	3.6	3.1	
GG Net Debt ($m)	37,076	63,258	58,118	77,821	92,116	103,008	
Per cent of GSP	5.8	9.1	8.4	10.8	12.4	13.4	

3.2 Revenue outlook

General government revenue in 2021-22 is projected to increase by 15.0 per cent from the prior year to be $101.2 billion – 24 per cent higher than pre-COVID levels[2]. This is $7.3 billion (7.8 per cent) higher than forecast at the 2021-22 Budget in June. The main drivers of the improved forecast are an increase of $1.9 billion in transfer duty, an increase of $1.3 billion in GST, a $1.2 billion increase in royalties and the one-off $3.5 billion JobSaver payment from the Commonwealth (see Chart 3.3). This is slightly offset by a downgrade of $450.8 million in sales of goods and services revenue.

Chart 3.3: 2021-22 changes in revenue – 2021-22 Budget to Half-Yearly Review



[2] General government revenue for the last full financial year prior to the outbreak of the pandemic (2018-19) stood at $81.7 billion.

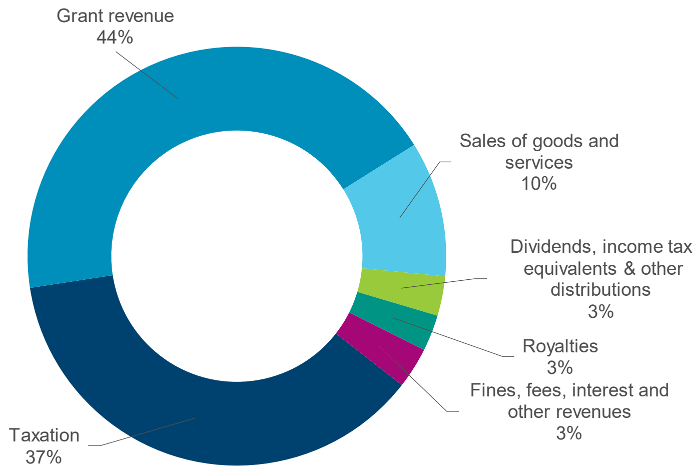
Over the four years to 2024-25, general government revenue is expected to increase by 4.0 per cent per year. This rate is higher than forecast in the 2021-22 Budget. Revenue growth is forecast to be negative in 2022-23 due to the impact of the one-off $3.5 billion JobSaver payment in 2021-22. Table 3.3 provides a summary of revenue in the general government sector.

General government revenue is expected to be $14.2 billion (3.6 per cent) higher than forecast at the 2021-22 Budget, over the four years to 2024-25. This is driven by upward revisions to forecast transfer duty, land tax, GST (from a larger pool) and royalties.

Table 3.3: General government sector revenue

	2020-21	2021-22		2022-23	2023-24	2024-25	% Average growth p.a. 2020-21 to 2024-25
	Est. Actual	Budget	Revised	Forward Estimates			
	$m	$m	$m	$m	$m	$m	
Revenue from transactions							
Taxation	34,407	36,201	37,462	38,944	38,628	39,570	3.6
Grant revenue (including GST)	35,646	38,750	44,022	41,569	42,155	43,081	4.9
Sales of goods and services	9,949	11,026	10,575	10,019	9,544	8,405	(4.1)
Interest income	307	287	227	238	258	285	(1.9)
Dividends and income tax equivalents from other sectors	1,077	682	648	885	1,033	2,114	18.4
Other dividends and distributions	2,570	2,276	2,447	2,738	3,553	4,683	16.2
Royalties	1,418	1,608	2,826	2,211	1,788	1,673	4.2
Fines, regulatory fees and other revenues	2,591	3,014	2,983	2,958	3,111	3,029	4.0
Total revenue	**87,965**	**93,846**	**101,190**	**99,562**	**100,069**	**102,839**	**4.0**
Annual change	*8.1%*	*7.1%*	*15.0%*	*-1.6%*	*0.5%*	*2.8%*	

Chart 3.4: Composition of total revenue, 2021-22



Box 3.3: Cyclical tax and royalties revenue volatility anticipated across 2021-22 and 2022-23

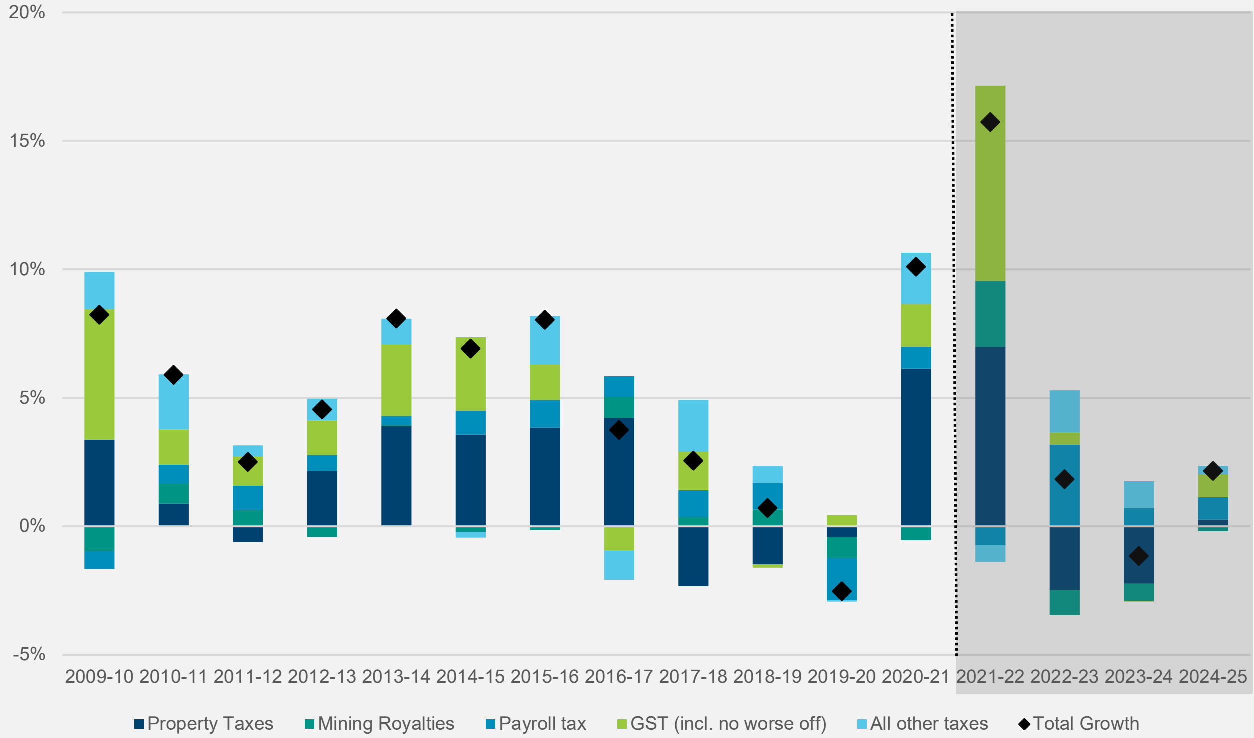
The profile of the revised revenue projections at Half-Yearly Review forecasts a significant upswing in revenue growth this year, followed by a much more modest rate of growth in the following year. Cyclical volatility is a key factor here.

Total state taxation, GST and mining royalties revenue is expected to grow by 15.7 per cent in 2021-22. This is the fastest annual rate of growth in more than 20 years and the convergence of cyclical upswings in property and mineral commodities are key factors:

- a forecast increase of $3.8 billion on 2020-21 actuals, or 26.4 per cent increase, in transfer duty and land tax taxes, coincides with
- a forecast increase of $1.4 billion on 2020-21 actuals, or 99.3 per cent increase, in mining royalties.

Large relative increases in State property taxes or mining royalties are not rare for these highly cyclical revenue sources. However, as Chart 3.5 shows, relative movements in mining royalties have in general partly offset movements in transfer duty, and vice-versa. The coincidence of large relative increases for both property taxes and mining royalties in 2021-22 is rare. While the revenue growth rate in 2021-22 would in any event have been significant, this convergence results in growth being even higher than otherwise. Furthermore, the rate of growth forecast this year for each of these individual revenue sources is greater than has been seen in the last decade or more.

Chart 3.5: Contribution to revenue growth from state taxation, GST and mining royalties[3]



This volatility is set to be exacerbated by a forecast downturn in both property taxes and royalties revenues in 2022-23, largely in response to forecast weaker property market transaction activity and falling thermal coal prices, respectively. As transfer duty is a volatile revenue for the Government and is an inefficient tax due to its distortionary impacts on the market, the government continues to consider property tax reform.

[3] Excludes tied Commonwealth payments and other non-tax revenues.

Policy measures affecting revenue since the 2021-22 Budget

Since the 2021-22 Budget, the NSW Government has announced a series of decisions which reduced revenue by $1.2 billion over the four years to 2024-25, but this was offset by Commonwealth grants revenues received (including JobSaver) as well as the increase in transfer duty due to the finalisation of the WestConnex sale.

The Government introduced further support measures to businesses affected by the COVID-19 restrictions through payroll tax waivers, targeted to smaller businesses, and more broad-based deferrals for all payroll and gaming machine taxpayers. Tax relief provided since the Budget has reduced revenue by $410.0 million in 2021-22.

The NSW Government has also made expenditure and capital decisions that have an indirect impact on revenue. In particular, the Commonwealth's contribution to New South Wales's COVID-19 Business Support Payment (JobSaver) increased revenue received from the Commonwealth by $3.5 billion (see Box 3.6 in *Section 3.3 Expenses outlook* for more information on the 2021 COVID-19 JobSaver Payment).

Key revenue decisions or extensions since Budget include:

- **Waiving 50 per cent of 2021-22 payroll tax for businesses impacted by the Delta outbreak.** The waiver is available to businesses with grouped Australian wages of $10.0 million or less that have experienced a decline in turnover of 30 per cent or more as a result of the COVID-19 public health orders during the Delta outbreak. This measure is designed to help impacted businesses manage their cashflows and support their recovery. The waiver is expected to lower payroll tax revenue by $410.0 million in 2021-22.
- **Deferring payroll and gaming machine tax payments to support business cashflows**. In response to the COVID-19 public health orders the Government offered a range of tax deferrals to support cashflow and improve liquidity for businesses. Payments for payroll tax and gaming machine taxes were deferred from July to December/January, with extended repayment plans to be made available at the end of the deferral period. The deferral of payments for payroll and gambling taxes is not expected to directly reduce general government sector revenue overall. However, a component of 2020-21 payroll tax revenue will now be recognised in 2021-22 rather than 2020-21. This is because deferred payroll tax for some businesses will not be confirmed until deferred annual reconciliations are finalised in January 2022.
- **COVID-19 land tax relief for landlords, supporting rental relief for tenants.** Land tax relief is offered for commercial and residential landowners who reduce the rents of tenants experiencing financial distress as a result of the pandemic. The land tax relief is intended to provide landowners with up to 100 per cent of their land tax payable for 2021, where rent relief has been given to an eligible tenant occupying the property. The 2021 land tax relief is provided as a grant payment and is therefore expected to raise government expenditure by $475.0 million over 2021-22.

Table 3.4: Revenue reconciliation – 2021-22 Budget to Half-Yearly Review

	2021-22	2022-23	2023-24 Forward Estimates	2024-25	Four years to 2024-25
	$m	$m	$m	$m	$m
Revenue - 2021-22 Budget	**93,846**	**96,792**	**98,479**	**100,328**	**389,445**
Policy measures since Budget					
Payroll tax waiver	(410)	...	...	...	(410)
Revenue related to expense and capital measures	4,315	(11)	(37)	(66)	4,200
Total policy measures	**3,905**	**(11)**	**(37)**	**(66)**	**3,790**
Parameter changes and other variations since Budget					
Taxation					
Transfer duty	1,121	517	(347)	508	1,799
Payroll tax	(16)	227	204	225	641
Land tax	145	167	85	5	402
Other taxes	(402)	122	437	331	489
Grant revenue					
GST (including no worse off payments)	1,260	1,073	1,077	1,468	4,878
Other general purpose grants	(21)	0	0	...	(21)
National Agreement payments	323	...	...	...	323
National Partnership payments	34	128	156	7	325
Other grant revenue	(7)	0	4	(19)	(22)
Sale of goods and services	(445)	(129)	(375)	(220)	(1,169)
Interest income	(61)	(81)	(79)	(49)	(270)
Dividends and income tax equivalents from other sectors	(34)	(14)	(19)	(53)	(119)
Other dividends and distributions	355	108	225	231	918
Royalties	1,217	636	216	60	2,130
Fines, regulatory fees and other revenues	(31)	27	43	82	120
Total parameter changes and other variations	**3,439**	**2,781**	**1,628**	**2,577**	**10,425**
Total changes since 2021-22 Budget	**7,344**	**2,770**	**1,590**	**2,511**	**14,215**
Revenue 2021-22 Half-Yearly Review	**101,190**	**99,562**	**100,069**	**102,839**	**403,660**

Box 3.4: Commencement of electric vehicles legislation and further fleet incentives

The 2021-22 Budget included the Government's commitment of $490 million over four years to its nation-leading *Electric Vehicle Strategy*. This package of incentives supports the take-up of electric vehicles (EVs) in New South Wales and will be a key contributor to the State's goal of net zero greenhouse gas emissions by 2050. Key features of the package are:

- $3,000 rebates for the first 25,000 new battery or hydrogen fuel cell EVs under $68,750 sold and then registered since 1 September 2021
- stamp duty exemptions on registration since 1 September 2021 for battery and hydrogen fuel cell EVs sold for up to $78,000
- battery and hydrogen fuel cell electric vehicles accessing transit T2 and T3 lanes from 1 November 2021 until at least 31 October 2022
- $171.0 million for new charging infrastructure (including ultra-fast vehicle charges)
- $33.0 million to help transition the NSW Government passenger fleet to EVs.

Since the 2021-22 Budget, the Government has committed a further $105.0 million of incentives over four years to accelerate the take-up of new EV purchases in private and local council fleets. This will help build the second hand market for EVs in the future as fleet buyers typically replace their vehicles frequently and takes the State's EV incentive package to $595.0 million.

On 1 November 2021, the applications for EV rebates and stamp duty refunds were opened. These rebates and stamp duty exemptions were implemented with retrospective effect from 1 September 2021. In the first month since commencement on 1 November 2021, 604 rebates and 705 stamp duty refunds totalling $3.4 million were paid to eligible EV purchasers.

On 30 November 2021, the first round of the EV fleet incentive reverse auctions was opened to businesses, not-for-profit organisations, hire companies and local councils. The focus is on passenger vehicles and light commercial vehicles and the funding will also contribute fleet base charging requirements. Funding rounds will open approximately every six months until the end of 2024.

The EV Strategy phases out the economically inefficient vehicle stamp duties and gradually phases in a more efficient distance-based road user charge as a revenue replacement. A road user charge will commence from the earlier of 1 July 2027, or the time when battery EVs reach 30 per cent of new vehicle sales in New South Wales. An annual update will be provided to Parliament on the percentage of new EV sales and progress to the 30 per cent target. As fuel excise declines with the transition to EVs, the road user charge will provide a new own-source revenue that can be continually invested in road maintenance and construction.

Taxation revenue

State taxation revenue is forecast to be $37.5 billion in 2021-22, which is $1.3 billion higher than forecast in the Budget.

Transfer duty is the State's largest source of taxation revenue, forecast to provide 35.7 per cent of the total in 2021-22. Payroll tax is the second largest taxation source and is forecast to provide 22.7 per cent of total taxation revenue.

Table 3.5: Taxation revenue

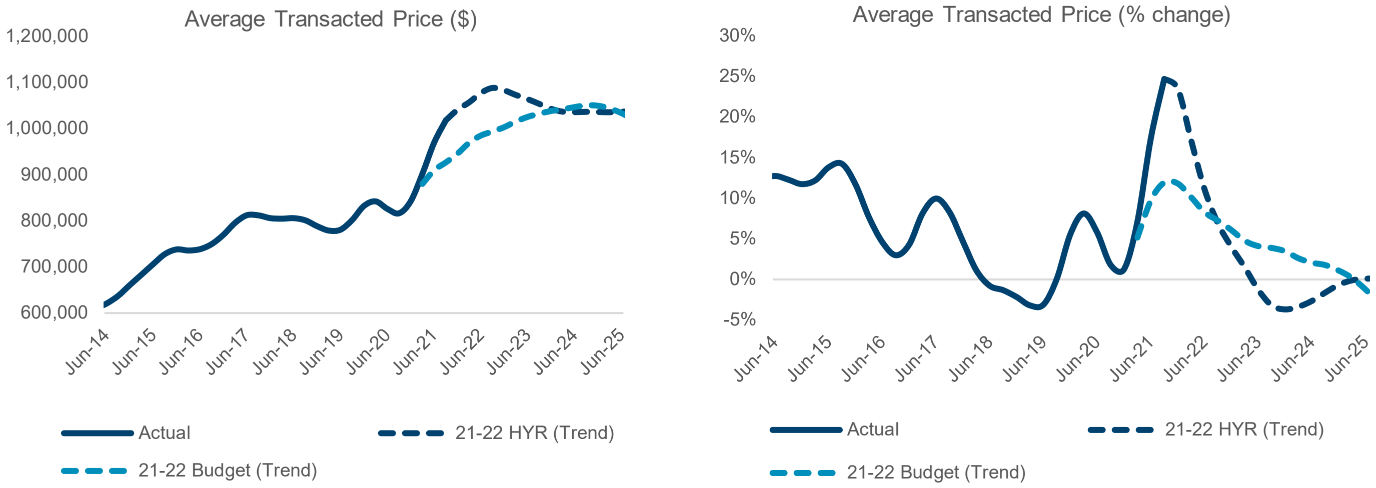
	2020-21 Est. Actual $m	2021-22 Budget $m	2021-22 Revised $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	% Average growth p.a. 2020-21 to 2024-25
Stamp duties							
Transfer duty	9,608	11,448	13,391	11,510	9,779	9,736	0.3
Insurance	1,167	1,215	1,284	1,327	1,401	1,479	6.1
Motor vehicles	969	871	865	901	888	879	(2.4)
Other	(2)	0	0	0	0	0	
	11,742	**13,533**	**15,540**	**13,739**	**12,069**	**12,093**	**0.7**
Payroll tax	8,926	8,947	8,522	10,536	10,990	11,556	6.7
Land tax	4,875	4,767	4,912	5,218	5,503	5,706	4.0
Taxes on motor vehicle ownership and operation							
Weight tax	2,349	2,460	2,442	2,550	2,665	2,781	4.3
Vehicle transfer fees	58	61	55	59	63	67	3.7
Other motor vehicle taxes	44	46	39	41	42	44	0.2
	2,451	**2,567**	**2,536**	**2,650**	**2,770**	**2,892**	**4.2**
Gambling and betting taxes							
Racing	215	208	293	339	378	414	17.8
Club gaming devices	842	845	642	884	912	940	2.8
Hotel gaming devices	1,021	1,071	814	1,066	1,171	1,237	4.9
Lotteries and lotto	501	546	553	528	509	525	1.2
Casino	132	219	114	222	262	279	20.5
Other gambling & betting	16	16	12	18	19	21	7.1
	2,727	**2,905**	**2,428**	**3,058**	**3,251**	**3,416**	**5.8**
Other taxes and levies							
Health insurance levy	221	225	226	231	238	245	2.6
Parking space levy	103	109	109	109	116	119	3.8
Emergency services levy contributions	1,086	915	915	1,000	1,244	1,030	(1.3)
Emergency services council contributions	147	163	158	197	164	168	3.3
Waste and environment levy	762	761	761	783	832	832	2.2
Government guarantee fee	293	358	352	370	393	432	10.2
Private transport operators levy	2	4	4	5	5	5	21.3
Retained Taxes - Passenger Services Levy	52	9	9	51	51	51	(0.4)
Pollution control licences	26	26	26	27	18	18	(8.5)
Other taxes	1,046	920	963	971	985	1,007	(0.9)
	3,686	**3,483**	**3,525**	**3,743**	**4,045**	**3,907**	**1.5**
Total taxation revenue	**34,407**	**36,201**	**37,462**	**38,944**	**38,628**	**39,570**	**3.6**
Annual change	*14.9%*	*6.5%*	*8.9%*	*4.0%*	*-0.8%*	*2.4%*	

Since the 2021-22 Budget:

- **Transfer duty** revenue has been revised up by $1.9 billion (17.0 per cent) in 2021-22 and by $2.6 billion (6.3 per cent) over the four years to 2024-25. This includes $822.6 million from the WestConnex transaction recognised in 2021-22.

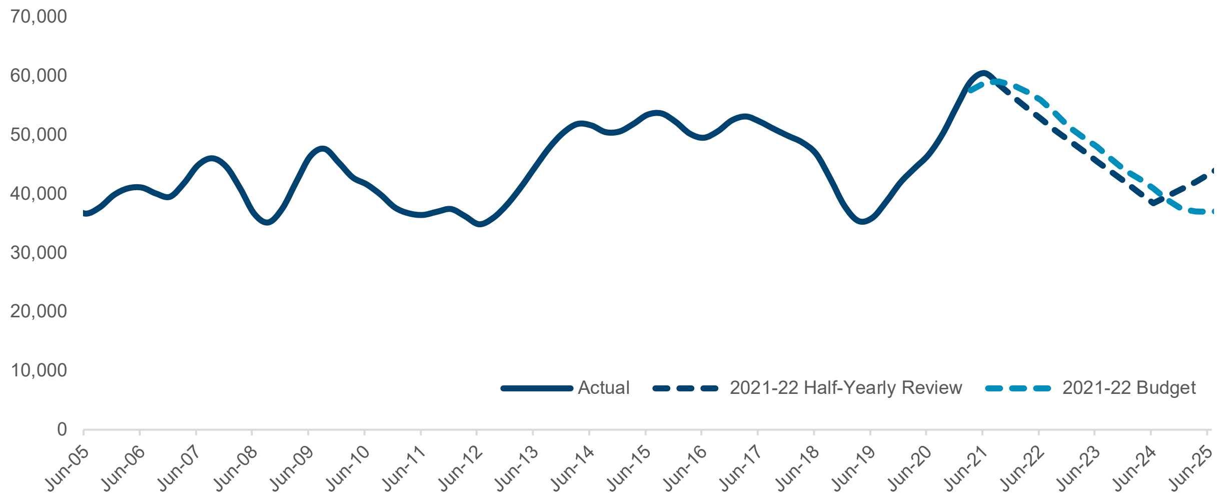
  The very strong recent price growth across most property classes has increased price expectations over most of the forecast horizon and is the primary driver for the upward revision to taxation revenue. The residential average transacted price has grown at approximately twice the rate anticipated at Budget. This strength has persisted in the December quarter, but the elevated pace of growth is expected to slow in 2022 as macroprudential measures, initiated by the Australian Prudential Regulation Authority, curb buyers' borrowing capacity.

Chart 3.6: Underlying average residential transacted price, quarterly



  Residential transaction volumes peaked at more than 60,000 in the June quarter 2021 on a seasonally adjusted basis. Chart 3.7 shows that the peak in transactional activity was slightly higher and earlier than expected at Budget. Looking ahead, the earlier and sharper turn in the transactions cycle is likely to mean slightly weaker transactional activity for some time, but with a stronger and earlier recovery in the level of transactions than previously expected.

Chart 3.7: Transaction volumes, quarterly (seasonally adjusted)



The forecasts for both residential transacted prices and residential transactional activity reflect expectations for key macroeconomic and financial indicators, including household incomes, population and the cost and availability of credit. There remains significant uncertainty as to the realisation of these expectations. The risks to this central forecast are discussed in more detail in *Section 3.6 Fiscal risks*.

The near-term outlook for commercial property values has also improved, particularly for industrial and prime office space. Capital values are expected to grow more strongly than previously expected in 2021-22 and 2022-23, before slowing due to the rising interest rate risk. This is expected to drive an increase in transfer duty on non-residential property.

- **Land tax** has been revised up by $144.9 million (3.0 per cent) in 2021-22 and by $402.0 million (1.9 per cent) in the four years to 2024-25. The upward revision in 2021-22 reflects higher than expected land tax collections in 2020-21. This increases the expected land tax base, flowing through to later years, while stronger property price growth over the four years to 2024-25 is expected to flow into higher land valuations and land tax revenue.
- **Payroll tax** has been revised down by $425.6 million[4] (4.8 per cent) in 2021-22. This reflects downgrades in the forecasts for the average cost of employees (ACOE) in the State, and for NSW employment levels, as well as the $410.0 million attributable to the 50 per cent waiver for smaller businesses (see policy measures above). Expected upgrades to ACOE and employment are expected to lead to stronger revenues in the forward estimates, offsetting the losses earlier in the period. Revenue over the four years to 2024-25 is forecast to be up by $231.0 million (0.6 per cent).
- **Taxes on motor vehicle ownership and operation** have been revised down by $30.7 million (1.2 per cent) in 2021-22 and $44.5 million (0.4 per cent) over the four years to 2024-25, primarily due to negative weight growth in 2020-21 reflecting a preference for smaller vehicles. However, the slower growth in vehicle weight will be partially offset by higher-than-expected fleet growth.
- **Gambling and betting taxes** have been revised down by $476.9 million (16.4 per cent) in 2021-22 and by $234.1 million (1.9 per cent) over the four years to 2024-25. The main driver of the downgrade in 2021-22 is the closure of clubs, hotels and casinos during the Delta outbreak. The downgrade is partially offset by strong growth in point of consumption tax revenue as a result of a rapidly expanding online gambling market. Point of consumption revenue is expected to be $89.2 million (55.5 per cent) higher in 2021-22 and $506.1 million (69.3 per cent) higher over the four years to 2024-25.
- **Emergency Services Levy revenue (including insurer and council contributions)** has been revised up by $324.7 million (7.1 per cent) over the four years to 2024-25. This partly reflects an increase in expenses associated with the maintenance of legacy communication systems. This is to enable emergency service agencies to keep their communication networks operational while the Critical Communications Enhancement Program is being delivered.

[4] The revenue loss forecast for the year would have been greater, but for the shift in profile of an estimated $277.0 million from 2020-21 into 2021-22. This was brought about by late accounting recognition of this amount due to the Government's 2021 payroll tax waiver policy measure, allowing smaller businesses impacted by the lockdown to defer payment and reporting of payroll tax liabilities.

Grant revenue

In addition to taxation revenue, New South Wales receives grant revenue from the Commonwealth Government including GST payments, National Agreements, Federation Funding Agreements and other Commonwealth payments. Grant revenue also includes a small number of other grants and subsidies received from other sources.

Grant revenue is forecast to be $44.0 billion in 2021-22, which is $5.3 billion (13.6 per cent) higher than at Budget. Since the Budget:

- **GST revenue** (including no worse off payments) has been revised upwards by $1.3 billion (5.8 per cent) in 2021-22. The upgrade is largely due to the $1.0 billion GST reconciliation payment associated with the 2020-21 national GST pool outcome, which was $3.3 billion higher than the Commonwealth Treasury's forecast at the 2021-22 Budget. The strength in underlying GST collections has more than offset the weakness in household consumption associated with the Delta outbreak in New South Wales, Victoria and the ACT.

  Over the four years to 2024-25, GST revenue is expected to be $4.9 billion (5.5 per cent) stronger than forecast at the 2021-22 Budget, reflecting a stronger outlook for dwelling investment, an upgrade in forecasts for NSW's population share, and more modest upgrades to NSW's transfer duty revenue than those expected to be forecast by other states.

  Looking forward there are risks to forecasting New South Wales GST revenues. The pandemic has led to significant shifts in spending patterns. This is likely to have at least partly contributed to the strength in collections in 2020-21, but the extent to which these changes are temporary or more permanent remains unclear. Further, differences in the way that the COVID-19 pandemic has affected each state and territory, and how this will be assessed by the Commonwealth Grants Commission, will continue to create uncertainty for NSW's GST relativities.

Box 3.5: COVID-19 and GST

The COVID-19 pandemic is a once in a century crisis. Globally governments mobilised economic and health responses on an unprecedented scale.

New South Wales' management of the crisis has been among the best in the world.

COVID-19 has been the largest driver of NSW Government new spending over the course of the pandemic. In 2021-22, the NSW Government has announced and delivered $10.3 billion in stimulus and support to businesses and families impacted by the Delta outbreak and lockdown. In addition, the NSW Government has announced a $2.8 billion Economic Recovery Strategy to encourage economic activity, build confidence and support the restoration and creation of jobs for the people of New South Wales.

GST is 23 per cent of NSW's annual revenue, underpinning our delivery of services including those required to respond to and recover from the impacts of COVID-19. The GST is currently distributed between states and territories (states) in a way that does not reflect that states experienced the pandemic differently – NSW has accounted for around 40 per cent of all cases to date in 2021.

The GST is distributed between the states in line with the principle of horizontal fiscal equalisation (HFE). The primary purpose of HFE is to account for factors, that are outside their control, that drive states' spending to deliver comparable services. Historically, HFE has done this for different types of natural disasters, such as bushfires and floods, but not pandemics. This means the burden of responding to the 2019-20 Black Summer bushfires will be shared across states. HFE needs to evolve to recognise and account for the pandemic as a driver of state spending in a similar way to other natural disasters.

Compounding these problems is the impact of the Commonwealth Government's changes to HFE in 2018 which mean Western Australia is exempted from sharing the burden of natural disasters, including the pandemic, that is shared by all other states. This outcome is unfair. Western Australia is running budget surpluses that flow from historic iron ore royalty revenues and top up payments from the Commonwealth Government to the end of 2020-21, and GST revenues distributed away from other states from 2021-22 onwards. This occurs at the same time that all other states are focused on COVID-19 recovery.

Ignoring the historic level of support NSW and others had to provide in response to COVID-19 while providing additional GST revenues to Australia's wealthiest state would mean HFE is not doing what it was designed to do. The Commonwealth Government needs to help ensure HFE remains contemporary and relevant in an environment in which we need to live with COVID-19.

- **National Agreement payments** are forecast to provide $12.6 billion in 2021-22 and $51.9 billion over the four years to 2024-25. Since the 2021-22 Budget, revenue from National Agreements is projected to be $371.2 million (3.0 per cent) higher in 2021-22. This is entirely due to an expected increase in payments under the COVID-19 Response Federation Funding Agreement reflected under the National Health Reform Agreement (NHRA).

- **Federation Funding Agreement payments** are forecast to provide $7.0 billion in 2021-22 and $20.3 billion over the four years to 2024-25. Since the 2021-22 Budget, revenue from Federation Funding Agreements is forecast to be $3.7 billion (111.2 per cent) higher in 2021-22. This is primarily due to $3.5 billion in projected revenue under the *Business Support Payment (JobSaver) – New South Wales* funding agreement agreed with the Commonwealth in November 2021. See Box 3.6 in *Section 3.3 Expenses outlook* for more information on the 2021 COVID-19 JobSaver Payment. Finalisation of the *Preschool Reform Agreement* since the 2021-22 Budget will also contribute an additional $457.5 million over four years to 2024-25 in Federation Funding Agreement revenue.

Non-taxation revenue

In addition to taxation and Commonwealth grants, New South Wales receives revenue from other sources, including mineral royalties, sales of goods and services, interest income and dividends from state-owned corporations. Since the 2021-22 Budget:

- **Mineral royalties** have been revised up significantly by $1.2 billion (75.7 per cent) in 2021-22 and by $2.1 billion (33.5 per cent) over the four years to 2024-25. Global thermal coal prices effectively doubled over the six months to October, alongside benchmark liquid natural gas (LNG) prices. This was largely due to supply shortages across major Asian and European markets, which are expected to persist well into 2022. The weak longer-term prospects for global demand for coal are reflected in lower volume assumptions across the forecast horizon. The effect of this is to partially offset price-driven revenue increases in the forward estimates.
- **Total revenue from fines, regulatory fees and other revenue sources** has been revised down by $31.4 million (1.0 per cent) in 2021-22 and up by $166.0 million (1.4 per cent) over the four years to 2024-25. The overall revenue upgrade is due to a cumulative $221.0 million increase across a range of relatively minor account lines.
- **Sales of goods and services** have been revised down by $450.8 million (4.1 per cent) in 2021-22 and $1.2 billion (2.9 per cent) over the four years to 2024-25. The downgrade in revenue is primarily driven by a reduction in personnel services revenue relating mainly to the franchising of State Transit Authority’s operations. A corresponding downgrade in expenses means that net revenue remains largely unchanged. Partially offsetting these downward revisions is an upgrade in licences revenue driven by new licencing fees that relate to the Clarence Correctional Centre.
- **Interest income** includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. Interest income is expected to be $60.5 million (21.1 per cent) lower in 2021-22 and $269.8 million (21.1 per cent) lower over the four years to 2024-25, due largely to a decline in the amount of deposits earning interest income.
- **Dividends and income tax equivalents** is expected to be $33.6 million (4.9 per cent) lower in 2021-22. This is driven by Essential Energy whose gifted assets (or assets free of charge) are no longer taxable and depreciable for tax purposes due to a recent court ruling. This impacts Essential Energy which is gifted approximately $80-90 million in assets from developers each year. Over the four years to 2024-25 dividends and tax equivalent payments are forecast to be $296.0 million (6.8 per cent) higher. This is primarily driven by changes in the TAHE dividends (see section 3.7).

- **Other dividends and distributions** are received from the State's investment in TCorp managed funds, as well as from the State's equity investment in associates such as Ausgrid and Endeavour Energy. This category has been revised up by $170.5 million (7.5 per cent) in 2021-22, reflecting the additional returns expected from higher investment fund balances than expected at Budget. Over the four years to 2024-25, it has been revised down by $376.6 million (2.7 per cent), reflecting a lower projected NSW Generations Fund balance relative to Budget, due to the Government's decision to temporarily suspend inflows into the Fund (see separate explanation in *Section 3.5 - Managing the State's assets and liabilities*).

3.3 Expenses outlook

Expenses have risen since Budget, reflecting the Government's commitment to support communities and businesses across New South Wales.

Table 3.6: General government sector expenses by category and year

	2020-21 Est. Actual	2021-22 Budget	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25	% Average growth p.a. 2020-21 to 2024-25
	$m	$m	$m	$m	$m	$m	
Total employee-related expenses	41,156	43,373	45,064	46,019	46,813	48,066	4.2
Employee expenses	*37,142*	*38,835*	*40,477*	*41,227*	*41,857*	*42,795*	*3.8*
Superannuation	*4,014*	*4,538*	*4,587*	*4,792*	*4,956*	*5,271*	*7.8*
Other operating	24,560	26,251	28,976	24,921	24,257	22,765	(1.8)
Depreciation and amortisation	6,930	7,625	7,480	8,029	8,550	8,936	7.2
Grants and subsidies	20,192	22,459	36,494	21,146	18,142	18,336	(2.3)
Interest	2,199	2,741	2,633	3,059	3,575	4,287	23.7
Total expenses	**95,038**	**102,450**	**120,647**	**103,174**	**101,336**	**102,390**	**1.9**
Annual change %	*6.9*	*7.8*	*26.9*	*-14.5*	*-1.8*	*1.0*	

The temporary nature of the COVID-19 response corresponds to the bulk of the increased expenditure being contained to this financial year, with only moderate increases since Budget across the rest of the forward estimates. Expenses for this financial year ($120.6 billion) have been revised up $18.2 billion since the 2021-22 Budget. The revision up over the four years to 2024-25 is $27.9 billion.

Expenses are projected to grow 26.9 per cent from 2020-21 to 2021-22. However, the Government is projecting an expense decrease of 14.5 per cent, or $17.5 billion, next financial year. The annual growth in expenses is expected to be very low in the later years of the forward estimates, due to the Government's expense discipline. The bottom row of Table 3.6 sets out the annual change in growth rates, with an average annual rate of 1.9 per cent over four years.

Table 3.7: Expense reconciliation – 2021-22 Budget to Half-Yearly Review

	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m
Expenses – 2021-22 Budget	**102,450**	**98,547**	**98,785**	**99,862**
Policy measures	14,867	3,654	2,027	2,135
Total parameter and other budget variations	3,330	973	524	393
Expenses – 2021-22 Half-Yearly Review	**120,647**	**103,174**	**101,336**	**102,390**

The new expenses since Budget fall into two categories (see Table 3.7):

- new policy measures – these total $22.7 billion over four years to 2024-25, with most ($14.9 billion) in the current financial year
- parameter and other budget variations – these have driven four-year expenses to 2024-25 up by $5.2 billion.

Major new policy measures since Budget include:

- $13.7 billion committed in response to the Delta outbreak (including up to $3.5 billion Commonwealth contribution to JobSaver), with more than $10 billion of support and assistance provided so far (see Box 3.6 for more detail)
- $7 billion[5] funding set aside for future productivity reform and COVID-19 contingency
- $5 billion[6] for WestInvest which will deliver economic, social and green infrastructure, help support jobs and improve the quality of life in Western Sydney (see Box 1.2 for more detail)
- $2.8 billion for the Economic Recovery Strategy to help build strong foundation for the state's recovery (see Box 1.1 for more detail)
- $1.1 billion to 2024-25 in additional allocation to Transport for NSW to be provided to rail operators, as part of updated shareholder expectations for Transport Asset Holding Entity (TAHE)[7]
- $839.3 million over four years (2022-23 to 2025-26) in new funding for early childhood education and care services to support preschool participation under the Preschool Reform Agreement[8]
- $233.8 million over five years (2021-22 to 2025-26) towards additional road safety initiatives, with the NSW Government resolute in its target to halve deaths and reduce serious injuries by 30 per cent on NSW roads by the end of 2030[9]
- $29.1 million in 2021-22 for the NSW Electoral Commission to respond to the impacts of deferred local government elections.

Parameter and other budget variations since the 2021-22 Budget include:

- estimated agency costs arising from COVID-19, such as school cleaning, health service costs to support vaccination centres, testing clinics, hospital and community-based services, and Transport farebox impacts.
- reprofiling expenditure across budget and forward estimates, to better align with planned service and project delivery schedules
- increased costs associated with insurance expenses and long service leave (partially offset by reductions in interest expenses and depreciation).

5 Includes capital expenditure impact.
6 Includes capital expenditure impact.
7 These expense impacts are partially offset by an increase in dividends, see Sections 3.2 and 3.7 for more detail.
8 There is a corresponding revenue increase of $557.7 million for this measure over five years to 2025-26, which recognises Commonwealth Government contributions.
9 This measure also has associated revenue ($48.8 million) and capital expenditure ($136.2 million) impacts to 2025-26.

Box 3.6: Timely delivery of support

Following the Budget, the Government moved quickly to announce a raft of additional measures to support families, businesses and communities in response to the Delta outbreak. The support package was comprehensive, with $13.7 billion committed in direct support measures, including tax relief. The NSW Government has been focused on ensuring timely implementation.

In the six months since Budget, the NSW Government has delivered more than $10 billion of this package:

- over $2.3 billion in one-off grants of up to $15,000 to over 187,000 businesses, sole traders and not-for-profit organisations to provide cash flow support for the first three weeks of restrictions
- over $7 billion in JobSaver payments (including up to $3.5 billion of Commonwealth contributions) that enabled more than 206,000 businesses, sole traders and not-for-profits impacted by the health restrictions to help maintain cashflow and maintain staff. The top three industries receiving support through JobSaver (by number of recipients) were construction services, professional scientific and technical services, and food and beverage services
- $760 million in fortnightly payments of $1,500 to micro-businesses (small businesses, sole traders or not-for-profit organisations with an aggregated annual turnover between $30,000 and $75,000) that were impacted by the COVID-19 restrictions
- over $70 million in support grants for highly impacted industries. This includes payments to 212 performing arts venues, producers and promoters, and over $10 million in grants paid to over 2,200 accommodation providers
- payroll tax waivers for eligible businesses, and payroll tax deferrals and interest-free repayment plan
- expansion of Business Connect business advisory team and education resources to support small businesses impacted by lockdown restrictions.

Government's commitment to effectively manage expense growth

Sustained fiscal discipline over the last decade enabled the Government to provide economic support during the pandemic, including the Delta outbreak. Notwithstanding the temporary impacts of COVID-19, sustainable expense growth remains a central pillar of the Government's fiscal strategy. The *2021-22 NSW Intergenerational Report* highlights that sustainable expense growth over the longer term is crucial for intergenerational equity.

The NSW Government continues to implement an existing fiscal repair program, managed by NSW Treasury, to ensure savings and reform measures announced in recent budgets are implemented. Outcome and expenditure reviews are underway to ensure resource allocation is efficient, effective, delivering value for money and aligned to outcomes.

Since the introduction of the *Fiscal Responsibility Act 2012*, NSW Government met objectives on expense management every year until COVID-19. The health and economic response saw a temporary rise in expense growth above the long-term rate of revenue growth.

As Table 3.6 illustrates, expense growth this year will be above the 5.6 per cent target. Expense growth is then forecast to fall by 14.5 per cent in 2022-23. It will decline further by 1.8 per cent in 2023-24, before rising modestly in 2024-25 by 1.0 per cent.

Box 3.7: The Digital Restart Fund – ensuring Government services capitalise on the best technologies

The NSW Government continues to innovate with digital services to lead the way in digital government. The Digital Restart Fund was first established in 2019 with $100 million and was subsequently boosted to a $2.1 billion pool of funds.

Since Budget new investments have been allocated from the Fund:

- uplifting security of operating systems and applications to proactively manage cyber threats, with $67.5 million allocated to initiatives across the Department of Education, Department of Customer Service, Department of Premier and Cabinet and Transport for NSW, and $31.2 million allocated to 14 agencies out of a new $75.0 million cyber reservation for small and independent agencies
- using digital technologies to transform prisoner rehabilitation, with $40.4 million over two years to provide access to digital rehabilitation programs and services for NSW prison inmates. This includes services such as the inmate Learning Portal, library and mental health services
- delivering high quality spatial 4D data of NSW's physical and built environment to government, private enterprise and citizens, with $40.0 million over three years for the NSW Spatial Digital Twin platform. This will enhance planning, engineering and construction activities and provide vital real time imagery for emergency services
- making it easier to prove identity and digitally share credentials, with a $8.9 million allocation to start developing a Digital Identity Hub and a Digital Wallet within the MyServiceNSW App, and a Commercial Credential Exchange to design management of business credentials like licenses and building certificates
- developing technologies to capture assets and services data in the built environment, to enable better evidence-based decisions for asset management, service improvement and design. $10.5 million of projects have been funded from the Smart Places reservation. This includes:
  - Smart Regional Spaces to support regional councils in promoting equitable digital inclusion and equipping them to self-identify local benefits from the program
  - Asset AI which will use machine learning to predict and manage the risk to community from deteriorating transportation assets and defects
  - the Smart Irrigation Management for Parks and Cool Towns project and the Urban Environmental Intelligence Platform, being a partnership program led by Sydney Olympic Park Authority, to optimise the water management and cooling capacity of a public park for future scaling to other public spaces.

3.4 Capital expenditure outlook

Capital expenditure in the general government sector

Capital expenditure across the general government sector is forecast to be $23.0 billion in 2021-22, which is $265.0 million lower than Budget. Expenditure across the four years to 2024-25 is forecast to be $87.4 billion, an upward revision of $1.8 billion.

The upward revision across the four years to 2024-25 is primarily driven by increased capital expenditure associated with the inclusion of the Government's $5 billion WestInvest commitment, offset against the re-profiling of expenditure in the existing capital program to align with revised project delivery schedules.

COVID-19 has presented significant challenges for the construction sector. These include increased demand for labour, skills shortages and price pressures on materials. Agencies are continuing to work closely with industry to assess the cost and timing impacts of these risks on the Government's infrastructure program and to ensure projects can be delivered with as little disruption as possible.

Table 3.8 provides a reconciliation of capital expenditure between the 2021-22 Budget and the Half-Yearly Review.

Table 3.8: General government capital reconciliation – 2021-22 Budget to Half-Yearly Review

	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m
Capital – 2021-22 Budget	**23,229**	**22,972**	**20,570**	**18,857**
Policy measures	86	2.084	1,097	893
Parameter and other variations[(a)]	(351)	(1,407)	(606)	(14)
Capital – 2021-22 HYR	**22,964**	**23,649**	**21,061**	**19,736**

(a) Includes reprofiling of capital expenditure across years to align with revised project delivery schedules.

Since the 2021-22 Budget, new investments in capital projects include:

- $111.5 million for the Cessnock Hospital Redevelopment
- $80.0 million for the Temora Hospital Redevelopment
- $60.0 million towards the new Eurobodalla Regional Hospital
- $25.0 million for Finley Hospital
- capital components of the $5.0 billion WestInvest initiative and the $7.0 billion set aside for productivity reform and COVID-19 contingency

The Government continues to utilise the Restart NSW Fund to deliver new infrastructure, particularly in regional New South Wales. See Budget Paper No. 3 *Infrastructure Statement 2021-22* for further information on the Government's Restart NSW commitments as at 30 June 2021.

Box 3.8: The record $110.4 billion infrastructure program boosting economic growth

The Government is delivering a $110.4 billion infrastructure program over the four-years to 2024-25. The record investment across the non-financial public sector[10] is an increase of $1.9 billion compared to the 2021-22 Budget.

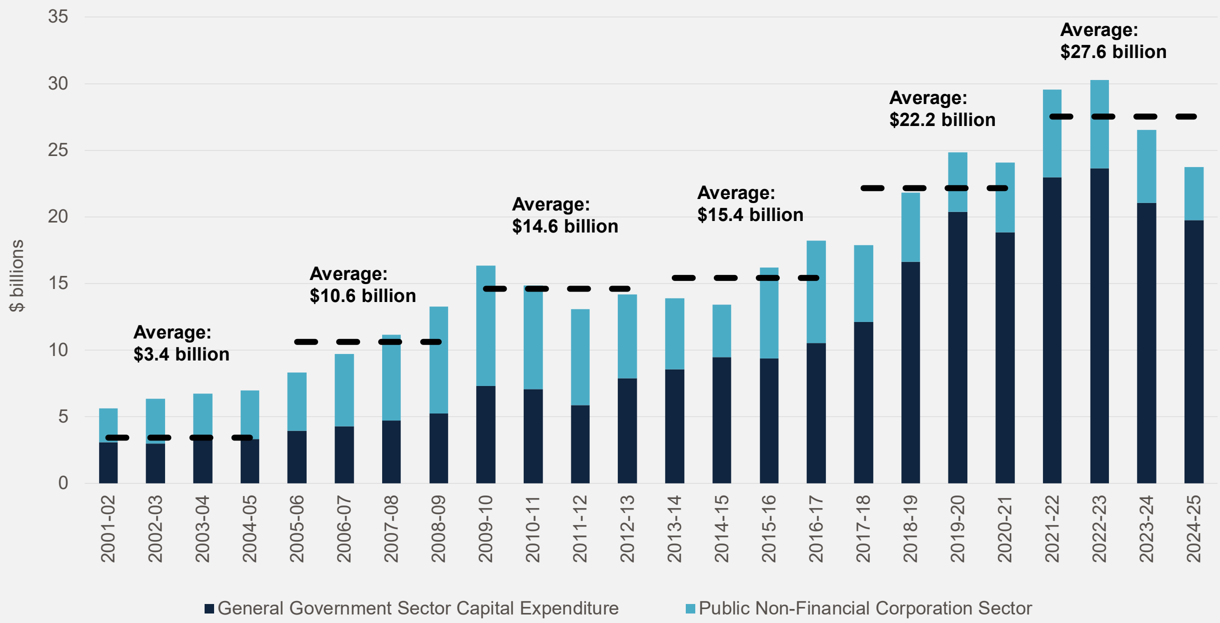
The investment pipeline includes:

- $70.2 billion for public transport and roads
- $10.4 billion[11] for hospitals and health facilities
- $8.4 billion for schools and skills infrastructure.

The capital expenditure program includes projects of all shapes and sizes, from the city-shaping mega project to smaller scale projects that make our local communities great places to live.

Chart 3.8 shows how the State's infrastructure program has increased substantially since 2001-02. This increase has been supported by the Government's strong financial management and successful asset recycling strategy.

Chart 3.8: Infrastructure program from 2001-02 to 2024-25



3.5 Managing the State's assets and liabilities

The State's strong balance sheet has enabled the Government to support the people and businesses of New South Wales to combat the Delta outbreak.

Despite the significant disruption of the COVID-19 pandemic on the State's fiscal position, the Government's net debt is projected to be $58.1 billion by June 2022, $5.1 billion lower than in the 2021-22 Budget. This is primarily due to increased cash arising from the State's successful sale of its 49 per cent share of WestConnex, which will be used to retire debt via the NSW Generations Fund (NGF).

[10] The general government sector and the public non-financial corporations sector.

[11] Includes capital expensing amounts totalling $512.8 million over the four years relating to certain expenditure associated with the construction of Health capital projects, which fall below the capitalisation threshold and are not classified as capital expenditure under the accounting standards.

The Government's net worth is projected to be $243.2 billion by June 2022, $8.7 billion higher than the Budget. This increase is mainly driven by the higher value of equity investments in other public sector entities[12], partially offset by the impact from an elevated operating deficit due to the Government's economic support measures.

New South Wales's successful asset recycling strategy helps support lower net debt

The 2021-22 Half-Yearly Review projects net debt will be $58.1 billion at June 2022, an improvement of $5.1 billion since the 2021-22 Budget forecast (see Table 3.9). This decrease is primarily due to the State's successful sale of its remaining 49 per cent stake in WestConnex, which will be used to retire debt, helping offset additional borrowings associated with support and stimulus measures in response to the pandemic.

Looking ahead to June 2025, net debt is projected to reach $103.0 billion (or 13.4 per cent of GSP), a decrease of $0.9 billion since the 2021-22 Budget. The Government's budget strategy will shift from short-term COVID support and stimulus, to reforms and investments that enhance the long-term productive capacity of the economy, e.g., WestInvest (see more details in *Section 3.3 Expenses outlook* and *Section 3.4 Capital expenditure outlook*).

Table 3.9: NSW general government sector balance sheet aggregates

	June 2021 Est. Actual	June 2022 Budget	June 2022 Revised	June 2023 Forward Estimates	June 2024	June 2025
Total Assets ($m)	453,979	469,720	480,530	503,875	534,145	560,450
Financial Assets ($m)	168,095	165,769	176,694	181,514	194,886	209,798
Non-Financial Assets ($m)	285,884	303,952	303,836	322,361	339,259	350,652
Total Liabilities ($m)	219,509	235,208	237,340	252,522	260,955	269,143
Net Worth ($m)	234,470	234,513	243,190	251,353	273,189	291,307
Per cent of GSP	36.5	34.5	35.0	34.8	36.9	37.9
Net Debt ($m)	37,076	63,258	58,118	77,821	92,116	103,008
Per cent of GSP	5.8	9.3	8.4	10.8	12.4	13.4

The State's financial assets included in the calculation of net debt[13] are expected to total $54.1 billion at June 2022, $0.4 billion lower than the 2021-22 Budget forecast. Financial assets at fair value are projected to reduce by $4.3 billion since the Budget. This decrease is driven by a lower projected NGF balance. The Government has temporarily suspend contributions into the NGF investment fund in 2021-22, having regard to the State's net cash operating deficit in 2021-22 (due to the Delta outbreak). Temporarily suspending these contributions, including State Owned Corporation (SOC) distributions and mining royalties, is expected to take pressure off the State's cash requirements in 2021-22. The Government will resume contributing to the NGF Debt Retirement Fund from 2022-23 noting that in that year the cash operating position is forecast to return to surplus[14]. Any future decision to temporarily suspend NGF contributions will be made with regard to all the circumstances on a case by case basis.

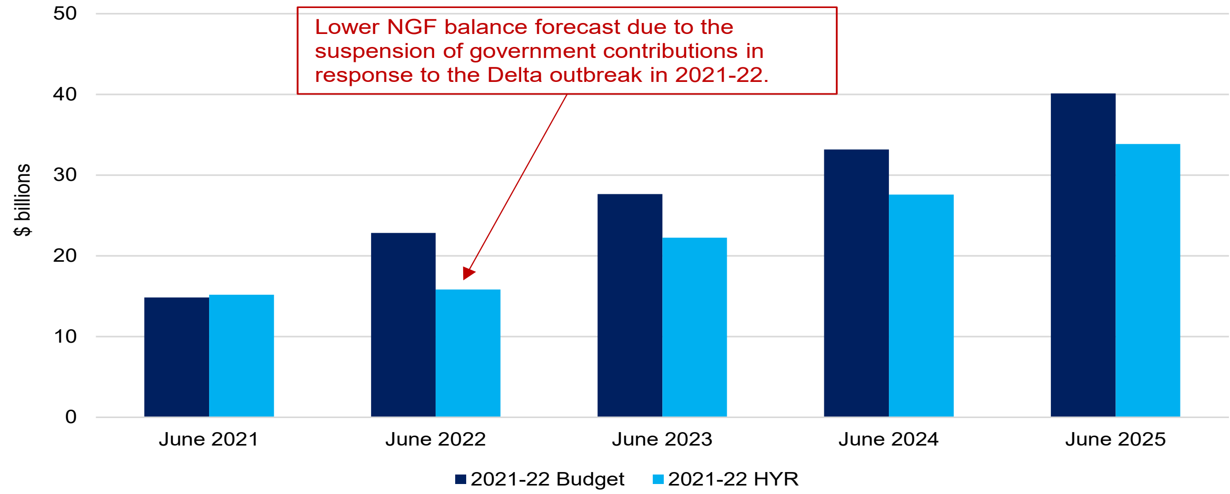
[12] The Government's equity investments in other public sector entities as at June 2022 is projected to be $101.9 billion, $13.8 billion higher than the Budget estimate. It is primarily driven by an increase in net assets of the Public Financial Corporation (PFC) sector entities due to a higher interest rate forecast. An upward movement in interest rate will result in a decrease in the market value of those bonds that TCorp issued to the private sector to meet the State's funding needs. Therefore, a decrease in liabilities of the PFC sector entities is recognised in accordance with *AASB 9 Financial Instruments*, reflecting an increase in the Government's equity investments in other public sector entities.

[13] The asset side of net debt calculations consists of the sum of cash and deposits, advances paid and investments, loans and placements

[14] The Government's reported net cash operating balance now excludes the distributions it receives from its managed funds, netting off the distributions received and reinvested in the cash flow statement. This will further increase the transparency around the Government's cash requirements.

With the successful sale of the remaining 49 per cent stake in WestConnex, the State will no longer receive Retained Roads Interest Pty Ltd (RRIPL) distributions, which were scheduled to be deposited into the NGF consistent with the *NSW Generations Fund Act 2018* (see Box 3.9). Compared with Budget, RRIPL distributions of $1.2 billion over the four years to 2024-25 will now not be received. The NGF balance is projected to be $6.3 billion lower than forecast in the Budget by June 2025, driven by the temporary suspension of NGF contributions in 2021-22 and RRIPL distributions foregone (See Chart 3.10). Over the longer-term, supported by investment returns and government contributions, the NGF balance is projected to grow to about $81.5 billion by June 2031.

Chart 3.9: NGF Debt Retirement Fund Balance – 2021-22 Budget Forecast vs. 2021-22 Half-Yearly Review Projection



The Government's gross debt (the liabilities included in the calculation of net debt[15]) is projected to be $112.3 billion at June 2022 and $161.8 billion at June 2025. This position reflects the Government's approach of drawing on its balance sheet to help support the NSW economy through its record infrastructure investment program and other economic support and stimulus measures during the Delta outbreak.

Despite the impacts of the Delta outbreak on New South Wales, the Government's net debt is projected to remain low at 8.4 per cent of GSP by June 2022. This expected outcome stems from the State's strong and diverse economy and the sale of its remaining 49 per cent stake in WestConnex in September 2021.

[15] The liability side of net debt calculations consists of the sum of deposit held, advances received, borrowings at fair value and borrowings at amortised cost.

Box 3.9: NSW's strategic balance sheet management helps keep debt levels sustainable

The NGF plays an integral role in the Government's fiscal strategy to maintain sustainable net debt levels over the medium-term (see Box 3.2 in *Section 3.1 Fiscal and Budget Overview*). The State's net debt is projected to peak at 13.4 per cent of GSP at June 2025 and then reduce below 7 per cent of GSP by June 2031, as the NGF balance grows.

In October 2021, the NSW Government announced it would use the NGF to retire $11.0 billion of debt over the next 24 months following the sale of its remaining 49 per cent stake in WestConnex. This is made possible by $10.3 billion in net transaction proceeds and around $680.0 million of WestConnex (RRIPL) distributions already received.

The Government will aim to retire maturing debt while also maintaining flexibility to take advantage of market buy-back opportunities only if they represent value for money for the State. This approach enables debt to be retired efficiently, transparently and at the lowest possible cost. The first repayment is due in March 2022, coinciding with a $4.3 billion TCorp benchmark maturity. Debt retirement payments will be apparent through the General Government Sector Cash Flow Statement (See Table B.3 in *Appendix B Uniform Financial Reporting*).

In the interim, amounts set aside for debt retirement will be held as cash in the NGF accounts (refer to the NSW Generations Fund Annual Report) and managed as part of the State's overall cash balances until drawn on to retire debt. This enables more efficient cash management, maximising value to the State and minimising risk.

The Government will continue reporting on these debt retirement activities through future Budget Papers and as required.

Table 3.10: WestConnex Debt Retirement related variations against the 2021-22 budget

General Government Financial Statements (extract)	June 2022	June 2023	June 2024	June 2025
Borrowings at amortised cost	(4.3)	(9.6)	(11.0)	(11.0)
Repayment of Borrowings	4.3	5.3	1.4	0.0

The strongest net worth of all Australian states and territories

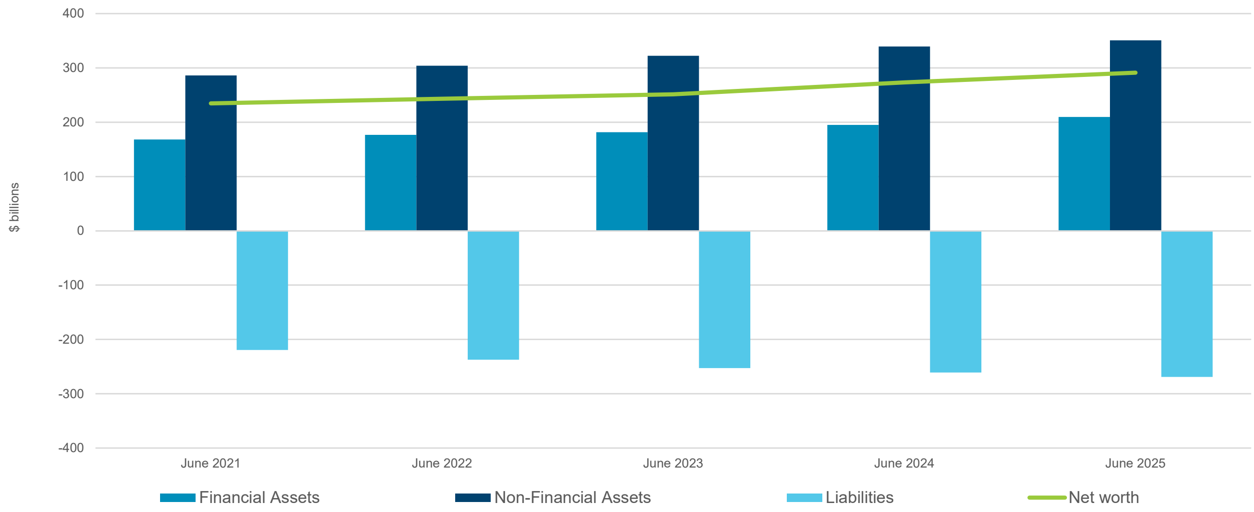
New South Wales' net worth is projected to be $243.2 billion at June 2022, the highest of all States and Territories in Australia. This represents a $8.7 billion increase since the Budget, reflecting a significant increase in the recognition of equity investments in other public sector entities due to a higher interest rate forecast. This increase is more than offsetting the Government's large operating deficit in 2021-22 driven by support and stimulus measures in response to the Delta outbreak. In addition, employee provision and superannuation provision at June 2022 have increased by $2.9 billion since the Budget.

The Government's projected total financial assets at June 2022 will increase by $10.9 billion compared to the Budget, primarily driven by a $13.8 billion increase in equity investments in other public sector entities, partially offset by a $3.2 billion reduction in equity investments in associates. Higher cash resulting from the State's sale of its remaining 49 per cent stake in WestConnex broadly offsets lower financial assets at fair value due to the temporary suspension of NGF contributions in 2021-22.

Over the four years to June 2025, net worth is projected to reach $291.3 billion by June 2025. This is driven primarily by strong growth in the State's non-financial assets, while liabilities remain generally stable. Most notably:

- the value of property, plant and equipment is expected to grow from $290.0 billion at June 2022 to $336.8 billion at June 2025, due to the delivery of the record infrastructure program and asset revaluations
- the expected $49.7 billion increase in borrowings to June 2025 is largely offset by a $17.4 billion decrease in superannuation liabilities, as the State progresses on its commitment to fully fund its superannuation liabilities by 2040.

Chart 3.10: NSW general government sector net worth to increase by $48.1 billion over the next four years



The State's strategic balance sheet management integrates Environmental, Social and Governance (ESG) considerations

The Government continues to drive a dedicated and systematic effort to applying ESG considerations when managing the State's balance sheet. New actions include:

- pursuing further opportunities and meeting investors' interest in green and sustainability bonds, by adding over $4.1 billion to the NSW Sustainability Bond Programme's asset pool in financial year 2021
- strengthening commitments to achieving net zero emissions by 2050 through a range of initiatives, including updating the Government's objective to reduce emissions by 50 per cent below 2005 levels by 2030, and driving decarbonisation through the NSW Hydrogen Strategy, the Net Zero Plan Stage 1: 2020-2030 (as updated) and the Electricity Infrastructure Roadmap
- supporting the development of approaches to reporting and disclosing climate and sustainability related information. This includes committing to piloting Task Force on Climate-related Financial Disclosures (TCFD) statements for select entities within the Energy and Environment Cluster and to a biennial climate change impact, risk and adaptation statement for the State in line with the TCFD framework.

Box 3.10: Environmental, Social and Governance Issues (ESG) and State's Investment funds

As the State's investment manager, NSW Treasury Corporation (TCorp) oversees around $110 billion in State funds. TCorp manages these funds according to its Investment Stewardship Policy, which covers:

- the integration of ESG issues into investment decision-making
- active ownership through proxy voting
- client alignment such as incorporating specific commitments to sustainability
- exclusions (e.g. tobacco)
- active monitoring and reporting.

The NSW Government recognises the increasing importance of incorporating ESG considerations into financial investment decision-making, and ESG's role in promoting positive impacts of delivering a healthier economy, society and environment, alongside sustainable financial returns.

In 2022, the Government will review funds managed by TCorp to assess their alignment with industry best practice with respect to ESG investing. The review will also seek to identify opportunities to take a leading role in this area, all in the context of ensuring the Government continues to fulfill its fiduciary duty to taxpayers and beneficiaries.

3.6 Fiscal risks

The Half-Yearly Review is prepared, in part, using forecasts and assumptions. Some of these can be subject to risks and variation.

The Coronavirus Pandemic

COVID-19 triggered the most severe recession in Australia since the Second World War. Through the Delta outbreak, around 234,000 people in New South Wales lost their jobs. While this is somewhat less than the almost 266,000 jobs lost during the 2020 lockdowns, this masks a larger decline in hours worked in the most recent lockdown. To support the economy, community and the health response, unprecedented levels of monetary and fiscal policy have been implemented.

In October 2021, New South Wales came out of stay at home orders as the vaccination rate targets outlined in the Roadmap were achieved. The most significant fiscal risk for New South Wales is a further outbreak, similar to the fourth wave outbreak that is currently being experienced by Europe, the new Omicron strain or a new strain that is vaccine resistant. This would have a direct impact on key economic drivers such as employment and business and consumer confidence.

COVID-19 has increased the complexity and uncertainty in forecasting Government revenue, expenses, the infrastructure program and the balance sheet. With only five months since the 2021-22 Budget and the onset of the Delta outbreak, the Half-Yearly Review outlook is characterised by this volatility.

Economic risks

The effective COVID-19 response within the State, most notably the rapid vaccination of the adult population, together with strong public spending, are enabling a better than expected economic recovery, with improved employment numbers and consumer spending. As indicated in *Chapter 2 Economic Outlook*, the NSW economy is expected to return to pre-outbreak levels faster than the initial 2020 lockdown. With state and international borders reopening, all governments continue to play a key part in the State's recovery.

With over 93 per cent of the NSW adult population fully vaccinated as at mid December 2021, the current forecasts do not include an outbreak event of COVID-19, that may require a significant reinstatement of restrictions.

Most of the business support stimulus including JobSaver, Business grants payments and the Commonwealth funded COVID-19 Disaster payments, have ceased as restrictions have been removed and the economy has rebounded. However, despite the improved economic fundamentals, there remains uncertainty in how some segments of the economy will respond to the ending of temporary support, especially those where demand may take some time to return (such as those exposed to international tourism or students).

A key risk is for higher and more persistent inflation. The Consumer Price Index (CPI) rose by 0.8 per cent in the September 2021 quarter, with annual headline inflation standing at 3.0 per cent. A significant driver of rising inflation has been increased demand for goods at a time of restricted supply. This supply shortage is driven by a constrained global logistics network impacted by the COVID-19 pandemic and resulting shortfalls in key inputs such as computer chips.

NSW Treasury has revised its CPI forecast upwards from the 2021-22 Budget across the forecast horizon. Inflation is now expected to be 2½ per cent in 2021-22 before easing slightly in 2022-23 and 2023-24 and rising back into the centre of the Reserve Bank of Australia's target band in 2024-25. This increase in inflation deteriorates the Budget result by approximately $0.4 billion over the forward estimates. There is a risk that inflationary pressures do not subside as expected, which would place pressure on the Budget result.

International Risks

The COVID-19 pandemic has impacted global supply chains. There have been significant delays in the transfer of goods internationally as a result of a shortage of shipping containers, other inputs and labour. Raw material prices including crude oil, natural gas, steel, lumber and fertiliser have also increased significantly since their lows in 2020 and combined with supply constraints has resulted in significant inflationary pressures. This increase in inflationary pressures could potentially result in central banks around the world starting to taper their bond purchase programs and raise interest rates.

Given there has been a significant ramp-up in borrowings from both governments and the business sector, there is a significant risk that any future rise in interest rates may cause a slowdown in the global economy and alongside higher inflation rates, could potentially result in a global stagflation environment.

Aside from COVID-19, global risks include the possibility that China's economic growth could slow significantly, particularly due to weakness in the property sector. China's economy grew by 4.9 per cent in the September quarter, the slowest rate in a year. China's ongoing policy effort to reduce leverage in the property sector, combined with energy shortages and COVID-19 related restrictions, presents a risk to China's growth and the global recovery.

Revenue risks

Any future slowing of the global economy can put downward pressure on demand for goods and services and dampen investment and hiring decisions. At the same time, continued border closures can impact population growth and skilled migration. Any changes to employment and wage levels resulting from such decisions would flow through to payroll tax revenues.

Government response measures could also impact household consumption and dwelling investment, which would flow directly into GST receipts.

Mining royalties are sensitive to volatile global coal prices and foreign exchange rates. Global coal prices have risen since the 2021-22 Budget but are below their record highs in October 2021. Downside risks to prices include lower demand from key coal importers such as Japan and China, further moves towards renewable energy generation, and the supply response of high-cost producers to changes in coal prices.

Transfer duty revenue is sensitive to both the number of property transactions and property prices. Weaker than expected population growth generally lowers the demand for housing. However, New South Wales has recorded significant property price growth. Sydney median property prices have increased over 30 per cent since the onset of the pandemic, due to record low interest rates, with the Overnight Cash Rate at 0.1 per cent, and easy access to mortgages. A re-introduction of macroprudential measures has commenced to limit maximum lending limits and if interest rates were to rise on the back of high and persistent inflation forecasts, this could detract from growth in transfer duty revenue.

The COVID-19 pandemic and subsequent lockdowns significantly changed working practices with more people working from home. If the shift to remote working continues as a permanent trend, it will have a significant impact on Government revenues. Lower economic activity in current job hubs such as the Sydney CBD and lower patronage on the transport network, will result in lower farebox revenue.

There may be opportunities from increased remote working practices. In its November 2021 report *Remote Working Insights 2*, the NSW Innovation and Productivity Council and NSW Productivity Commission outlined that remote working could permanently boost NSW productivity by up to 1.9 per cent adding around $6 billion per annum to NSW's Gross State Product. This could be through fast-tracking innovation, reducing congestion on the transport network, improved well-being benefits and decentralisation benefits to the regions.

Expense risks

An increased demand for government services, particularly due to COVID-19 (such as costs of cleaning, quarantine, and health expenses including mental health), may place further pressure on service delivery costs over the long term.

The Government's cost of borrowing has benefited from expansionary monetary policy which has contributed to low interest rates. If interest rates were to rise on the back of higher and more persistent inflation, this would increase expense risks on the cost of the State's borrowings and superannuation interest expenses.

Future interest rate risk is increasing on the State's borrowings, because of both higher levels of required new borrowings over the forward estimates and from larger yearly refinancing requirements.

Over the last couple of years, New South Wales has faced a significant number of large natural disasters ranging from drought, bushfires in 2019-20 and floods in early 2020. Climate-driven natural hazards are expected to become more frequent and intense, and this will have a large impact on Government expenses. NSW has committed to net zero emissions by 2050 and to half its emissions by 2030 on 2005 levels.

Risk of structural deficits

New South Wales is forecast to return to surplus in 2024-25, when the State's economy is expected to recover to full capacity. If significant revenue and/or expense risks materialise and the Government moves into a medium-term deficit, the State may be at risk of a structural budget deficit.

New South Wales currently has two triple-A credit ratings (Moody's and Fitch) and one double-A plus rating (S&P Global). The State's credit ratings are supported by the State's strong financial management. A structural deficit would put significant pressure on the State's credit rating, with downgrades and higher borrowings costs likely.

Infrastructure investment risks

There are a number of challenges to the delivery of the Government's infrastructure agenda that are expected to impact the timing and cost of construction projects.

Capacity in the construction market to deliver large projects has tightened with significant increases in stimulus spending by the Commonwealth and state governments and the growing complexity of the infrastructure pipeline. This may drive higher costs and more frequent delays in infrastructure delivery.

Infrastructure Australia has published its market capacity report and outlined the 75 per cent increase in spending on infrastructure projects will result in higher materials prices, higher insurance premiums and shortfalls in the infrastructure labour markets with one in three jobs being unfulfilled by 2023. All these pressures combined are likely to drive prices higher - the September 2021 quarter purchaser price index for heavy and civil engineering construction and building construction rose by 2.1 per cent and 2.2 per cent respectively.

Financial Assets and Liabilities risks

Financial market and economic volatility are key risks to the State's balance sheet stability.

Following an initial downturn at the onset of the COVID-19 pandemic, asset prices have risen significantly with both house prices and equities at or close to record highs both internationally and domestically. There is still significant uncertainty in financial markets with central banks around the world commencing tapering of their bond purchase programs or slowly increasing interest rates. Central bank action alongside rising global inflation and slowing economic growth can each impact business and investor confidence and therefore asset values. Conversely, a sustained improvement in economic growth could support higher asset values through enhanced business profitability, even as central banks normalise monetary policy settings.

The State's growing pool of financial assets increases the impacts of financial market volatility on the State's balance sheet. While market risk can be mitigated through portfolio diversification and ensuring only appropriate levels of risk are taken, significant unexpected shifts in market performance, such as those experienced during February and March 2020, can impact the State's financial assets and net debt. The State has robust risk-management processes in place to monitor and manage these risks. This includes regular oversight through Treasury's Asset and Liability Committee, as well as annual reviews of funds' risk appetites and investment strategy to ensure they remain appropriate to achieving fund aims.

While periodic fluctuations in returns are to be expected, the value of the State's financial assets is expected to rise over the long term.

The State's superannuation and long service leave liabilities can be significantly affected by changes in the Commonwealth long term bond rate, which is used as these liabilities' discount rate. Investment returns can also affect the superannuation liability to an extent, as financial assets are netted off against the defined benefit superannuation liability.

3.7 Commercial performance in the broader public sector

Introduction to the Public Sector and its commercial operations

The public sector encompasses a range of entities that deliver services to citizens. These entities are grouped into three main categories (see Figure 3.1 below):

- the general government sector represents entities which deliver non-market services, and which are primarily funded through departments (e.g. all New South Wales Government departments)
- the public non-financial corporation (PNFC) sector covers entities that operate on a more commercial basis and recover most of their costs by charging for services (e.g. water and electricity utilities) such as the State Owned Corporations (SOCs)
- the public financial corporation (PFC) sector provides financial management services to the Government, including issuing bonds and providing insurance services (e.g. TCorp and icare).

Figure 3.1: The public sector and its commercial operations

Both the PNFC and PFC sectors are guided by a Commercial Policy Framework (CPF). The CPF encompasses a suite of Treasury policies that apply to government businesses and aims to instil the disciplines and incentives that lead private sector businesses towards efficient commercial practices. The CPF sets out the Government's ownership expectations around capital structure and distributions, governance, performance management, reporting, and risk management.

Initiatives of government businesses

Water

Sydney Water is working with its partners to explore best practice water supply options. This will help provide reliable drinking water to over five million people and cater for Sydney's growing population. Sydney Water's investments are designed to increase water savings by 800 million litres per year through water efficiency activities; reduce demand on drinking water by 14,000 million litres through recycled water production and new opportunities for recycled water; and continue to further reduce leakage.

WaterNSW is taking a proactive response to a number of extreme weather events across both regional NSW and metropolitan catchments, including multiple large rain and inflow events across multiple valleys. WaterNSW has been carefully managing airspace releases and storage levels in dams that have reached capacity, to ensure the safety of the structures, maintain water security and to mitigate the impacts of events on downstream communities. Central to this has been the role of Airspace Reference Panels that have been convened in key valleys with local stakeholders including local councils.

Hunter Water is continuing its 'Love Water' campaign which has resulted in the community using eight per cent less water than expected. It has also saved 250 million litres through its active leak detection, surveying more than the length of their entire water network (5,187 kilometres of pipes) for leaks.

Energy

Essential Energy has recently revised its corporate strategy to ensure it delivers a safe, reliable, affordable supply of electricity while recognising the growing role of the electricity sector, and the distribution network specifically, in the transition to a lower carbon world.

Box 3.11: Leading innovation in the energy sector

Essential Energy is leading the way for energy transition across regional NSW, by investing in trials of new technologies and collaborating with partners to deliver the products and services that households and businesses need.

With three Renewable Energy Zones (REZs) in its network area, Essential Energy is working with the Department of Planning, Industry and Environment to optimise integration between the distribution network and REZ infrastructure to support the uptake of renewable technology while keeping costs as low as possible for energy consumers.

Other technologies that can improve reliability while lowering costs, such as Stand-Alone Power Systems, including those powered by green-hydrogen, are being trialled. Essential Energy is working with a number of parties and the NSW Government to facilitate the uptake of electric vehicles (EVs) and maximise consumer benefits from the NSW Government's EV Strategy (see box 3.2 in *Section 3.2 Revenue outlook* for information on the Government's Electric Vehicle strategy). This includes forums with EV charging providers to improve charging infrastructure connections and EV tariff opportunities.

Essential Energy is also trialling a network battery to better understand network reliability and demand management for the changing electricity network. The battery is in an area with a growing population and has the potential to delay or negate significant augmentation of the network, reducing costs to consumers.

Other businesses

The Port Authority of NSW is continuing work on the refurbishment and capacity upgrade of the Overseas Passenger Terminal at Circular Quay, which will help maintain safe, efficient, and reliable berthing that can accommodate the requirements of current and future vessels once cruise restarts. Port Authority has also implemented a Net Zero Strategy as a key initiative for 2021. This strategy commits Port Authority to become net zero by 2040 and reduce direct emissions by 75 per cent by 2035.

Forestry Corporation of NSW continues its work to recover from the 2019-20 bushfires. Forestry Corporation will plant 16 million softwood and hardwood seedlings this year to re-establish plantations; a 60 per cent increase on previous years. Forestry Corporation is also investing significantly in compliance to ensure the native forest environment is protected as the forests recover from the bushfires.

Landcom's significant land sales in the first half of 2021-22 include Lachlan's Line Stages 1 and 2, Thornton, and Edmondson Park, which will allow a further 1,798 dwellings to be developed. Landcom is a carbon neutral organisation, recently ranked in the International GRESB rankings as the second most sustainable residential developer in Australia and Oceania, and within the top 11 per cent globally.

Transport Asset Holding Entity (TAHE) NSW is the custodian of the NSW rail network. Its role is to provide track access to rail operators, oversee asset and safety management, pursue commercial business opportunities, and oversee network capital investment.

This year, $3.3 billion of capital investment is programmed, $800 million of which has been spent as at the end of October. This investment program includes:

- $1.1 billion of continuing investment into the More Trains, More Services program
- the Mariyung Fleet (New Intercity Fleet)
- commuter carparks and Transport Access Programs.

The aim of this investment is to continue to provide safe, reliable rail assets while driving economic growth through precinct investment and innovative solutions that enhance communities into the future.

Dividends and tax equivalent payments

Dividends received by the general government sector from the PNFC and PFC sectors are based on the operating performance and credit worthiness of those businesses. To ensure competitive neutrality with private sector counterparts, some of these corporations make tax equivalent payments and, with respect to the cost of debt, pay debt neutrality charges (government guarantee fees).

In 2021-22, the dividend and tax equivalent payments are forecast at $648.4 million which is $34 million less compared to the 2021-22 Budget. This is driven by lower tax equivalents from Essential Energy whose gifted assets are no longer taxable and depreciable for tax purposes due to a recent court ruling. This impacts Essential Energy who are gifted approximately $80 to 90 million in assets from developers each year.

Over the Budget and forward estimates, dividends and tax equivalent payments are forecast to be $4.7 billion, which is $296 million more compared with the 2021-22 Budget. This is primarily due to the Government's shareholder expectations guidance to TAHE. The updated guidance moves the expected rate of return on equity from the 10 Year Commonwealth bond yield to the expected long-term inflation rate of 2.5 per cent (consistent with the centre of the Reserve Bank of Australia's target band). As a result profitability is expected to improve, increasing dividend and tax equivalent payments to the State.

To facilitate these arrangements an increased allocation of funds has been made to Transport for NSW (TfNSW) from 1 July 2022 to be provided to the rail operators.

Table 3.11 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors from 2020-21 to 2024-25.

Table 3.11: Dividends and tax equivalent payments from the PNFC and PFC sectors

	2020-21 Est. Actual	2021-22 Budget	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m	$m	$m
Electricity	6	69	12	5	51	102
Water	893	427	438	409	437	960
Property and Resources	28	11	13	70	115	354
Ports	21	23	23	54	53	60
Transport	-	8	16	184	201	233
Public Financial Corporations	129	144	146	162	177	404
Total Dividends and Tax Equivalent Payments	1,078	682	648	885	1034	2114

Capital expenditure

In 2021-22, capital expenditure within the PNFC sector is forecast to be $6.6 billion, which is $555 million less than the 2021-22 Budget. This variance to the 2021-22 Budget is primarily attributable to the reprofiling of water and transport infrastructure projects.

Capital expenditure within the sector over the Budget and forward estimates is forecast to be $22.7 billion, which is $224 million less than the 2021-22 Budget. This variance is primarily driven by the timing of water projects, and partially offset by the delay in spend by NSW Land and Housing Corporation due to the impact of COVID-19 on construction projects.

Public Financial Corporations

The NSW Treasury Corporation (TCorp) is the State's central financing authority and investment management agency, with a balance sheet in excess of $125 billion. TCorp manages funds on behalf of icare, SAS Trustee Corporation, the NSW Generations (Debt Retirement) Fund and the NSW Infrastructure Future Fund, among others. TCorp's total funds under management increased to $110 billion as at 31 October 2021.

The first half of 2021-22 has seen TCorp make significant progress on its 2021-22 borrowing program, by raising $13 billion to 31 October 2021.

icare is the Government's social insurer with the purpose to protect, insure and care for the State's people, businesses and assets. It provides workers compensation insurance to more than 300,000 public and private sector employers, and over 3 million of their employees.

icare has initiated a multi-year, comprehensive program of remediation and improvement that addresses recent review recommendations, seeks to improve return to work performance, and lays the foundations for the insurance and care schemes over the long term.

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A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements for the General Government Sector

This Statement of Significant Accounting Policies and Forecast Assumptions applies to the Half-Yearly Review of the estimated financial statements for the general government sector (GGS).

The GGS comprises government agencies controlled by the State that:

- undertake regulatory functions
- redistribute income and wealth
- provide or distribute goods and services on a non-market basis to individuals and the community and/or provide other services to general government agencies.

The scope of the GGS is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* (cat. No. 5514) (ABS-GFS Manual).

The Estimated Financial Statements of the GGS (GGS Estimated Financial Statements) presented in *Appendix B Uniform Financial Reporting* include the:

- GGS operating statement (Table B.1)
- GGS balance sheet (Table B.2)
- GGS cash flow statement (Table B.3).

The 2021-22 Budget information included in the GGS Estimated Financial Statements reflects the original budget tabled in Parliament on 22 June 2021. The revised budget estimates relate to the current year ending 30 June 2022, and estimates for the three forward years ending 30 June 2023, 2024 and 2025.

Basis of preparation

The GGS Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2021-22 Budget and based on the assumptions outlined below.

The GGS Estimated Financial Statements are prepared using the accrual basis of accounting. This basis recognises the effect of transactions and events when they are forecast to occur.

The GGS Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by the NSW Government, where their financial effect can be reliably estimated, as well as known Commonwealth Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review.

The revised GGS estimates for the 2021-22 financial year are based on actual results for the four-month period ending 31 October 2021, and updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data currently available to Treasury up to 14 December 2021.

In keeping with these principles, where the impact of a policy decision or planned event cannot be reliably measured, the impact is not reflected within the GGS Estimated Financial Statements (for example, due to uncertainties regarding the timing and amount of future cash flows).

Additionally, they do **not** include the impact of major asset transactions until they are finalised. The estimated financial impact of these future planned discontinuing operations or restructuring transactions are not recognised due to their commercial-in-confidence nature.

In the GGS Estimated Financial Statements, any estimates or assumptions made in measuring revenue, expenses, other economic flows, assets or liabilities are based on:

- the latest information available at the time
- professional judgements derived from experience
- other factors considered to be reasonable under the circumstances.

Actual results may differ from such estimates. Key assumptions are detailed below, under the headings *Material economic and other assumptions* and *Summary of other key assumptions*.

Accounting policies

Australian Accounting Standards (AAS) do not include requirements or provide guidance on the preparation and presentation of prospective financial statements, such as that included in the GGS Estimated Financial Statements. However, recognition and measurement principles within AAS have been applied in the presentation of the GGS Estimated Financial Statements to the maximum extent possible.

The GGS Estimated Financial Statements follow the presentation and principles in the 2021-22 Budget. The revised estimates have been prepared in accordance with the accounting policies expected to be used in the preparation of the *Total State Sector Accounts* for 2021-22.

Except for the matters set out below under Changes in accounting policies, the accounting policies applied in preparing the GGS Estimated Financial Statements are not materially different from those applied in the audited 2019-20 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* as presented to Parliament.

Note 1 Statement of Significant Accounting Policies of the 2019-20 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenue, expenses, other comprehensive income, assets and liabilities.

Changes in accounting policies

Changes in Australian Accounting Standards (AAS) are considered when preparing the GGS Estimated Financial Statements.

For periods commencing 1 July 2020, changes include:

- application of the new accounting standard AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) for the 2020-21 estimates and beyond
- repeal of the accounting policy TPP 06-08 *Privately Financed Projects* (TPP 06-08), effective for the 2020-21 estimates and beyond.

There are no significant changes to AAS or accounting policies adopted in 2021-22 that materially impact the GGS Estimated Financial Statements.

AASB 1059 Service Concession Arrangements: Grantors

The accounting standard AASB 1059 applies to service concession arrangements. These are arrangements where an operator uses a service concession asset to provide a public service on behalf of the State.

Where an arrangement is within the scope of the standard, AASB 1059 requires service concession assets to be recognised from the start of the arrangement or over the construction period, with a corresponding liability to reflect any payments due to the operator, and/or where the State has granted to the operator a right to charge users of the asset.

Previously, under TPP 06-08 *Privately Financed Projects* (TPP 06-08), most service concession arrangements in New South Wales were generally treated as leases or as assets gradually recognised over the concession period. Following adoption of AASB 1059, TPP 06-08 was withdrawn. Arrangements previously accounted for under TPP 06-08 will be accounted for under AASB 1059 or other applicable accounting standards.

AASB 1059 has a different scope than TPP 06-08, possibly resulting in more arrangements being recognised in the State's balance sheet, such as those arrangements previously classified as emerging rights to receive.

For the purposes of the GGS Estimated Financial Statements, AASB 1059 has been applied in preparing the estimates for the revised budget year ending 30 June 2022 as well as the three forward years ending 30 June 2023, 2024 and 2025. The GGS Financial Statements reported in the audited 2019-20 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* do not reflect the impact of the adoption of AASB 1059. However, the actual results reported in the 2020-21 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* will reflect the impact of the adoption of AASB 1059, when published.

Withdrawal of TPP 06-08 Privately Financed Projects

TPP 06-08 has been withdrawn alongside the introduction of AASB 1059. Some arrangements previously accounted for under TPP 06-08 will not fall within the scope of AASB 1059. The GGS Financial Statements reported in the 2019-20 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* do not reflect the impact of withdrawal of TPP 06-08. However, the actual results reported in the 2020-21 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* will reflect the impact of the withdrawal of TPP 06-08, when published.

New accounting standards issued but not effective

There are no standards and interpretations that are issued and not yet effective, or that have been adopted early, that are expected to have a material impact on the GGS Estimated Financial Statements.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 38 of the *2019-20 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2021-22 *How to Read the Budget Papers*.

Presentation of the GGS Estimated Financial Statements

The GGS Estimated Financial Statements follow the presentation requirements for GGS reporting contained in AASB 1049 *Whole of Government and General Government Sector Financial Reporting (AASB 1049)*.

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. AAS) with Government Financial Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics (ABS). The statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective.

The net operating balance (that is, the budget result) presented in accordance with AASB 1049 is the net result of harmonised GFS-GAAP transactions for the GGS.

In the operating statement:

- the *net operating balance* is the net result of *revenue and expenses from transactions*. Transactions are the result of mutually agreed interactions between parties. It excludes *other economic flows*, which represents changes in the volume or value of assets or liabilities that do not arise from transactions with other entities and which are often outside the control of government
- the *operating result* includes the *net operating balance* and certain *other economic flows.* It is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

The GGS financial statements adopt the recognition, measurement and disclosure requirements of GAAP consistent with the following principles in AASB 1049:

- where options exist in GAAP, the GGS financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS and/or
- where options do not exist in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

Due to the prospective nature of the GGS Estimated Financial Statements, detailed notes to the GGS Estimated Financial Statements are not required to be included. This is consistent with Section 4.2 (4) of the *Government Sector Finance Act 2018*.

Each year ends on 30 June. All monetary amounts are presented in Australian dollars and rounded to the nearest million dollars ($m).

Use of a zero (“0”) represents amounts rounded to zero. Use of three dots (“…”) represents nil amounts.

Tables may not add in all instances due to rounding.

Presentation changes

There have been no significant presentation changes since the release of the 2021-22 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Material economic and other assumptions

The GGS Estimated Financial Statements included in the Half-Yearly Review have been prepared using the material economic and other assumptions as set out below.

Table A.1: Key economic performance assumptions[(a)]

	2020-21 Outcomes	2021-22 Forecasts	2022-23 Forecasts	2023-24 Projections	2024-25 Projections
New South Wales population (persons)[(b)]	8,178,000	8,213,000	8,274,000	8,363,000	8,461,000
Nominal gross state product ($million)	643,100	694,100	723,100	740,100	768,700
Real gross state product (per cent)	1.4	2 1/2	3 1/4	1 1/2	2 1/4
Real state final demand (per cent)	2.9	2 3/4	5	1	2 1/2
Employment (per cent)	0.4	1/2	2 1/4	1	1 1/4
Unemployment rate (per cent)[(c)]	5.2	5 1/4	4 1/2	4 1/2	4 1/4
Sydney consumer price index (per cent)[(d)]	1.5	2 1/2	2 1/4	2 1/2	2 1/2
Sydney consumer price index excluding tobacco excise effect (per cent)	1.3	2 1/2	2 1/4	2 1/2	2 1/2
Wage price index (per cent)[(e)]	1.5	2 1/4	2 1/4	2 1/2	2 3/4
Nominal gross state product	3.0	8	4 1/4	2 1/4	3 3/4

(a) Per cent change, year average, unless otherwise indicated
(b) As at 30 June each year
(c) As at June quarter, per cent
(d) 2020-21 includes ¼ percentage point from tobacco excise increases.
(e) Weighted private and public sector wages

Source: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and Treasury

Summary of other key assumptions

The following section outlines the other key assumptions used in the preparation of the GGS Estimated Financial Statements. The summary takes into account materiality in relation to the GGS's overall financial position and sensitivity to changes in key economic assumptions.

Notwithstanding these key assumptions, agency finance officers apply appropriate professional judgement in determining estimated financial information.

Revenue from transactions

Taxation revenue

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. Payroll tax, for example, involves an assessment of the outlook for employment and wages. Forecasts of government debt guarantee fees take into account an assessment of the level of debt of public non-financial corporations (PNFC) and their credit rating differential compared with the State as a whole. The forecasts of taxation revenue also involve the analysis of historical information and relationships (using econometric and other statistical methods) and consultation with relevant government agencies.

Grants and subsidies revenue

Forecast grants from the Commonwealth Government are based on the latest available information from the Commonwealth Government and projections of timing of payments at the time of preparation of the Half-Yearly Review. This takes into account the conditions, payment timetable, escalation factors relevant to each type of grant and, where relevant, estimated progress against grant obligations.

Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by NSW Treasury. For 2021-22, the GST forecast is based on the assessed relativity for New South Wales in 2021-22 and the Commonwealth Government's population projections. The assessed relativity is based on the three-year average of actual data (2017-18, 2018-19 and 2019-20) as published by the Commonwealth Grants Commission.

Beyond 2021-22, the State's share of GST is based on New South Wales Treasury's forecast relativities, national GST pool estimates and the Commonwealth's state populations projections. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared with other states and territories.

Sale of goods and services

Revenue from the sale of goods and services is forecast by taking into account all known factors, including:

- estimates of changes in demand for services provided
- expected unit price variations based on proposed fee increases imposed by general government agencies and/or indexation.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by PNFC and public financial corporations (PFC) sectors. They are based on expected profitability and the agreed dividend policy at the time of the Half-Yearly Review.

Other dividends and distributions

Other dividends include estimates of dividends to be received from investments in entities other than the PNFC and PFC sectors, with the revenue recognised when the right to receive payment is expected to be established. Estimates are based on advice from external parties.

Distributions are mainly from managed fund investments administered by TCorp, with the revenue recognised when the right to receive payment is expected to be established based on advice from TCorp. It excludes estimated fair value movements in the unit price of the investments, which are recognised as 'other economic flows – included in the operating result'.

Fines, regulatory fees and other revenues

Fines, regulatory fees and other revenues include estimates of fines issued by the courts, estimated traffic infringement fines, estimated revenue from enforcement orders and regulatory fees and contributions. It also includes estimated royalty revenue based on assessments of coal volumes, and prices and the Australian dollar exchange rate. Other revenue forecasts are adjusted for indexation where appropriate.

Expenses from transactions

To improve the accuracy of budget estimates, consistent with longstanding practice and reflecting historic trends, the GGS Estimated Financial Statements includes adjustments:

- to account for parameter and technical adjustments[18] expected to be required to maintain service provision on a no policy change basis, reflecting the historic conservative bias in aggregate spending estimates
- to account for expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in NSW Treasury Circular *TC 15-08 Agency Carry Forwards*
- to reflect Government decisions not yet included in agency estimates, for example due to timing or because they are commercial in confidence or subject to further requirements.

[18] Parameter and technical adjustments are submitted by agencies for material, non-discretionary changes in the net cost (or timing) of expenditure on existing programs or capital projects. An example of a parameter and technical adjustment would be an increase in teacher salaries due to higher student enrolments.

Employee expenses

Employee expenses are forecast based on expected staffing profiles, current salaries, conditions and on-costs. These can vary depending on:

- approved wage agreements and other wage determinations in place
- the State's public sector wages policy
- new initiatives
- other policy changes.

Superannuation expense (and liabilities)

Superannuation expense comprises:

- for defined contribution plans, the forecast accrued contribution for the period
- for defined benefit plans, the forecast service cost and the net interest expense. This excludes the re-measurements (i.e. actuarial gains and losses and return on plan assets in excess of the long-term Commonwealth Government Securities (CGS) rate) which are classified as 'other economic flows – other comprehensive income'.

Superannuation expenses for defined contribution plans are based on assumptions regarding future salaries and contribution rates.

Superannuation expenses for defined benefit plans are estimated based on actuarial advice, applying the long-term CGS yield as at 30 June in the prior year to the opening value of net liabilities (gross superannuation liabilities less assets), less benefit payments at the mid-point of the contribution year, plus any accruing liability for the year.

Forecasts of defined benefit superannuation liabilities are based on actuarial estimates of cash flows for the various defined benefit superannuation schemes, discounted using a nominal long-term CGS yield as at 30 June. Gross liability estimates are based on a number of demographic and financial assumptions.

The table below sets out the major financial assumptions used to estimate the superannuation expense and liability in respect of defined benefit superannuation for the Budget and forward estimates period.

Table A.2: Superannuation assumptions – pooled fund / state super schemes

	2021-22 Forecast %	2022-23 Forecast %	2023-24 Forecast %	2024-25 Forecast %
Liability discount rate [(a)]	2.00	2.20	2.90	3.60
Expected return on investments [(b)]	7.2/6.7	6.5/5.7	6.5/5.7	6.5/5.7
Expected salary increases [(c)]	2.74	2.74	2.74	2.74
Expected rate of CPI [(d)]	2.50	2.25	2.50	2.50

(a) The liability discount rate is at 30 June for each financial year.
(b) The expected return on investments is 6.5 per cent on assets backing pension liabilities and 5.7 per cent on assets backing non-pension liabilities. For the EISS, the expected long-term investment return is 5 per cent (after fees and charges).
(c) Note that this input includes promotions and other factors, in addition to the expected increase in base salary.
(d) 2021-22 includes ¼ percentage point from tobacco excise increases.

Depreciation and amortisation

Property, plant and equipment are depreciated (net of residual value) over their respective useful lives. Right-of-use assets are generally depreciated over their respective lease term. Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on:

- the basis of known asset valuations
- the expected economic life of assets
- assumed new asset investment
- asset sale programs.

The depreciation expense is based on the assumption that there will be no change in depreciation rates over the forecast period but includes the estimated impact of the current and future revaluation of assets over the forecast period. The depreciation expense may also be impacted by future changes in useful lives, residual value, or valuation methodology.

Certain heritage assets, including original artworks, collections and heritage buildings, may not have limited useful lives because appropriate custodial and preservation policies are adopted. Such assets are not subject to depreciation. Land is not a depreciable asset.

Intangible assets with finite lives are amortised using the straight-line method. Intangible assets with indefinite lives are not amortised but tested for impairment annually.

Interest expense

The forecasts for the interest expense are based on:

- payments required on outstanding borrowings (e.g. debt facilities with NSW TCorp and lease liabilities), other long-term financial liabilities and provisions
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for TCorp bonds
- the unwinding of discounts on non-employee provisions.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the normal operations of agencies and include the cost of supplies and services. They are forecast by applying appropriate economic parameters and known activity changes. This includes planned changes in the method of service delivery and the application of government policies.

Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants, subsidies and other transfers expenses

Grants, subsidies and other transfers expenses generally comprise cash contributions to local government authorities and non-government organisations and the PNFC and PFC sectors.

The forecast grant payments are determined by taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions (and which are often outside the control of government).

Revaluations

The estimates are based on an examination and extrapolation of historical trends in the valuation of property, plant and equipment. The budget and forward estimates include the estimated impact of revaluations of property, plant and equipment.

Superannuation actuarial gains / losses

The forecast actuarial gains or losses on defined benefit superannuation are based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain / (loss) on equity investments in other sectors

The net gain/(loss) on equity investments in other sectors is based on estimates of the PNFC and PFC sectors' forward comprehensive results adjusted for transactions with owners. The underlying management estimates of future comprehensive results are based on current Statements of Corporate Intent. Future distributions to equity holders are based on Treasury's *Commercial Policy Framework*.

Net acquisition of non-financial assets

This is purchases (or acquisitions) less sales (or disposals) of non-financial assets less depreciation, plus changes in inventory and other movements in non-financial assets.

Purchases and sales of non-financial assets generally include accrued expenses and payables for capital items. Other movements in non-financial assets include non-cash capital grant revenue/expense such as assets contributed by developers.

Assets

Property, plant and equipment

The estimates of property, plant and equipment over the forecast period are at fair value and take into account planned acquisitions, disposals and the impact of depreciation, impairment and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period.

Right-of-use assets are based on the State's best estimate of the timing of renewals of lease arrangements and the impact of depreciation.

The adoption of AASB 1059 *Service Concession Arrangements: Grantors* from 1 July 2020 results in the recognition of service concession assets, which includes newly recognised assets and reclassification of existing assets previously classified as emerging assets or leased assets.

The forward estimates include the estimated impact of revaluations of property, plant and equipment. These estimates are based on an examination of expected cost trends.

To improve the accuracy of budget estimates, consistent with longstanding practice and reflecting historic trends, the Budget and Half-Yearly Review includes adjustments:

- to account for capital expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in NSW Treasury Circular *TC 15-08 Agency Carry Forwards*
- to reflect government decisions on capital expenditure that are not yet included in agency estimates, for example due to timing, because they are commercial in confidence or subject to further requirements.

Liabilities

Borrowings

Estimates for borrowings are based on current debt levels (including lease liabilities), amortisation of any premiums or discounts, and the cash flows expected to be required to fund future government activities.

Employee provisions

Employee provisions are forecast based on estimated future cash outflows to settle employees' entitlements, such as unused long service leave, and annual leave.

Superannuation provisions

Refer to *Superannuation expense (and liabilities)* (above) for information on assumptions that also impact the measurement of the superannuation provisions.

Other provisions

Other provisions include the State's obligations for several insurance schemes. To estimate future claims liabilities, actuarial assumptions have been applied for future claims to be incurred, claim payments, inflation and liability discount rates. Actual liabilities may differ from estimates.

B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Framework tables

The NSW Government's 2021-22 Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS). These revised estimates take into account fiscal and economic developments since the Budget.

The Uniform Presentation Framework tables (UPF) tables have been prepared consistent with the 2021-22 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-AAS reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-5 of 2021-22 Budget Paper No.1 *Budget Statement*.

The objective of the UPF is to facilitate a better understanding of an individual government's financial results and projections through the provision of a common 'core' of financial information. As part of the Framework, each jurisdiction publishes a mid-year report, that is a half-yearly review of the budget, by the end of February each year.

The UPF financial aggregates:

- allow consistent comparisons between the financial position of Australian governments
- facilitate time series comparisons since they are relatively unaffected by changes in public sector administrative structures
- permit an assessment of how public sector transactions affect the economy by providing data classified by economic type.

Table B.1: General government sector operating statement

	2021-22 Budget $m	2021-22 Revised $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m
Revenue from Transactions					
Taxation	36,201	37,462	38,944	38,628	39,570
Grants and Subsidies					
- Commonwealth General Purpose	21,819	23,058	23,375	23,342	23,900
- Commonwealth Specific Purpose Payments	12,261	12,633	12,422	13,089	13,760
- Commonwealth National Partnership Payments	3,300	6,970	4,635	4,455	4,212
- Other Commonwealth Payments	725	748	541	576	618
- Other Grants and Subsidies	645	613	596	693	591
Sale of Goods and Services	11,026	10,575	10,019	9,544	8,405
Interest	287	227	238	258	285
Dividend and Income Tax Equivalents from Other Sectors	682	648	885	1,033	2,114
Other Dividends and Distributions	2,276	2,447	2,738	3,553	4,683
Fines, Regulatory Fees and Other	4,622	5,809	5,169	4,898	4,701
Total Revenue from Transactions	**93,846**	**101,190**	**99,562**	**100,069**	**102,839**
Expenses from Transactions					
Employee Expenses	38,835	40,477	41,227	41,857	42,795
Superannuation					
- Superannuation Interest Cost	955	860	1,044	1,071	1,194
- Other Superannuation	3,584	3,727	3,748	3,886	4,077
Depreciation and Amortisation	7,625	7,480	8,029	8,550	8,936
Interest	2,741	2,633	3,059	3,575	4,287
Other Operating Expense	26,251	28,976	24,921	24,257	22,765
Grants, Subsidies and Other Transfers	22,459	36,494	21,146	18,142	18,336
Total Expenses from Transactions	**102,450**	**120,647**	**103,174**	**101,336**	**102,390**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(8,604)**	**(19,458)**	**(3,612)**	**(1,267)**	**449**

Table B.1: General government sector operating statement (cont)

	2021-22 Budget $m	2021-22 Revised $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	216	466	178	631	498
Other Net Gains/(Losses)	69	4,527	106	831	266
Share of Earnings/Losses from Equity Investments (excluding Dividends)	138	270	159	14	(408)
Dividends from Asset Sale Proceeds	...	...	...	...	...
Allowance for Impairment of Receivables	(16)	0	(17)	(17)	(17)
Deferred Income Tax from Other Sectors	29	43	50	49	60
Other	...	...	...	...	...
Other Economic Flows - included in Operating Result	**436**	**5,308**	**477**	**1,509**	**399**
Operating Result	**(8,168)**	**(14,150)**	**(3,135)**	**242**	**848**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**11,276**	**22,924**	**11,297**	**21,595**	**17,269**
Revaluations	4,008	3,960	4,190	4,414	1,373
Share of Earnings from Associates from Revaluations that will not be Reclassified Subsequently to Operating Result	...	37	...	...	...
Remeasurements of Post-Employment Benefits	4,335	5,878	3,478	7,519	6,239
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	2,946	13,100	3,589	9,615	9,599
Deferred Tax Direct to Equity	28	28	33	39	51
Other	(42)	(79)	7	8	8
Other Economic Flows - Other Comprehensive Income	**11,276**	**22,924**	**11,297**	**21,595**	**17,269**
Comprehensive Result - Total Change in Net Worth	**3,108**	**8,774**	**8,162**	**21,837**	**18,118**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**3,108**	**8,774**	**8,162**	**21,837**	**18,118**
Less: Net Other Economic Flows	(11,712)	(28,232)	(11,774)	(23,103)	(17,668)
Equals: Budget Result - Net Operating Balance	**(8,604)**	**(19,458)**	**(3,612)**	**(1,267)**	**449**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	21,695	21,367	22,973	20,320	19,184
Sales of Non-Financial Assets	(966)	(853)	(803)	(1,567)	(820)
Less: Depreciation	(7,625)	(7,480)	(8,029)	(8,550)	(8,936)
Plus: Change in Inventories	(326)	(507)	(80)	(72)	(88)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	1,321	1,343	481	565	552
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	213	254	195	176	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	1,701	1,719	1,833	1,836	7
- Other	(688)	(602)	(800)	(531)	(949)
Equals: Total Net Acquisition of Non-Financial Assets	**15,325**	**15,241**	**15,771**	**12,178**	**8,951**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(23,929)**	**(34,699)**	**(19,382)**	**(13,445)**	**(8,502)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	23,229	22,964	23,649	21,061	19,736

(a) Capital expenditure comprises purchases of non-financial assets, assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.

Table B.2: General government sector balance sheet

	June 2022 Budget	June 2022 Revised	June 2023	June 2024 Forward Estimates	June 2025
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	838	5,061	917	899	667
Receivables	9,829	10,437	10,633	10,745	11,651
Investments, Loans and Placements					
Financial Assets at Fair Value	50,127	45,814	47,995	49,332	53,948
Other Financial Assets	1,771	1,565	1,596	1,541	1,522
Advances Paid	1,778	1,693	2,103	2,608	2,619
Tax Equivalents Receivable	55	41	80	89	124
Deferred Tax Equivalents	2,166	2,319	2,394	2,483	2,596
Equity Investments					
Investments in Other Public Sector Entities	88,103	101,882	107,754	119,133	129,025
Investments in Associates	11,096	7,877	8,036	8,050	7,642
Other Equity Investments	7	6	6	6	6
Total Financial Assets	**165,769**	**176,694**	**181,514**	**194,886**	**209,798**
Non-Financial Assets					
Contract Assets	29	24	24	25	26
Inventories	972	1,257	1,227	1,232	1,220
Forestry Stock and Other Biological Assets	4	18	18	18	18
Assets Classified as Held for Sale	135	94	94	94	94
Property, Plant and Equipment					
Land and Buildings	105,109	106,455	109,671	112,764	116,432
Plant and Equipment	13,972	13,813	14,118	14,034	13,725
Infrastructure Systems	171,163	169,721	184,920	197,994	206,690
Right of Use Assets	7,243	6,994	6,599	6,332	6,039
Intangibles	4,502	4,765	5,028	4,793	4,431
Other Non-Financial Assets	822	695	660	1,972	1,976
Total Non-Financial Assets	**303,952**	**303,836**	**322,361**	**339,259**	**350,652**
Total Assets	**469,720**	**480,530**	**503,875**	**534,145**	**560,450**
Liabilities					
Deposits Held	69	282	282	282	282
Payables	7,644	9,550	9,294	9,277	9,274
Contract Liabilities	843	900	899	896	896
Borrowings and Derivatives at Fair Value	183	132	132	132	132
Borrowings at Amortised Cost	116,950	111,288	129,521	145,635	160,954
Advances Received	569	548	496	446	395
Employee Provisions	22,609	23,994	24,334	24,218	24,232
Superannuation Provision(a)	51,285	52,787	49,283	41,681	35,397
Tax Equivalents Payable	8	11	38	26	0
Deferred Tax Equivalent Provision	53	51	51	51	51
Other Provisions	13,190	13,408	13,057	12,948	12,940
Other Liabilities	21,804	24,389	25,136	25,362	24,590
Total Liabilities	**235,208**	**237,340**	**252,522**	**260,955**	**269,143**
NET ASSETS	**234,513**	**243,190**	**251,353**	**273,189**	**291,307**

Table B.2: General government sector balance sheet (cont)

	June 2022 Budget	June 2022 Revised	June 2023	June 2024 Forward Estimates	June 2025
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	72,084	66,544	66,894	74,641	81,715
Reserves	162,429	176,646	184,459	198,548	209,592
TOTAL NET WORTH	**234,513**	**243,190**	**251,353**	**273,189**	**291,307**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**63,258**	**58,118**	**77,821**	**92,116**	**103,008**
Net Financial Liabilities[(c)]	**157,542**	**162,527**	**178,762**	**185,203**	**188,369**
Net Financial Worth[(d)]	**(69,439)**	**(60,645)**	**(71,009)**	**(66,069)**	**(59,345)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.3: General government sector cash flow statement

	2021-22 Budget	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxation	36,580	38,521	39,028	38,681	39,593
Sales of Goods and Services	11,422	11,375	10,450	9,779	8,668
Grant and Subsidies Received	39,731	45,027	42,233	42,111	42,898
Interest	200	158	154	179	204
Dividends and Income Tax Equivalents from Other Sectors	657	630	782	876	994
Other	7,831	8,156	6,594	5,833	6,310
Total Cash Receipts from Operating Activities	**96,420**	**103,867**	**99,242**	**97,459**	**98,668**
Cash Payments from Operating Activities					
Employee Related	(38,297)	(39,681)	(40,693)	(41,382)	(42,363)
Superannuation	(3,461)	(3,514)	(4,818)	(5,050)	(5,327)
Payments for Goods and Services	(25,688)	(28,372)	(24,695)	(24,845)	(21,932)
Grants and Subsidies	(21,494)	(35,557)	(20,035)	(17,309)	(17,084)
Interest	(2,686)	(2,664)	(3,080)	(3,308)	(3,687)
Other	(2,962)	(2,993)	(3,020)	(2,515)	(2,538)
Total Cash Payments from Operating Activities	**(94,588)**	**(112,782)**	**(96,342)**	**(94,408)**	**(92,931)**
Net Cash Flows from Operating Activities	**1,832**	**(8,914)**	**2,900**	**3,051**	**5,737**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	966	853	803	2,415	899
Purchases of Non-Financial Assets	(21,480)	(22,176)	(22,502)	(18,418)	(18,876)
Net Cash Flows from Investments in Non-Financial Assets	**(20,513)**	**(21,322)**	**(21,699)**	**(16,004)**	**(17,977)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	1,760	10,590	218	115	143
Payments	(4,674)	(3,433)	(3,064)	(2,546)	(1,140)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,914)**	**7,156**	**(2,846)**	**(2,431)**	**(997)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	3,570	5,682	4,273	4,272	3,120
Purchase of Investments	(10,846)	(1,703)	(3,751)	(2,290)	(4,051)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(7,276)**	**3,979**	**522**	**1,982**	**(931)**
Net Cash Flows from Investing Activities	**(30,704)**	**(10,187)**	**(24,023)**	**(16,453)**	**(19,906)**
Cash Flows from Financing Activities					
Advances (Net)	(90)	(105)	(85)	(87)	(292)
Proceeds from Borrowings	28,586	27,641	23,882	17,972	15,410
Repayment of Borrowings	(2,783)	(7,171)	(6,800)	(4,491)	(1,183)
Deposits Received (Net)	...	(0)	...	...	...
Other (Net)	28	27	33	39	51
Net Cash Flows from Financing Activities	**25,742**	**20,393**	**17,029**	**13,433**	**13,987**
Net Increase/(Decrease) in Cash Held	**(3,130)**	**1,292**	**(4,094)**	**31**	**(182)**
Derivation of Cash Result					
Net Cash Flows From Operating Activities	1,832	(8,914)	2,900	3,051	5,737
Net Cash Flows from Investments in Non-Financial Assets	(20,513)	(21,322)	(21,699)	(16,004)	(17,977)
Cash Surplus/(Deficit)	**(18,681)**	**(30,237)**	**(18,799)**	**(12,953)**	**(12,240)**

Table B.4: Public non-financial corporation sector operating statement

	2021-22 Budget $m	2021-22 Revised $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m
Revenue from Transactions					
Grants and Subsidies					
- Other Commonwealth Payments	3	8	6	3	3
- Other Grants and Subsidies	4,004	4,851	3,425	3,446	3,632
Sale of Goods and Services	7,925	6,927	8,086	8,349	8,733
Interest	34	27	28	29	31
Other Dividends and Distributions	6	43	...	...	...
Fines, Regulatory Fees and Other	518	603	514	512	525
Total Revenue from Transactions	**12,489**	**12,460**	**12,059**	**12,340**	**12,924**
Expenses from Transactions					
Employee Expenses	2,565	2,523	2,517	2,589	2,584
Personnel Services Expense	678	513	354	367	376
Superannuation					
- Superannuation Interest Cost	36	33	36	35	34
- Other Superannuation	211	213	225	233	239
Depreciation and Amortisation	2,422	2,495	2,807	2,984	3,142
Interest	982	826	819	798	846
Income Tax Expense	190	164	235	284	347
Other Operating Expense	5,371	5,514	5,043	5,053	5,078
Grants, Subsidies and Other Transfers	75	70	78	72	63
Total Expenses from Transactions	**12,530**	**12,351**	**12,114**	**12,415**	**12,710**
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	**(41)**	**109**	**(55)**	**(76)**	**214**

Table B.4: Public non-financial corporation sector operating statement (cont)

	2021-22 Budget	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Other Net Gains/(Losses)	(143)	(54)	(76)	14	40
Allowance for Impairment of Receivables	(5)	(3)	(3)	(3)	(3)
Deferred Income Tax	(29)	(43)	(50)	(49)	(60)
Other Economic Flows - included in Operating Result	**(177)**	**(100)**	**(129)**	**(38)**	**(23)**
Operating Result	**(217)**	**9**	**(184)**	**(114)**	**191**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**2,138**	**2,217**	**1,962**	**2,488**	**2,217**
Revaluations	1,883	1,626	1,760	2,067	1,895
Remeasurements of Post-Employment Benefits	283	604	235	460	372
Deferred Tax Direct to Equity	(28)	(28)	(33)	(39)	(51)
Other	0	15	0	0	0
Other Economic Flows - Other Comprehensive Income	**2,138**	**2,217**	**1,962**	**2,488**	**2,217**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**1,921**	**2,226**	**1,778**	**2,375**	**2,408**
Dividends Distributed	(347)	(339)	(488)	(573)	(1,363)
Net Equity Injections	3,084	3,081	2,285	1,765	65
Total Change in Net Worth	**4,657**	**4,968**	**3,574**	**3,567**	**1,110**
Key Fiscal Aggregates					
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**1,921**	**2,226**	**1,778**	**2,375**	**2,408**
Less: Net Other Economic Flows	(1,961)	(2,117)	(1,833)	(2,450)	(2,194)
Equals: Budget Result - Net Operating Balance	**(41)**	**109**	**(55)**	**(76)**	**214**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	7,051	6,491	6,538	5,425	3,917
Sales of Non-Financial Assets	(403)	(443)	(577)	(552)	(451)
Less: Depreciation	(2,422)	(2,495)	(2,807)	(2,984)	(3,142)
Plus: Change in Inventories	131	149	70	(34)	156
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	71	76	104	57	74
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	...	...	...	...	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	...	...	...
- Other	306	319	319	330	336
Equals: Total Net Acquisition of Non-Financial Assets	**4,734**	**4,097**	**3,647**	**2,242**	**889**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(4,774)**	**(3,988)**	**(3,702)**	**(2,317)**	**(675)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	7,122	6,567	6,642	5,482	3,991
Dividends Accrued[(b)]	342	339	393	480	1,261

(a) Capital expenditure comprises purchases of non-financial assets, assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.
(b) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table B.5: Public non-financial corporation sector balance sheet

	June 2022 Budget	June 2022 Revised	June 2023	June 2024 Forward Estimates	June 2025
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,758	2,204	2,383	3,160	4,128
Receivables	1,147	1,165	1,156	1,165	1,200
Investments, Loans and Placements					
Financial Assets at Fair Value	243	371	371	371	371
Other Financial Assets	477	495	475	490	507
Advances Paid	0	29	41	22	22
Tax Equivalents Receivable	8	11	38	26	4
Deferred Tax Equivalent Assets	53	51	51	51	51
Equity Investments					
Other Equity Investments	181	156	156	156	156
Total Financial Assets	**3,867**	**4,481**	**4,670**	**5,440**	**6,438**
Non-Financial Assets					
Contract Assets	...	...	...	...	...
Inventories	792	832	901	867	1,023
Forestry Stock and Other Biological Assets	825	754	754	754	754
Assets Classified as Held for Sale	54	57	58	59	59
Investment Properties	621	587	581	581	581
Property, Plant and Equipment					
Land and Buildings	76,047	69,483	70,423	71,548	71,489
Plant and Equipment	5,847	4,650	5,609	6,404	7,049
Infrastructure Systems	38,082	49,933	53,116	55,873	57,223
Right of Use Assets	2,721	2,640	2,510	2,338	2,186
Intangibles	1,247	768	919	911	889
Other Non-Financial Assets	513	520	594	484	402
Total Non-Financial Assets	**126,748**	**130,223**	**135,466**	**139,819**	**141,655**
Total Assets	**130,616**	**134,704**	**140,136**	**145,259**	**148,093**
Liabilities					
Deposits Held	55	66	27	27	27
Payables	2,337	2,935	3,278	3,535	3,639
Contract Liabilities	129	112	67	67	67
Borrowings and Derivatives at Fair Value	8	2	2	2	2
Borrowings at Amortised Cost	30,176	29,967	31,779	33,355	34,421
Advanced Received	432	432	297	282	267
Employee Provisions	1,267	1,282	1,295	1,314	1,327
Superannuation Provision[(a)]	1,809	1,855	1,630	1,174	799
Tax Equivalents Payable	44	30	68	76	114
Deferred Tax Equivalent Provision	2,166	2,319	2,394	2,483	2,596
Other Provisions	864	637	659	739	1,519
Other Liabilities	235	231	231	230	230
Total Liabilities	**39,523**	**39,869**	**41,726**	**43,283**	**45,007**
NET ASSETS	**91,093**	**94,835**	**98,409**	**101,976**	**103,086**
NET WORTH					
Accumulated Funds	33,244	51,875	53,948	55,692	55,135
Reserves	57,849	42,960	44,461	46,284	47,951
TOTAL NET WORTH	**91,093**	**94,835**	**98,409**	**101,976**	**103,086**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**28,192**	**27,369**	**28,835**	**29,623**	**29,689**
Net Financial Liabilities[(c)]	**35,655**	**35,388**	**37,056**	**37,843**	**38,569**
Net Financial Worth[(d)]	**(35,655)**	**(35,388)**	**(37,056)**	**(37,843)**	**(38,569)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.6: Public non-financial corporation sector cash flow statement

	2021-22 Budget $m	2021-22 Revised $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m
Cash Receipts from Operating Activities					
Sales of Goods and Services	8,019	7,162	8,481	9,010	9,325
Grant and Subsidies	3,997	4,848	3,428	3,447	3,632
Interest	13	7	6	6	7
Other	739	943	782	819	924
Total Cash Receipts from Operating Activities	**12,767**	**12,958**	**12,697**	**13,282**	**13,888**
Cash Payments from Operating Activities					
Employee Related	(2,697)	(2,673)	(2,657)	(2,725)	(2,728)
Personnel Services	(678)	(513)	(354)	(367)	(376)
Superannuation	(246)	(47)	(251)	(263)	(275)
Payments for Goods and Services	(5,393)	(5,750)	(5,397)	(5,457)	(5,592)
Grants and Subsidies	(75)	(70)	(73)	(72)	(63)
Interest	(900)	(724)	(713)	(727)	(759)
Distributions Paid	(138)	(162)	(199)	(225)	(234)
Other	(203)	(595)	(620)	(613)	(691)
Total Cash Payments from Operating Activities	**(10,331)**	**(10,536)**	**(10,263)**	**(10,449)**	**(10,718)**
Net Cash Flows from Operating Activities	**2,437**	**2,422**	**2,434**	**2,833**	**3,171**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	403	448	577	552	451
Purchases of Non-Financial Assets	(7,054)	(5,966)	(6,242)	(5,207)	(3,866)
Net Cash Flows from Investments in Non-Financial Assets	**(6,651)**	**(5,518)**	**(5,665)**	**(4,655)**	**(3,415)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	0	...	...	20	...
Payments	0	(79)	(12)	(1)	...
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**0**	**(79)**	**(12)**	**19**	**0**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	75	41	93	69	112
Purchase of Investments	...	...	...	...	...
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**75**	**41**	**93**	**69**	**112**
Net Cash Flows from Investing Activities	**(6,575)**	**(5,557)**	**(5,584)**	**(4,567)**	**(3,303)**
Cash Flows from Financing Activities					
Advances (Net)	3,053	2,883	2,325	1,930	968
Proceeds from Borrowings	2,003	1,501	1,911	1,520	1,168
Repayment of Borrowings	(375)	(844)	(399)	(414)	(402)
Dividends Paid	(381)	(343)	(434)	(486)	(582)
Deposits Received (Net)	17	39	(39)	...	0
Other (Net)	(28)	(28)	(33)	(39)	(51)
Net Cash Flows from Financing Activities	**4,289**	**3,207**	**3,330**	**2,510**	**1,101**
Net Increase/(Decrease) in Cash Held	**151**	**73**	**179**	**777**	**969**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	2,437	2,422	2,434	2,833	3,171
Net Cash Flows from Investments in Non-Financial Assets	(6,651)	(5,518)	(5,665)	(4,655)	(3,415)
Dividends Paid	(381)	(343)	(434)	(486)	(582)
Cash Surplus/(Deficit)	**(4,595)**	**(3,439)**	**(3,665)**	**(2,308)**	**(826)**

Table B.7: Non-financial public sector operating statement

	2021-22 Budget	2021-22 Revised	2022-23 Forward Estimates	2023-24	2024-25
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	35,650	36,906	38,357	38,014	38,915
Grants and Subsidies					
- Commonwealth General Purpose	21,819	23,058	23,375	23,342	23,900
- Commonwealth Specific Purpose Payments	12,261	12,633	12,422	13,089	13,760
- Commonwealth National Partnership Payments	3,300	6,970	4,635	4,455	4,212
- Other Commonwealth Payments	728	756	547	579	621
- Other Grants and Subsidies	540	585	534	633	525
Sale of Goods and Services	14,731	13,518	14,626	15,037	15,616
Interest	270	208	203	204	227
Dividend and Income Tax Equivalents from Other Sectors	144	146	162	177	404
Other Dividends and Distributions	2,283	2,490	2,738	3,553	4,683
Fines, Regulatory Fees and Other	5,094	6,282	5,646	5,382	5,198
Total Revenue from Transactions	**96,821**	**103,551**	**103,244**	**104,466**	**108,061**
Expenses from Transactions					
Employee Expenses	41,389	42,975	43,733	44,434	45,367
Superannuation					
- Superannuation Interest Cost	990	893	1,081	1,106	1,228
- Other Superannuation	3,794	3,940	3,973	4,117	4,316
Depreciation and Amortisation	10,030	9,953	10,816	11,513	12,058
Interest	3,672	3,414	3,815	4,321	5,075
Other Operating Expense	27,519	30,398	26,484	26,191	25,892
Grants, Subsidies and Other Transfers	18,405	31,667	17,705	14,646	14,639
Total Expenses from Transactions	**105,799**	**123,239**	**107,606**	**106,329**	**108,575**
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(8,979)**	**(19,688)**	**(4,362)**	**(1,863)**	**(514)**

Table B.7: Non-financial public sector operating statement (cont)

	2021-22 Budget	2021-22 Revised	2022-23	2023-24 Forward Estimates	2024-25
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	216	466	178	631	498
Other Net Gains/(Losses)	(74)	4,474	30	845	306
Share of Earnings/Losses from Equity Investments (excluding Dividends)	138	270	159	14	(408)
Allowance for Impairment of Receivables	(21)	(2)	(20)	(20)	(21)
Other	...	...	...	...	...
Other Economic Flows - included in Operating Result	**259**	**5,208**	**348**	**1,469**	**376**
Operating Result	**(8,719)**	**(14,480)**	**(4,014)**	**(394)**	**(138)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**11,827**	**23,254**	**12,176**	**22,230**	**18,254**
Revaluations	5,892	5,586	5,950	6,481	3,268
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result	...	37	...	...	...
Remeasurements of Post-Employment Benefits	4,618	6,481	3,713	7,979	6,611
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	1,356	11,218	2,499	7,758	8,363
Deferred Tax Direct to Equity	0	...	(0)	0	...
Other	(38)	(69)	13	12	12
Other Economic Flows - Other Comprehensive Income	**11,827**	**23,254**	**12,176**	**22,230**	**18,254**
Total Change in Net Worth	**3,108**	**8,774**	**8,162**	**21,837**	**18,116**
Key Fiscal Aggregates					
Total Change in Net Worth	**3,108**	**8,774**	**8,162**	**21,837**	**18,116**
Less: Net Other Economic Flows	(12,087)	(28,462)	(12,523)	(23,700)	(18,630)
Equals: Budget Result - Net Operating Balance	**(8,979)**	**(19,688)**	**(4,362)**	**(1,863)**	**(514)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	28,746	28,156	29,511	25,744	23,100
Sales of Non-Financial Assets	(1,369)	(1,296)	(1,380)	(2,119)	(1,270)
Less: Depreciation	(10,030)	(9,953)	(10,816)	(11,513)	(12,058)
Plus: Change in Inventories	(195)	(656)	(10)	(106)	68
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	1,391	1,419	584	631	631
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	213	254	195	176	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	1,701	1,719	1,833	1,836	7
- Other	(385)	(288)	(484)	(204)	(616)
Equals: Total Net Acquisition of Non-Financial Assets	**20,073**	**19,354**	**19,434**	**14,446**	**9,863**
Equals: Net Lending/(Borrowing) [Fiscal Balance][(b)]	**(29,051)**	**(39,043)**	**(23,795)**	**(16,309)**	**(10,377)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	30,350	29,829	30,290	26,552	23,731

(a) Capital expenditure comprises purchases of non-financial assets, assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.
(b) Net borrowing for the NFPS sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table B.8: Non-financial public sector balance sheet

	June 2022 Budget	June 2022 Revised	June 2023	June 2024 Forward Estimates	June 2025
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,596	7,265	3,081	3,877	4,793
Receivables	9,707	10,698	10,803	10,818	10,937
Investments, Loans and Placements					
Financial Assets at Fair Value	50,370	46,185	48,366	49,703	54,318
Other Financial Assets	2,198	1,998	2,013	1,968	1,965
Advances Paid	1,073	1,023	1,284	1,360	1,303
Tax Equivalents Receivable	11	11	12	13	14
Deferred Tax Equivalents	0	...	(0)	(0)	(0)
Equity Investments					
Investments in Other Public Sector Entities	(2,859)	7,134	9,634	17,391	25,974
Investments in Associates	11,096	7,877	8,036	8,050	7,642
Other Equity Investments	187	161	161	161	161
Total Financial Assets	**74,379**	**82,352**	**83,390**	**93,341**	**107,108**
Non-Financial Assets					
Contract Assets	29	24	24	25	26
Inventories	1,764	1,248	1,288	1,258	1,402
Forestry Stock and Other Biological Assets	829	772	772	772	772
Assets Classified as Held for Sale	189	151	153	153	153
Investment Properties	621	587	581	581	581
Property, Plant and Equipment					
Land and Buildings	181,156	175,935	180,093	184,310	187,921
Plant and Equipment	19,818	18,463	19,728	20,438	20,774
Infrastructure Systems	209,246	220,494	238,877	254,708	264,754
Right of Use Assets	9,782	9,462	8,957	8,547	8,123
Intangibles	5,748	5,533	5,947	5,704	5,320
Other Non-Financial Assets	1,331	1,210	1,249	2,450	2,372
Total Non-Financial Assets	**430,513**	**433,879**	**457,667**	**478,946**	**492,198**
Total Assets	**504,893**	**516,231**	**541,058**	**572,288**	**599,307**
Liabilities					
Deposits Held	124	349	309	309	309
Payables	9,061	11,677	11,440	11,234	11,213
Contract Liabilities	972	992	946	943	944
Borrowings and Derivatives at Fair Value	191	134	134	134	134
Borrowings at Amortised Cost	147,042	141,170	161,222	178,919	195,305
Advanced Received	569	548	496	446	395
Employee Provisions	23,856	25,257	25,610	25,512	25,539
Superannuation Provision[(a)]	53,094	54,642	50,913	42,855	36,196
Deferred Tax Equivalent Provision	0	...	0	0	0
Other Provisions	13,430	13,684	13,300	13,185	13,175
Other Liabilities	22,039	24,589	25,336	25,562	24,789
Total Liabilities	**270,379**	**273,041**	**289,705**	**299,098**	**308,000**
NET ASSETS	**234,513**	**243,190**	**251,353**	**273,189**	**291,307**

Table B.8: Non-financial public sector balance sheet (cont)

	June 2022 Budget	June 2022 Revised	June 2023	June 2024 Forward Estimates	June 2025
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	95,255	108,322	108,261	116,042	122,685
Reserves	139,258	134,868	143,092	157,147	168,622
TOTAL NET WORTH	**234,513**	**243,190**	**251,353**	**273,189**	**291,307**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**91,690**	**85,730**	**107,417**	**122,900**	**133,764**
Net Financial Liabilities[(c)]	**193,141**	**197,823**	**215,948**	**223,149**	**226,865**
Net Financial Worth[(d)]	**(196,000)**	**(190,689)**	**(206,315)**	**(205,757)**	**(200,891)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total liabilities.

Table B.9: Non-financial public sector cash flow statement

	2021-22 Budget $m	2021-22 Revised $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m
Cash Receipts from Operating Activities					
Taxation	36,077	38,015	38,463	38,093	38,982
Sales of Goods and Services	15,215	14,044	15,447	15,963	16,508
Grant and Subsidies	39,618	44,993	42,174	42,052	42,832
Interest	178	135	112	149	168
Dividends and Income Tax Equivalents	137	135	150	165	178
Other	8,537	8,593	7,357	6,640	7,222
Total Cash Receipts from Operating Activities	**99,763**	**105,914**	**103,703**	**103,061**	**105,890**
Cash Payments from Operating Activities					
Employee Related	(40,845)	(42,225)	(43,187)	(43,941)	(44,922)
Superannuation	(3,707)	(3,561)	(5,069)	(5,313)	(5,602)
Payments for Goods and Services	(27,126)	(29,908)	(26,762)	(27,414)	(25,810)
Grants and Subsidies	(17,440)	(30,730)	(16,589)	(13,813)	(13,387)
Interest	(3,551)	(3,358)	(3,746)	(3,998)	(4,403)
Other	(3,471)	(3,555)	(3,670)	(3,147)	(3,266)
Total Cash Payments from Operating Activities	**(96,139)**	**(113,338)**	**(99,023)**	**(97,625)**	**(97,392)**
Net Cash Flows from Operating Activities	**3,624**	**(7,424)**	**4,680**	**5,436**	**8,499**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	1,369	1,301	1,380	2,967	1,349
Purchases of Non-Financial Assets	(28,542)	(27,819)	(29,041)	(24,060)	(22,829)
Net Cash Flows from Investments in Non-Financial Assets	**(27,173)**	**(26,517)**	**(27,661)**	**(21,094)**	**(21,480)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	1,729	10,559	67	96	95
Payments	(1,317)	(287)	(181)	(165)	(135)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**412**	**10,272**	**(114)**	**(70)**	**(40)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	3,636	5,669	4,358	4,343	3,223
Purchase of Investments	(10,847)	(1,703)	(3,748)	(2,290)	(4,044)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(7,211)**	**3,966**	**610**	**2,053**	**(821)**
Net Cash Flows from Investing Activities	**(33,972)**	**(12,280)**	**(27,165)**	**(19,110)**	**(22,341)**
Cash Flows from Financing Activities					
Advances (Net)	(90)	(111)	(210)	(73)	(192)
Proceeds from Borrowings	30,589	29,143	25,792	19,491	16,578
Repayment of Borrowings	(3,148)	(8,003)	(7,192)	(4,898)	(1,578)
Deposits Received (Net)	17	39	(39)	...	0
Other (Net)	0	(0)	0	(0)	(0)
Net Cash Flows from Financing Activities	**27,369**	**21,067**	**18,351**	**14,520**	**14,808**
Net Increase/(Decrease) in Cash Held	**(2,979)**	**1,364**	**(4,134)**	**846**	**966**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	3,624	(7,424)	4,680	5,436	8,499
Net Cash Flows from Investments in Non-Financial Assets	(27,173)	(26,517)	(27,661)	(21,094)	(21,480)
Dividends Paid	...	...	...	...	...
Cash Surplus/(Deficit)	**(23,549)**	**(33,941)**	**(22,980)**	**(15,658)**	**(12,981)**

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C. VARIATIONS ON REVISED 2021-22 BUDGET

C.1 Revised 2021-22 Budget

The revised budget result for 2021-22 is a deficit of $19.5 billion, an increase of $10.9 billion compared to a forecast deficit of $8.6 billion at the time of the 2021-22 Budget.

Total revenue in 2021-22 is estimated to be $101.1 billion, which is $7.3 billion higher than the Budget estimate of $93.8 billion.

Total expenses in 2021-22 are estimated to be $120.7 billion, which is $18.2 billion higher than the Budget estimate of $102.5 billion.

C.2 Operating statement

Total revenue in 2021-22 is estimated to be $7.3 billion higher than the forecast in the 2021-22 Budget, primarily reflecting stronger economic activity in certain sectors that has led to upward revisions in state taxes, GST, mining royalties and the Commonwealth Government reimbursement of funds associated with the JobSaver program.

Key increases to estimated revenue include:

- taxation has been revised up by $1.3 billion in 2021-22 mainly due to a stronger outlook for residential and commercial property markets resulting in a $1.9 billion upward revision in transfer duty revenue (including a one-off payment associated with the WestConnex transaction). Land tax receipts have also been revised upwards by $144.9 million due to increasing land valuations. These were partially offset by:
  - a decrease in payroll tax of $425.6 million reflecting a government decision to waive 50 per cent of payroll tax for businesses with a turnover of less than $50 million in 2021-22, and the impact of the COVID-19 Delta outbreak on the labour market
  - a decrease of $476.9 million in gambling and betting tax, primarily reflecting the closure of clubs and hotel during the COVID-19 Delta outbreak.
- grants and subsidies have been revised up by $5.3 billion in 2021-22, mainly reflecting a $3.7 billion upward revision of National Partnerships, largely due to Commonwealth Government reimbursement of funds associated with the JobSaver program and a $1.3 billion upward revision of GST revenue (including no worse off payments)
- mining royalties have been revised up by $1.2 billion, reflecting a stronger-than-expected increase in thermal coal prices.

These increases are partially offset by lower sale of goods and services, which has been revised down by $451.0 million. This is primarily due to lower sale of goods and services revenue for Transport for NSW of $338.5 million, primarily reflecting lower road tolls, advertising revenue and fees for services revenue for the delivery of rail projects.

Total expenses in 2021-22 are estimated to be $18.2 billion higher than the Budget estimate. This is primarily due to:

- an increase in grants and transfer expenses of $14.0 billion mainly driven by COVID-19 Delta outbreak related support measures for individuals and businesses including but not limited to:
  - JobSaver program of over $7.0 billion (including up to $3.5 billion in Commonwealth Contribution)
  - Business Grant program of over $2.3 billion
  - Micro-business Grant program of $760.0 million.
- an increase in other operating expenses of $2.7 billion primarily relating to COVID-19 Delta outbreak response and recovery measures as part of the Economic Recovery Strategy
- an increase in employee expenses of $1.6 billion primarily relating to COVID-19 Delta outbreak response and recovery measures as part of the Economic Recovery Strategy, and an adjustment of 2.5 per cent wage policy across a range of agencies.

These increases have been marginally offset by lower depreciation and amortisation expenses of $145.0 million across a range of agencies.

C.3 Balance sheet

Net debt is estimated to be $58.1 billion at June 2022, a decrease of $5.1 billion compared to the Budget estimate. This is primarily due to increased cash arising from the State's successful sale of its 49 per cent stake in WestConnex, which will be used to retire debt via the NSW Generations Fund (NGF).

The State's net worth is estimated to increase to $243.2 billion at June 2022. This represents an increase of $8.7 billion since the Budget and primarily reflects higher recognition of equity investments in other public sector entities of $13.8 billion. This has been partially offset by a decrease in equity investments in associates of $3.2 billion and an increased superannuation provision and other liabilities of $2.1 billion.

C.4 Cash flow statement

The State's forecast cash deficit is $30.2 billion, which is an increase of $11.6 billion since the time of the Budget. The increase is mainly driven by higher operating cash deficits primarily due to the Government's support and stimulus measures in response to the COVID-19 Delta outbreak.

Table C.1: General government sector operating statement

	2020-21 Est. Actual $m	2021-22 Budget $m	2021-22 Revised $m	Variance $m	Variance %	4 Months to 31/10/2021 Actual $m
Revenue from Transactions						
Taxation	34,407	36,201	37,462	1,261	3.5	9,315
Grants and Subsidies						
- Commonwealth General Purpose	18,897	21,819	23,058	1,239	5.7	7,307
- Commonwealth Specific Purpose Payments	11,999	12,261	12,633	371	3.0	4,134
- Commonwealth National Partnership Payments	3,618	3,300	6,970	3,670	111.2	765
- Other Commonwealth Payments	451	725	748	23	3.2	189
- Other Grants and Subsidies	681	645	613	(32)	(5.0)	255
Sale of Goods and Services	9,949	11,026	10,575	(451)	(4.1)	2,714
Interest	307	287	227	(61)	(21.1)	62
Dividend and Income Tax Equivalents from Other Sectors	1,077	682	648	(34)	(4.9)	211
Other Dividends and Distributions	2,570	2,276	2,447	171	7.5	531
Fines, Regulatory Fees and Other	4,009	4,622	5,809	1,186	25.7	1,642
Total Revenue from Transactions	**87,965**	**93,846**	**101,190**	**7,344**	**7.8**	**27,125**
Expenses from Transactions						
Employee Expenses	37,142	38,835	40,477	1,642	4.2	13,259
Superannuation						
- Superannuation Interest Cost	589	955	860	(94)	(9.9)	317
- Other Superannuation	3,426	3,584	3,727	143	4.0	1,222
Depreciation and Amortisation	6,930	7,625	7,480	(145)	(1.9)	2,401
Interest	2,199	2,741	2,633	(108)	(3.9)	764
Other Operating Expense	24,560	26,251	28,976	2,725	10.4	7,822
Grants, Subsidies and Other Transfers	20,192	22,459	36,494	14,035	62.5	16,327
Total Expenses from Transactions	**95,038**	**102,450**	**120,647**	**18,198**	**17.8**	**42,112**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(7,072)**	**(8,604)**	**(19,458)**	**(10,854)**	**126.1**	**(14,986)**

Table C.1: General government sector operating statement (cont.)

	2020-21 Est. Actual $m	2021-22 Budget $m	Revised $m	Variance $m	Variance %	4 Months to 31/10/2021 Actual $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	495	216	466	249	115.2	468
Other Net Gains/(Losses)	2,085	69	4,527	4,459	6,503.8	4,819
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(82)	138	270	132	95.3	(4)
Dividends from Asset Sale Proceeds	...	...	...	...	...	...
Allowance for Impairment of Receivables	(7)	(16)	0	17	(102.3)	(4)
Deferred Income Tax from Other Sectors	158	29	43	14	47.3	14
Other	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**2,649**	**436**	**5,308**	**4,872**	**1,117.1**	**5,294**
Operating Result	**(4,423)**	**(8,168)**	**(14,150)**	**(5,982)**	**73.2**	**(9,693)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(170)**	**11,276**	**22,924**	**11,611**	103.0	**6,137**
Revaluations	3,948	4,008	3,960	(48)	(1.2)	43
Share of Earnings from Associates from Revaluations that will not be Reclassified Subsequently to Operating Result	1,611	...	37	37	...	37
Remeasurement of Post-Employment Benefits	11,088	4,335	5,878	1,542	35.6	1,445
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(17,155)	2,946	13,100	10,154	344.6	4,618
Deferred Tax Direct to Equity	112	28	28	(0)	(1.3)	28
Other	227	(42)	(79)	(37)	88.7	(33)
Items that may be Reclassified Subsequently to Operating Result	**399**	**...**	**...**	**...**	**...**	**(0)**
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	399	...	...	...	...	...
Other Economic Flows - Other Comprehensive Income	**229**	**11,276**	**22,924**	**11,648**	**103.3**	**6,137**
Comprehensive Result - Total Change in Net Worth	**(4,194)**	**3,108**	**8,774**	**5,665**	**182.3**	**(3,556)**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**(4,194)**	**3,108**	**8,774**	**5,665**	**182.3**	**(3,556)**
Less: Net Other Economic Flows	(2,878)	(11,712)	(28,232)	(16,519)	141.0	(11,431)
Equals: Budget Result - Net Operating Balance	**(7,072)**	**(8,604)**	**(19,458)**	**(10,854)**	**126.1**	**(14,986)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[a]	17,775	21,695	21,367	(328)	(1.5)	5,762
Sales of Non-Financial Assets	(238)	(966)	(853)	113	(11.7)	(118)
Less: Depreciation	(6,930)	(7,625)	(7,480)	145	(1.9)	(2,401)
Plus: Change in Inventories	626	(326)	(507)	(181)	55.6	(63)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[a]	762	1,321	1,343	22	1.7	137
- Assets Acquired Using Service Concession Arrangements[a] (Financial Liability model)	281	213	254	40	19.0	66
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	2,902	1,701	1,719	18	1.0	...
- Other	(833)	(688)	(602)	86	(12.5)	6
Equals: Total Net Acquisition of Non-Financial Assets	**14,345**	**15,325**	**15,241**	**(84)**	**(0.5)**	**3,388**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(21,418)**	**(23,929)**	**(34,699)**	**(10,770)**	**45.0**	**(18,375)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [a]	**18,818**	**23,229**	**22,964**	**(265)**	**(1.1)**	**5,964**

(a) Capital expenditure comprises purchases of non-financial assets, plus assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.

Table C.2: General government sector balance sheet

	2020-21 Est. Actual	2021-22 Budget	2021-22 Revised	Variance	Variance	4 Months to 31/10/2021 Actual
	$m	$m	$m	$m	%	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	3,781	838	5,061	4,224	504.2	11,311
Receivables	12,567	9,829	10,437	608	6.2	9,838
Investments, Loans and Placements						
Financial Assets at Fair Value	47,662	50,127	45,814	(4,313)	(8.6)	46,572
Other Financial Assets	1,436	1,771	1,565	(206)	(11.6)	1,721
Advances Paid	1,298	1,778	1,693	(85)	(4.8)	1,111
Tax Equivalents Receivable	35	55	41	(14)	(24.6)	20
Deferred Tax Equivalent	2,291	2,166	2,319	153	7.1	2,327
Equity Investments						
Investments in Other Public Sector Entities	85,662	88,103	101,882	13,778	15.6	91,068
Investments in Associates	13,358	11,096	7,877	(3,219)	(29.0)	7,603
Other Equity Investments	5	7	6	(1)	(13.0)	5
Total Financial Assets	**168,095**	**165,769**	**176,694**	**10,926**	**6.6**	**171,577**
Non- Financial Assets						
Contract Assets	97	29	24	(5)	(17.0)	49
Inventories	1,378	972	1,257	285	29.4	1,422
Forestry Stock and Other Biological Assets	18	4	18	14	331.3	19
Assets Classified as Held for Sale	123	135	94	(41)	(30.3)	172
Property, Plant and Equipment						
Land and Buildings	102,282	105,109	106,455	1,346	1.3	102,995
Plant and Equipment	13,112	13,972	13,813	(159)	(1.1)	13,051
Infrastructure Systems	156,665	171,163	169,721	(1,443)	(0.8)	159,572
Right of Use Assets	6,513	7,243	6,994	(249)	(3.4)	6,374
Intangibles	4,575	4,502	4,765	263	5.8	4,619
Other Non-Financial Assets	1,122	822	695	(127)	(15.5)	1,894
Total Non- Financial Assets	**285,884**	**303,952**	**303,836**	**(116)**	**(0.0)**	**290,167**
Total Assets	**453,979**	**469,720**	**480,530**	**10,810**	**2.3**	**461,744**
Liabilities						
Deposits Held	282	69	282	214	309.6	236
Payables	10,052	7,644	9,550	1,906	24.9	8,674
Contract Liabilities	934	843	900	57	6.8	982
Borrowings and Derivatives at Fair Value	212	183	132	(51)	(27.9)	134
Borrowings at Amortised Cost	90,133	116,950	111,288	(5,662)	(4.8)	103,715
Advances Received	625	569	548	(21)	(3.7)	600
Employee Provisions	23,386	22,609	23,994	1,385	6.1	23,974
Superannuation Provision [(a)]	57,591	51,285	52,787	1,502	2.9	56,526
Tax Equivalents Payable	35	8	11	3	36.0	33
Deferred Tax Equivalent Provision	50	53	51	(2)	(4.3)	44
Other Provisions	14,180	13,190	13,408	217	1.6	14,022
Other Liabilities	22,028	21,804	24,389	2,585	11.9	21,943
Total Liabilities	**219,509**	**235,208**	**237,340**	**2,132**	**0.9**	**230,883**
NET ASSETS	**234,470**	**234,513**	**243,190**	**8,678**	**3.7**	**230,861**

Table C.2: General government sector balance sheet (cont)

	2020-21 Est. Actual	2021-22 Budget	Revised	Variance	Variance	4 Months to 31/10/2021 Actual
	$m	$m	$m	$m	%	$m
NET WORTH						
Accumulated Funds	75,365	72,084	66,544	(5,539)	(7.7)	65,846
Reserves	159,105	162,429	176,646	14,217	8.8	165,015
TOTAL NET WORTH	**234,470**	**234,513**	**243,190**	**8,678**	**3.7**	**230,861**
OTHER FISCAL AGGREGATES						
Net Debt (b)	**37,076**	**63,258**	**58,118**	**(5,141)**	**(8.1)**	**43,969**
Net Financial Liabilities (c)	**137,076**	**157,542**	**162,527**	**4,985**	**3.2**	**150,374**
Net Financial Worth (d)	**(51,414)**	**(69,439)**	**(60,645)**	**8,793**	**(12.7)**	**(59,306)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table C.3: General government sector cash flow statement

	2020-21 Est. Actual	2021-22 Budget	Revised	Variance	Variance	4 Months to 31/10/2021 Actual
	$m	$m	$m	$m	%	$m
Cash Receipts from Operating Activities						
Taxation	34,344	36,580	38,521	1,942	5.3	10,337
Sales of Goods and Services	10,268	11,422	11,375	(47)	(0.4)	3,116
Grant and Subsidies Received	35,421	39,731	45,027	5,296	13.3	12,431
Interest	217	200	158	(41)	(20.7)	49
Dividends and Income Tax Equivalents from Other Sectors	1,582	657	630	(27)	(4.1)	277
Other	9,948	7,831	8,156	325	4.1	4,036
Total Cash Receipts from Operating Activities	**91,780**	**96,420**	**103,867**	**7,447**	**7.7**	**30,245**
Cash Payments from Operating Activities						
Employee Related	(35,904)	(38,297)	(39,681)	(1,385)	3.6	(12,725)
Superannuation	(3,191)	(3,461)	(3,514)	(54)	1.5	(1,158)
Payments for Goods and Services	(23,817)	(25,688)	(28,372)	(2,684)	10.4	(8,141)
Grants and Subsidies	(19,035)	(21,494)	(35,557)	(14,063)	65.4	(16,239)
Interest	(2,201)	(2,686)	(2,664)	22	(0.8)	(790)
Other	(6,717)	(2,962)	(2,993)	(30)	1.0	(2,940)
Total Cash Payments from Operating Activities	(90,864)	(94,588)	(112,782)	(18,194)	19.2	(41,993)
Net Cash Flows from Operating Activities	**916**	**1,832**	**(8,914)**	**(10,747)**	**(586.5)**	**(11,747)**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sales of Non-Financial Assets	305	966	853	(113)	(11.7)	115
Purchases of Non-Financial Assets	(16,395)	(21,480)	(22,176)	(696)	3.2	(6,623)
Net Cash Flows from Investments in Non-Financial Assets	**(16,090)**	**(20,513)**	**(21,322)**	**(809)**	**3.9**	**(6,508)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	787	1,760	10,590	8,830	501.7	10,494
Payments	(3,315)	(4,674)	(3,433)	1,241	(26.5)	(888)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,528)**	**(2,914)**	**7,156**	**10,071**	**(345.6)**	**9,606**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	2,956	3,570	5,682	2,111	59.1	1,818
Purchase of Investments	(4,416)	(10,846)	(1,703)	9,143	(84.3)	(194)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(1,460)**	**(7,276)**	**3,979**	**11,255**	**(154.7)**	**1,624**
Net Cash Flows from Investing Activities	**(20,078)**	**(30,704)**	**(10,187)**	**20,516**	**(66.8)**	**4,722**
Cash Flows from Financing Activities						
Advances (Net)	(101)	(90)	(105)	(15)	17.1	(26)
Proceeds from Borrowings	18,853	28,586	27,641	(945)	(3.3)	15,929
Repayment of Borrowings	(1,945)	(2,783)	(7,171)	(4,388)	157.6	(1,318)
Deposits Received (Net)	(10)	...	(0)	(0)	...	(46)
Other (Net)	8	28	27	(1)	(2.4)	28
Net Cash Flows from Financing Activities	**16,805**	**25,742**	**20,393**	**(5,348)**	**(20.8)**	**14,566**
Net Increase/(Decrease) in Cash Held	**(2,357)**	**(3,130)**	**1,292**	**4,421**	**(141.3)**	**7,541**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	916	1,832	(8,914)	(10,747)	(586.5)	(11,747)
Net Cash Flows from Investments in Non-Financial Assets	(16,090)	(20,513)	(21,322)	(809)	3.9	(6,508)
Cash Surplus/(Deficit)	**(15,174)**	**(18,681)**	**(30,237)**	**(11,556)**	**61.9**	**(18,256)**

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D. ECONOMIC SCENARIO ANALYSIS

The 2021-22 Half-Yearly Review relies on forecasts and judgements about the future of the economy, based on information available at the time of preparation. These forecasts are subject to inherent uncertainties, such as changes in behaviours, evolving relationships between variables and unexpected events or shocks.

This appendix explores the impact of variations in key economic parameters on other areas of the economy, the overall macroeconomic outlook and general government tax revenues. This is intended to provide greater insight into the interdependencies within our complex economy, that a partial sensitivity analysis does not capture.

These scenarios were selected to cover plausible economic events that could affect New South Wales over the forecast horizon. The modelling takes account of linkages between key international, Australian and New South Wales economic aggregates, but does not account for any monetary policy or fiscal policy response.

The summary of these results should be interpreted with care because economic events tend to be unique in nature - the scenarios presented in this appendix are unlikely to completely reflect any future shock to the State economy. Any departures from the specified scenario would result in different impacts on the economic and revenue outlook.

This scenario analysis is intended to complement the central economic outlook as presented in *Chapter 2 Economic Outlook* by quantifying some of the key risks to the overall narrative. The economic and revenue impact of these scenarios were modelled using the Centre of Policy Studies (CoPS) Victoria University Regional Model Tax (VURMTAX)[19] and presented as a deviation from the central scenario that does not include the shocks outlined in the scenario (i.e. the baseline).

D.1 Upside scenario

A faster economic recovery driven by pent up demand

Households across New South Wales, on average, have substantially increased their savings throughout the pandemic. Measures designed to reduce mobility and slow the spread of COVID-19 and its variants temporarily restricted the consumption of goods and services, while fiscal policy supported household incomes. As a result, the net household saving ratio has risen sharply to 13.7 per cent in 2020-21 (from 4.4 per cent in 2018-19 before the pandemic) – this is the highest it has been in the history of the series.

While spending had rebounded strongly since the depths of the pandemic in 2020, and is expected to do so again in the latter part of 2021, household balance sheets remain strong. And with the net saving ratio remaining elevated, this opens up the potential for households to further lift economic activity by reducing their net saving ratio more than expected, or by drawing on their accumulated savings.

This scenario assumes consumers unleash their pent up demand to a greater extent than is currently anticipated over the forecast horizon by tapping into around half of the excess savings they have accumulated over the COVID-19 period.

[19] VURMTAX is a dynamic computable general equilibrium model of Australia's six states and two territories, with each region modelled as an economy in its own right. See Adams, Philip, Dixon, Janine and Horridge, Mark (2015), 'The Victoria University Regional Model (VURM): Technical Documentation, Version 1.0', CoPS/IMPACT Working Paper Number G-254 for more detail on the model.

Such an outcome, if it were to occur against a backdrop of low unemployment, would generally lead to inflationary pressures and a response from the Reserve Bank of Australia (RBA) via tighter monetary policy. This scenario has assumed that there is more capacity in the economy than currently expected which will help to limit inflationary pressures.

Macroeconomic impact over the Budget and forward estimates

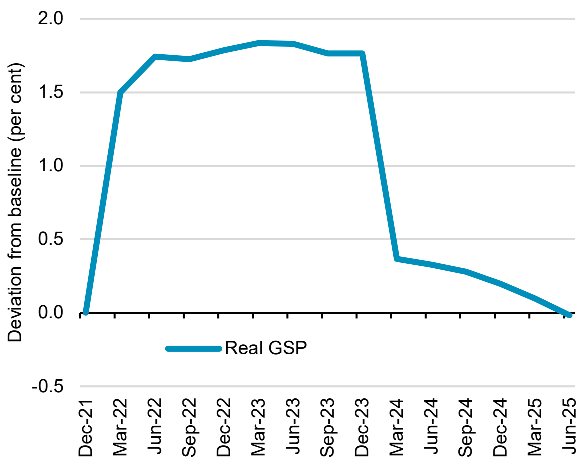
In this scenario, a desire on the part of households to consume more of their income has an immediate impact on spending, with a significant increase in household consumption than under the baseline in 2022-23. Stronger household demand also stimulates private investment which lifts the level of residential and non-residential construction across the state.

The increase in state final demand is somewhat offset by a worsening trade deficit, as the stimulatory impacts on domestic demand crowd out trade. This occurs because domestic production is unable to respond to the same extent in the near term.

Overall, the level of gross state product (GSP) is around 1.8 per cent higher in 2022-23 than under the baseline (see Chart D.1).

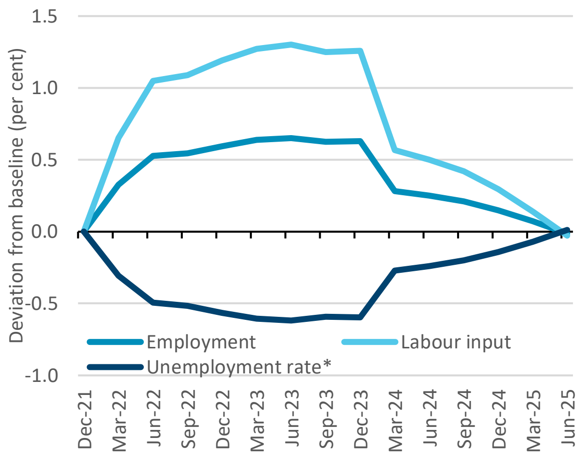
Stronger demand lifts the number of employed people in New South Wales (relative to baseline), resulting in the unemployment rate falling below the baseline and remaining there for the duration of the scenario (see Chart D.2). The number of hours worked per employee increases by more, reflecting employers opting to offer more hours to existing staff in response to the stimulus rather than increasing their overall headcount.

Chart D.1: Impact on NSW real GSP



Source: CoPS, Victoria University and NSW Treasury

Chart D.2: Impact on the NSW labour market



Source: CoPS, Victoria University and NSW Treasury

**percentage point deviation from baseline*

Unsurprisingly, hospitality and construction-related industries see the strongest impact in this scenario, coinciding with the lift in household consumption and private investment. With discretionary spending having a higher elasticity of demand, individuals spend a greater share of this among hospitality related industries as they spend more. Similarly, construction related industries see a positive impact, as the level of private investment increases alongside a desire of a household to spend a greater share of their income.

Table D.1: The effect of a faster economic recovery driven by pent up demand on macroeconomic parameters[(a)]

	2021-22 Deviation	2022-23 Deviation	2023-24 Deviation	2024-25 Deviation
Gross state product	0.8	1.8	1.1	0.1
Employment	0.2	0.6	0.4	0.1
Unemployment rate	(0.3)	(0.6)	(0.4)	(0.1)
Consumer price index	0.3	0.6	0.4	0.6
Nominal wages	0.2	(0.2)	(0.7)	0.0

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.
Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

Under this scenario, overall revenues would be $6.0 billion higher over the four years to 2024-25 (see Table D.2). Higher overall household consumption in New South Wales and nationally would raise the national GST pool, increasing NSW GST revenue. Payroll tax collections would be slightly higher due to higher levels of employment. Property transfer duty would also be higher, reflecting stronger house prices in response to higher incomes. Royalties would fall somewhat due to stronger exchange rates from the consumption shock.

Table D.2: The effect of a faster economic recovery driven by pent up demand on revenue parameters[(a)]

	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m
Payroll tax	53	92	31	36
Transfer duty	552	1105	563	45
Land tax	61	124	64	3
Royalties	(139)	(248)	(103)	14
Other tax revenues	289	602	277	10
GST revenue	513	1099	549	30
Other (non-tax) revenues	140	144	(29)	79
Total revenue	1,469	2,918	1,352	217

(a) Figures reported are the change in the level of each parameter relative to the baseline.
Source: CoPS, Victoria University and NSW Treasury

D.2 Downside scenario

Lower vaccine efficacy against new COVID variants

With COVID-19 now endemic in the community, COVID will become a permanent, albeit more manageable, part of our lives for the foreseeable future (like other infectious diseases such as the flu). Fortunately, vaccination rates in New South Wales are among the highest in the nation, if not the world, making us well placed to manage the health outcomes.

International experience suggests that waning immunity could give rise to outbreaks in the future, especially should new variants emerge that are more resistant to existing vaccines.

This scenario assumes a less favourable outcome for vaccine efficacy against a new variant which drives a significant, but temporary, outbreak in the community. It is assumed that an outbreak occurs over a period of six months, with peak daily cases of around 20,000. This is assumed to occur from the June 2022 quarter as we head into winter.

It is assumed that high vaccination rates mean a significant reinstatement of restrictions is not required. Nonetheless, the sharp rise in cases and some associated increases in hospitalisations and mortality has a negative impact on confidence (and therefore spending), particularly from older cohorts, and temporarily reduces the availability of labour.

The emergence of an outbreak would also deter some individuals from travelling to New South Wales, leading to a delayed return to "normal" levels for international tourism and education in New South Wales and Australia.

Macroeconomic impact over the Budget and forward estimates

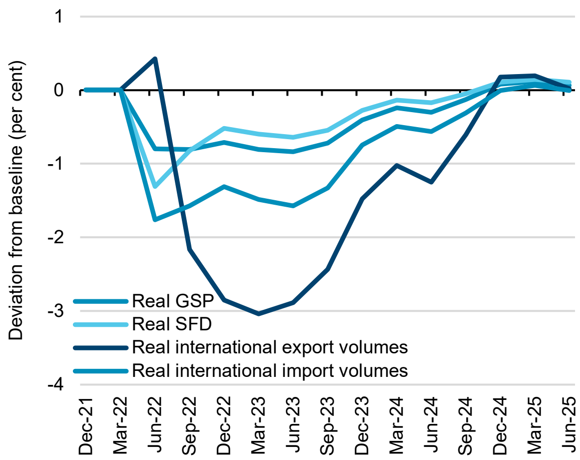
In this scenario, a less favourable vaccine efficacy results in an immediate reduction in the supply of labour within New South Wales, as a significant increase in case numbers result in people needing to isolate for some period of time, either because of illness or because they are a close contact of an infected individual.

The impact is compounded by a negative confidence effect on activity, as the fear of the virus causes segments of the community to withdraw from social activities, particularly the elderly and those with underlying health conditions. This leads to an immediate reduction in household consumption.

Reluctance to travel to New South Wales (and Australia) then results in a worsening trade deficit as international education exports and travel-related exports turn out to be weaker. However, the expected closure of state borders will likely provide some offset, as New South Wales residents will be unable to travel to other states for tourism purposes and instead will do so locally.

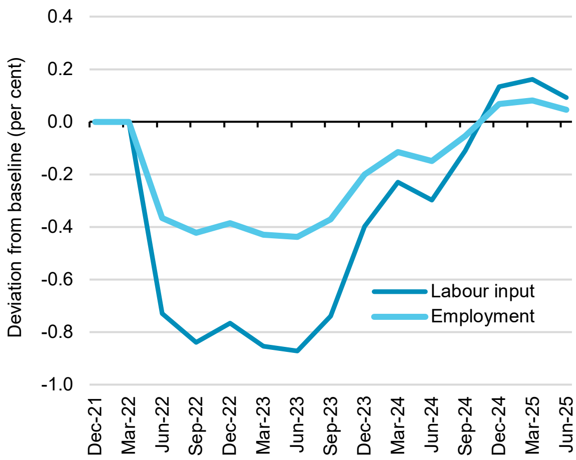
Weaker household demand and services exports subsequently weigh on non-dwelling investment, while dwelling investment follows closely with household consumption. By 2023, the main factor weighing on GSP is the fall in exports. Ultimately, GSP is around 0.8 per cent lower in 2022-23 than under the baseline.

Chart D.3: Impact on key parameters



Source: CoPS, Victoria University and NSW Treasury

Chart D.4: Impact on the labour market



Source: CoPS, Victoria University and NSW Treasury

Employment in New South Wales is lower, as the hit to confidence and labour availability weighs on economic activity. The fall in hours worked is around twice as large as the fall in employment, as the average hours per worker falls. Beyond 2022, the recovery in employment takes time to run its course due to the worsening trade deficit and lingering impact on aggregate demand.

Table D.3: The effect of a lower vaccine efficacy against new COVID-19 variants on macroeconomic parameters[(a)]

	2021-22 Deviation	2022-23 Deviation	2023-24 Deviation	2024-25 Deviation
Gross state product	(0.2)	(0.8)	(0.4)	0.0
Employment	(0.1)	(0.4)	(0.2)	0.0
Unemployment rate	(0.1)	0.3	0.2	0.0
Consumer price index	(0.1)	0.0	0.0	0.0
Nominal wages	(0.1)	0.0	(0.2)	(0.1)

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.
Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

Under this scenario, overall revenues would be $1.2 billion lower over the four years to 2024-25 (see table D.4). Lower household consumption and dwelling investment would reduce the national GST pool, decreasing NSW GST revenue. Other revenue impacts would be relatively modest, and of an order of magnitude lower than revenue impacts earlier in the pandemic. This reflects the expectation that, with high vaccination rates, shutdowns and restrictions would be unlikely to be required. While there would be some slowdown in economic activity, affecting revenues mostly through consumption, the drag on revenues would be relatively modest overall.

Table D.4: The effect of lower vaccine efficacy against new variants on revenue parameters[(a)]

	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m
Payroll tax	(28)	(74)	(63)	(3)
Transfer duty	(64)	(92)	(41)	2
Land tax	(8)	(20)	(8)	0
Royalties	11	54	36	13
Other tax revenue	(44)	(69)	(28)	7
GST revenue	(41)	(279)	(174)	10
Other (non-tax) revenues	(75)	(107)	(97)	(23)
Total revenue	(249)	(587)	(375)	6

(a) Figures reported are the change in the level of each parameter relative to the baseline.
Source: CoPS, Victoria University and NSW Treasury

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