NSW
BUDGET 2016–17

BUDGET PAPER NO. 1

BUDGET STATEMENT

Budget Statement

2016-17

Budget Paper No. 1

Circulated by The Hon. Gladys Berejiklian MP, Treasurer,
and Minister for Industrial Relations

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ABOUT THIS BUDGET PAPER

Purpose and scope

Budget Paper No. 1 *Budget Statement* provides information on the State finances in aggregate. The objectives of this paper are to:

- inform the public of the State's fiscal position and the Government's fiscal strategy
- meet requirements under s. 27AA of the *Public Finance and Audit Act 1983*, which prescribes the content of the budget papers, including providing four-year projections of all major economic and financial variables, and revised estimates for the preceding budget year and explanations of any significant variations
- meet requirements under s.8 of *the Fiscal Responsibility Act 2012*, including providing a statement of the Government's fiscal strategy, a report on performance against the fiscal object, targets and principles contained in the Act, and an assessment of the impact of any budget measures on the State's long-term fiscal gap
- enable interstate comparisons by reporting within the Australian Bureau of Statistics Government Finance Statistics framework.

The scope of the Budget is the general government sector. However, this budget paper also includes information on the Total State Sector and the Estimated Financial Statements for the public non-financial corporations and the non-financial public sector. This is to provide a comprehensive picture of the State's fiscal position and strategy, which is relevant to other interested parties such as credit rating agencies.

The Government has identified a number of priority projects for which it has reserved Restart NSW funding. Funding has been reserved with a view to a future Restart NSW commitment being made, at which time it will be included in the budget aggregates. Restart NSW commitments can only be made following completion of project development and assurance processes, including final business case approval.

Improvements in financial reporting

The NSW Government is committed to improving transparency in budget reporting. In this Budget, the Government has restructured the papers to include separate chapters relating to the State's operating statement (Chapter 5) and balance sheet (Chapter 6) to enhance the presentation of these two financial statements.

The Treasurer has again requested that the Auditor-General review the reasonableness of the estimates and forecasts in the 2016-17 Budget. A copy of the Independent Assurance Practitioner's Report from the review is printed within the covers of this budget paper.

Notes

- The budget year refers to 2016-17, while the forward estimates period refers to 2017-18, 2018-19 and 2019-20. Figures in tables, charts and text have been rounded. Discrepancies between totals and the sum of components reflect rounding:
  - estimates under $100,000 are rounded to the nearest thousand
  - estimates midway between rounding points are rounded up
  - percentages are based on the underlying unrounded values.
- For the budget result, parentheses indicate a deficit, while no sign indicates a surplus.
- One billion equals one thousand million.
- The following notations are used:
  - n.a. means data is not available
  - N/A means not applicable
  - no. means number
  - 0 means not zero, but rounded to zero
  - … means zero
  - '000 means thousand
  - $m means millions of dollars
  - $b means billions of dollars.
- Differences between harmonised government finance statistics (GFS) generally accepted accounting principles (GAAP) information, as shown in the budget papers, and pure GFS information, as reported by the Australian Bureau of Statistics, are known as convergence differences. Such differences are not departures from Accounting Standards but merely variations in measurement or treatments between GAAP and GFS frameworks. Details of these main convergence differences between GAAP and GFS are explained in Appendix B.
- Unless otherwise indicated, the data source for tables and charts is Treasury.

1. OVERVIEW

1.1 Introduction

The 2016-17 Budget delivers on the Government's commitment to deliver quality services and infrastructure throughout the State. This investment continues to increase employment opportunities and drive economic growth.

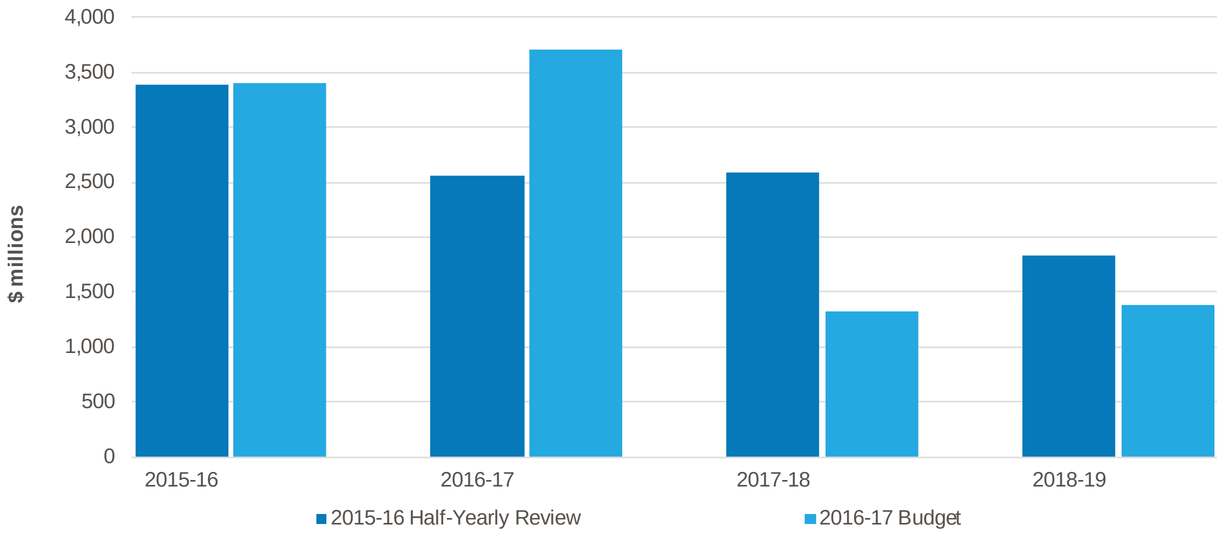
The NSW economy continues to lead the nation, with growth in economic activity well above the rest of Australia over the last year. Above-trend economic growth is expected to continue over the next two years. New South Wales boasts the lowest unemployment rate of any state and has created more than 80 per cent of all the full-time jobs added nationally in the last year. The 2016-17 Budget builds on this success and demonstrates the Government's commitment to driving strong, sustainable growth that benefits the whole community.

The Government continues to deliver strong fiscal results. The 2016-17 Budget projects surpluses averaging $2.0 billion over the next four years. Chart 1.1 sets out changes in the budget result since the 2015-16 Half-Yearly Review.

While stronger-than-expected revenue will deliver a substantial surplus for the State in 2015-16, weaker growth in GST payments from the Australian Government and a moderating housing market will place pressure on revenues over the forward estimates. A disciplined approach to controlling expenditure growth, demonstrated over the last five years, will continue to ensure that the Premier's and State priorities are delivered sustainably and in a way that maintains the State's triple-A credit rating.

Government is sensibly using the State's balance sheet to support record levels of investment in infrastructure, with the proceeds of asset recycling used to fund a range of infrastructure investments in public transport, roads, hospitals and schools.

Chart 1.1: Change in budget result since 2015-16 Half-Yearly Review



1.2 Fiscal outlook

The 2016-17 Budget delivers a strong financial position for the State. The Government's control over expenditure growth and continued focus on driving efficiency allows for targeted new spending guided by the Premier's and State priorities. It will also help keep annual spending growth below long-term average revenue growth, a target set out in the *Fiscal Responsibility Act 2012*. The Government has continued to respond to changing revenue levels, while still investing in key initiatives. The Budget delivers surpluses over the forward estimates, even as revenue pressures emerge in the mid years of the forward estimates. Table 1.1 presents the key budget aggregates for the 2016-17 Budget.

Table 1.1: Key budget aggregates

	2015-16 Revised	2016-17 Budget	2017-18	2018-19 Forward Estimates	2019-20
Revenue ($m)	73,772	77,005	76,948	77,479	80,656
Revenue growth (per cent pa)	6.0	4.4	(0.1)	0.7	4.1
Expenses ($m)	70,363	73,292	75,622	76,097	79,043
Expense growth (per cent pa)	5.4	4.2	3.2	0.6	3.9
Budget Result ($m)	3,409	3,713	1,326	1,382	1,613
Per cent of GSP	0.6	0.7	0.2	0.2	0.2

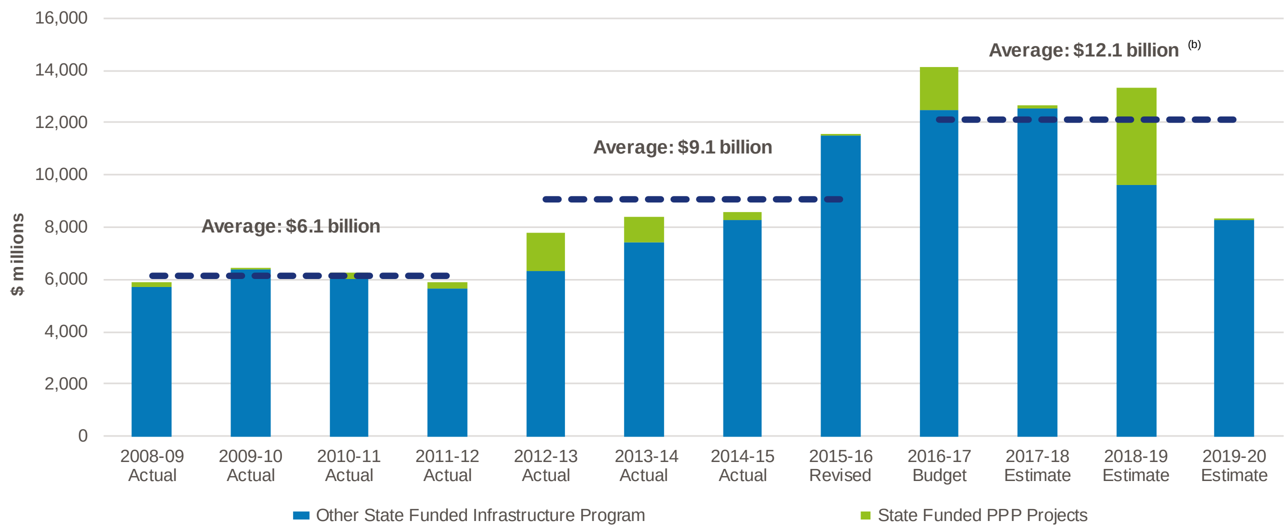
Revenue growth is estimated to be 6.0 per cent in 2015-16, driven by the boost to transfer duty, land and payroll taxes that flow from a stronger economy. Revenue growth is expected to moderate to an average of 2.3 per cent over the budget and forward estimates as growth in both transfer duties and the State's GST revenue decline and Australian Government National Partnership Payments fall. The State's share of the national GST pool is expected to fall to its lowest level since the GST was introduced. This is due to the State's comparatively strong economy lifting its capacity to raise state-own revenue relative to other states.

Also affecting revenues is the Government's commitment, made in the 2014-15 Budget, to abolish remaining business stamp duties listed under the Intergovernmental Agreement. Stamp duty on business mortgages, unlisted marketable securities and transfer duty on non-real business transfers will be abolished from 1 July 2016. Increased revenue to come from transactions announced by the Government will boost revenue from what is reported, once these transactions are completed.

Expenditure growth will be managed on an ongoing basis consistent with the Government's track record. Sound expense management enables the Government to increase spending in priority areas and invest in productivity-enhancing reforms. Over the budget and forward estimates, average expenditure growth is estimated to be 3.0 per cent. The Budget delivers growth in frontline services, with record budgets in the health, education, family and community services and justice clusters. Ongoing measures to drive efficiency in the public sector will support sustainable expense growth across the forward estimates.

Government investment in infrastructure is at a record level, supporting the delivery of roads, public transport, schools and hospitals across the State (see Chart 1.2). The Government is continuing to implement the $20 billion Rebuilding NSW infrastructure program, made possible by recycling the proceeds of the partial lease of the State's electricity network assets. These investments will support jobs and economic growth, and help prepare New South Wales for the demographic and economic challenges outlined in the *NSW Intergenerational Report 2016*.

Chart 1.2: State-funded capital expenditure program [(a)]



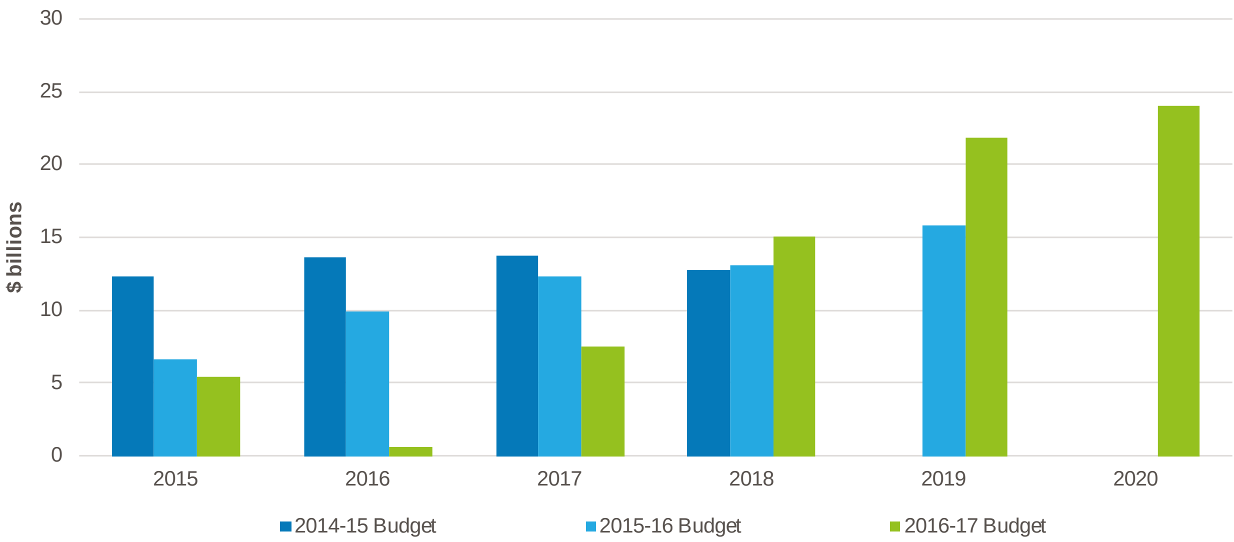
(a) The State-funded capital program includes expenditure in the general government sector, public transport public non-financial corporations (PNFCs), Darling Harbour Live and the State-funded contribution to WestConnex.
(b) Does not include capital commitments funded from transactions that are yet to be concluded, including Ausgrid, Endeavour Energy and Land and Property Information.

While net debt is expected to be very low at $0.7 billion by the end of June 2016, net debt is projected to reach 3.7 per cent of gross state product (GSP) by the end of the forward estimates. However, this does not include the proceeds of transactions already underway. This is consistent with the State's asset recycling strategy, which supports investments in productive infrastructure that will help underpin future State prosperity.

The successful conclusion of the State's long-term partial lease of Ausgrid and Endeavour, expected in 2016-17, will further boost cash receipts into the State and will reduce net debt below the forecasts.

The Government remains committed to ensuring a strong and sustainable balance sheet, consistent with maintaining a triple-A credit rating and the *Fiscal Responsibility Act 2012*. The Government is embarking on an ambitious financial management reform to strengthen financial oversight, facilitate data driven decision making, innovative service delivery and de-risking the balance sheet.

Chart 1.3: General government net debt at 30 June [(a)]



(a) Does not include proceeds from future transactions.

1.3 Economic outlook

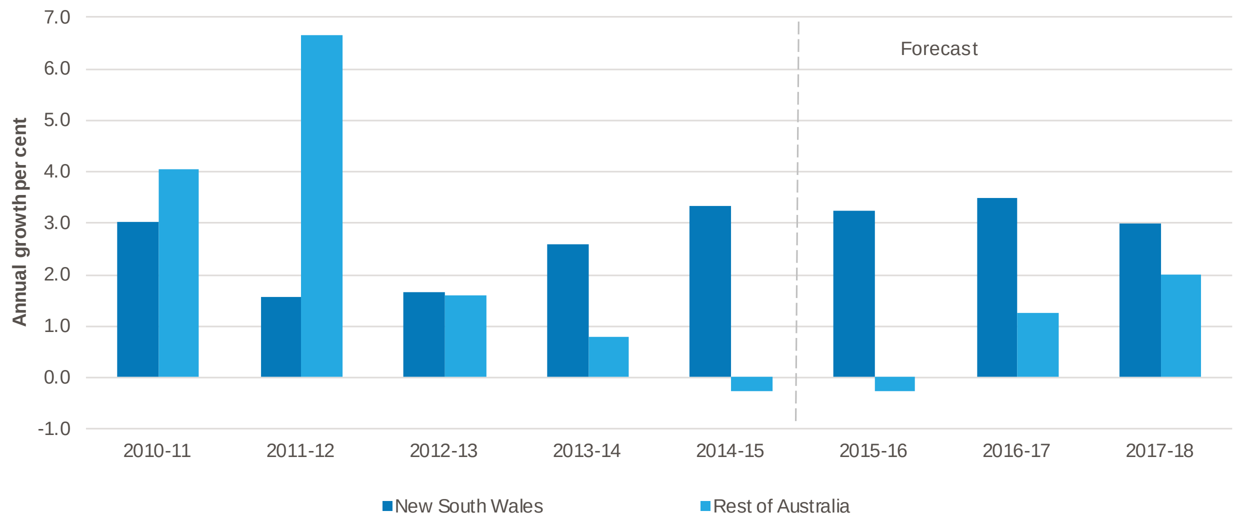
New South Wales has a diversified service-based economy and remains well placed to continue to benefit from the nation's current transition away from mining. Asia's increasing demand for services – such as finance, education and tourism – is also helping to boost growth and employment in the State's services sector.

New South Wales continues to outperform the rest of Australia, with growth in NSW domestic demand more than four times stronger than the national average. As a result, NSW GSP is estimated to expand by an above-trend pace of 2¾ per cent in 2015-16.

Above-trend economic growth in New South Wales is expected to continue over the next two years, with GSP forecast to grow at 3 per cent in 2016-17 and 2¾ per cent in 2017-18. The outlook is supported by historically low interest rates, solid population growth and a lower Australian dollar.

Continuing strength in household consumption and dwelling investment means that state final demand (SFD) is expected to grow by 3½ per cent in 2016-17, before moderating to 3 per cent in 2017-18. Non-mining business investment, public investment and net overseas service exports are also expected to contribute to growth over the next few years.

Chart 1.4: State final demand



Government programs promoting employment and new dwelling investment, together with a record level of infrastructure spending, will continue to contribute to these strong outcomes.

The relative strength of the NSW economy is drawing labour and capital into the State, particularly as resources are being freed up from the mining investment boom. Net outward migration to other states is near its lowest level since the late 1970s and the State's share of net overseas migration has picked up to its highest level since the early 2000s. Population growth of 1½ per cent is expected to continue over the next two years, supporting growth in consumption, dwelling investment and employment.

The NSW labour market has performed strongly over the last year, with employment growing by 3.9 per cent. The unemployment rate has declined to 5.2 per cent, currently the lowest in the nation, and the workforce participation rate has picked up to near record highs. This is expected to continue over the next two years, with employment forecast to grow by an above-trend rate of 1¾ per cent in 2016-17 and 1½ per cent in 2017-18. The unemployment rate is expected to gradually decline to 5 per cent over the next two years.

These positive outcomes are within the context of a global economy that is forecast to improve modestly over the next year or so and a national outlook that remains relatively subdued. While there is a downside risk of weaker global and national growth, the low interest rate environment and the possibility of further interest rate cuts pose an upside risk to domestic demand.

2. FISCAL STRATEGY AND OUTLOOK

- The Government's continued responsible financial management has ensured the State's fiscal position remains strong. The 2016-17 Budget projects surpluses across the budget and forward estimates, with a surplus of $3.7 billion forecast in 2016-17 and surpluses averaging $2.0 billion over the budget year and forward estimates.
- Revenue growth is moderating in coming years, averaging 2.3 per cent over the four years to 2019-20. GST revenues are forecast to fall in real terms in the period to 2019-20. This is because the share of GST revenues that the State receives is due to decrease to historic lows as a result of the State's recent strong economic performance. Activity in the housing sector is also expected to stabilise relative to the exceptional growth of recent years, with growth in transfer duties moderating.
- The clear challenge in this Budget is the decline in revenue growth, particularly over the medium term. In response, the Government is managing expenses to ensure the fiscal outlook is strong. This has enabled the Government to deliver surpluses across the budget and forward estimates. Annual expense growth averages 3.0 per cent over the budget year and forward estimates.
- The 2016-17 Budget supports record investments in services and infrastructure.
- Maintaining the triple-A credit rating remains the focus of the Government's fiscal strategy. The State is keeping net debt at manageable levels while delivering a record infrastructure program of $73.3 billion to support long-term prosperity.
- Net debt is projected to be $663.1 million at 30 June 2016. It increases over the forward estimates as proceeds from the State's asset recycling program are reinvested in productive infrastructure. Increasing net debt is consistent with the expectations presented in the 2015-16 Half-Yearly Review.
- In line with usual budget practice, the 2016-17 Budget does not include the impact of asset transactions that have not yet been completed. Once the long-term partial leases of Ausgrid and Endeavour are complete, they will strengthen the budget position and improve balance sheet aggregates, including net debt – particularly in the period before proceeds are reinvested.

2.1 Introduction

The 2016-17 Budget continues the responsible management of the State's finances – delivering a sound fiscal outlook with four budget surpluses and low debt.

The NSW economy is experiencing a period of above trend growth and the outlook remains positive as the State is well placed to continue benefiting from the national transition away from mining investment. Jobs growth in the State has been strong and is set to continue. Housing construction continues to be a significant driver of the State economy. Net overseas service exports and a large pipeline of infrastructure investment are also expected to continue to support growth.

In recent years, revenue growth has been supported by a buoyant housing sector and strong GST payments. However in the medium term, State revenue growth is expected to moderate. In particular, New South Wales' strong performance relative to other states will result in lower GST revenues from the Australian Government. Similarly, housing market activity is projected to stabilise, leading to slower growth in transfer duty. Looking forward, revenue growth is also expected to slow upon completion of significant infrastructure projects that are supported by Australian Government contributions.

The State will continue to carefully manage expenditure to manage growing demand in the health and education sectors. These trends are in part driven by the State's ageing population and workforce pressures – themes explored in detail in the recently released *NSW Intergenerational Report 2016*.

The 2016-17 Budget places the State in a strong position. Table 2.1 sets out the key budget aggregates for the general government sector from 2014-15 to 2019-20.

Table 2.1: General government sector key budget aggregates

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Revised	Budget	Forward Estimates		
Revenue ($m)	69,617	73,772	77,005	76,948	77,479	80,656
Revenue growth (per cent pa)	5.5	6.0	4.4	(0.1)	0.7	4.1
Expenses ($m)	66,736	70,363	73,292	75,622	76,097	79,043
Expense growth (per cent pa)	3.1	5.4	4.2	3.2	0.6	3.9
Budget Result ($m)	2,881	3,409	3,713	1,326	1,382	1,613
Per cent of GSP	0.6	0.6	0.7	0.2	0.2	0.2
Net Capital Expenditure ($m)	3,007	4,371	7,341	6,954	6,981	2,341
Per cent of GSP	0.6	0.8	1.3	1.2	1.1	0.4
Net Lending/(Borrowing) Result ($m)	(126)	(963)	(3,628)	(5,628)	(5,599)	(729)
Per cent of GSP	(0.0)	(0.2)	(0.6)	(1.0)	(0.9)	(0.1)
Net Debt ($m)	5,461	663	7,539	15,023	21,856	23,994
Per cent of GSP	1.1	0.1	1.3	2.6	3.5	3.7

The estimated budget result for the 2015-16 year is a surplus of $3.4 billion, which is larger than the $2.5 billion estimated at the 2015-16 Budget, but in line with the level expected at the time of the 2015-16 Half-Yearly Review. The larger surplus relative to the 2015-16 Budget is primarily driven by higher than expected revenues, in particular, higher transfer duties, including from the long-term lease of TransGrid.

Chart 2.1 compares the estimated budget result between the 2015-16 Budget and the 2016-17 Budget. Budget surpluses are expected to be lower in the forward estimates years largely due to slower than expected revenue growth.

Chart 2.1: Budget result: 2015-16 Budget compared with 2016-17 Budget

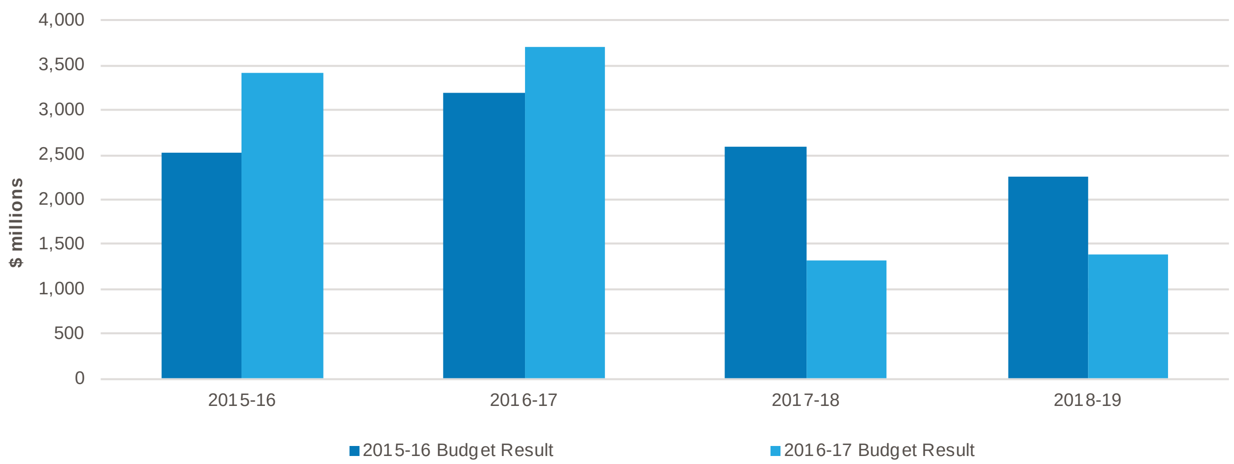


Table 2.2 provides a reconciliation of the changes in the budget estimates between the 2015-16 Budget, 2015-16 Half-Yearly Review and the 2016-17 Budget. The table separates the impact of Government policy decisions from parameter and other variations. The latter reflects the impact of changing economic conditions, budget assumptions, grants from the Australian Government and other accounting adjustments.

Table 2.2: Reconciliation of 2016-17 Budget to 2015-16 Budget [(a)]

	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
2015-16 Budget	**2,520**	**3,194**	**2,590**	**2,257**
Changes from 2015-16 Budget to 2015-16 Half-Yearly Review				
Effect of Policy Decisions				
Revenues	(3)	(33)	(20)	(22)
Expenses	(99)	(266)	(9)	(85)
Total Policy Decisions	(102)	(299)	(29)	(107)
Effect of Parameter and Other Variations				
Revenues	1,252	(26)	95	(206)
Expenses	(275)	(308)	(62)	(108)
Total of Parameter and Other Variations	977	(334)	33	(314)
Total Policy Decisions and Parameter and Other Variations	875	(633)	4	(421)
2015-16 Half-Yearly Review	**3,395**	**2,561**	**2,593**	**1,836**
Changes from 2015-16 Half-Yearly Review to 2016-17 Budget				
Effect of Policy Decisions				
Revenues	...	287	312	291
Expenses	(651)	(2,128)	(1,863)	(1,355)
Total Policy Decisions	(651)	(1,841)	(1,551)	(1,064)
Effect of Parameter and Other Variations				
Revenues	379	1,114	404	101
Expenses	286	1,879	(119)	509
Total of Parameter and Other Variations	665	2,993	285	610
Total Policy Decisions and Parameter and Other Variations	14	1,152	(1,266)	(454)
2016-17 Budget Result	**3,409**	**3,713**	**1,326**	**1,382**

(a) All totals show budget result impacts

Significant expense decisions have included one-off commitments in support of major Government reforms, including in the areas of local government reform and point to point transport reform. Major parameter and technical adjustments include growth in student enrolments and children in out-of-home care.

2.2 Fiscal strategy and outlook

The State's fiscal strategy is to deliver strong budget results and sustainable levels of debt that support maintenance of the State's triple-A credit rating, consistent with the requirements of the *Fiscal Responsibility Act 2012* (FRA).

These complement the Government's economic strategy to lift productivity, encourage economic growth and deliver improved living standards for the residents of New South Wales.

The 2016-17 Budget has delivered on this strategy, adhering to the principles of sound financial management outlined in the FRA including:

- responsible spending, taxation and infrastructure investment
- effective financial and asset management
- achieving intergenerational equity by ensuring policy decisions have regard to the impacts on current and future generations.

The 2016-17 Budget delivers on the Government's fiscal strategy by:

- delivering budget surpluses and ensuring annual expense growth remains below long-term average revenue growth
- ensuring expense growth is sustainable while improving the delivery of frontline services to the community
- delivering unprecedented levels of infrastructure and funding it through operating surpluses and asset recycling strategies to maintain debt at sustainable levels, in order to enhance the productive capacity of the State to support economic growth and job creation
- maintaining a fiscal position that will not shift the State's fiscal burden to future generations.

Both Moody's and Standard & Poor's reaffirmed the State's triple-A credit rating in 2015 and the Government remains committed to maintaining its triple-A credit rating.

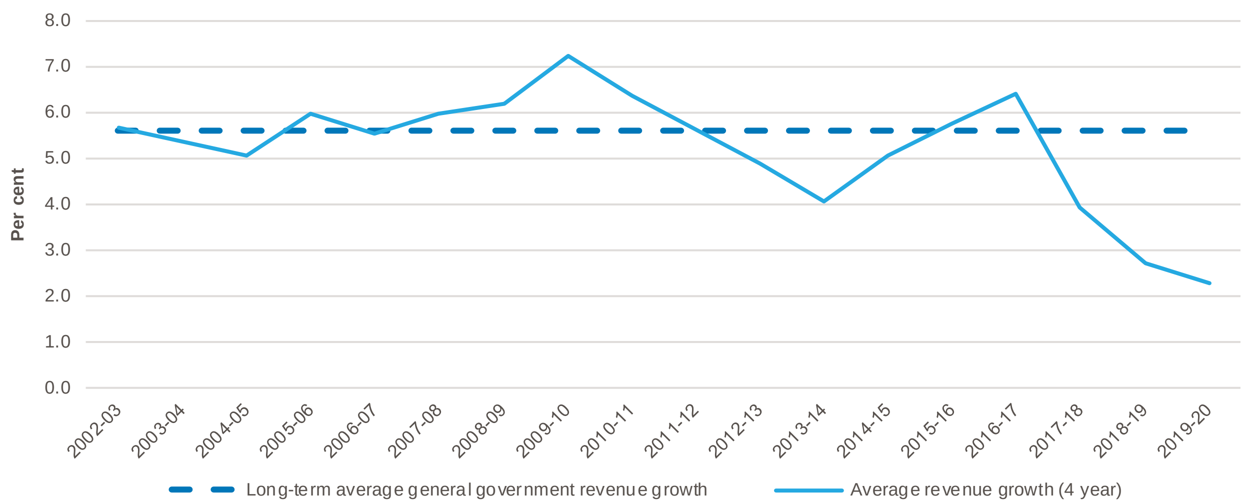
Revenue and expense growth management

Growth in total revenues has been reasonably strong to 2015-16, averaging 5.7 per cent from 2002-03 to 2015-16. Over the four years to 2019-20, growth in revenues is expected to slow, averaging 2.3 per cent per year. Chart 2.2 shows the decline in four year average revenue growth forecast over the forward estimates years.

The slowdown in revenue growth in part reflects more moderate growth in transfer duties as the housing market stabilises and following the abolition of three state business taxes. GST revenue also grows particularly slowly over the forward estimates period, as the strong economic performance of New South Wales results in a lower share of national GST revenue. Revenue also declines due to falls in Australian Government National Partnership payments relative to previous years (after the Asset Recycling Initiative and other infrastructure grants temporarily boost revenue in 2016-17). Revenue is forecast to grow more strongly in 2019-20 as these factors abate and general taxation, growth in dividend revenue and National Agreements grow steadily.

Revenue trends are explored in more detail in Chapter 5 of this *Budget Statement.*

Chart 2.2: Four year average revenue growth [(a)]

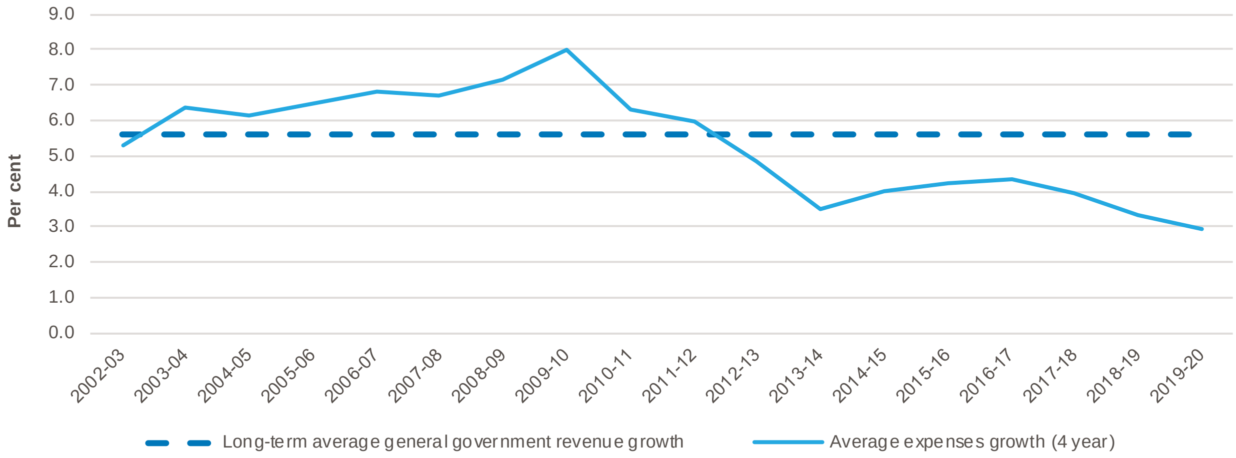


(a) The long term average general government revenue growth consistent with the FRA Regulations. Four year average per cent change to indicated year.

Revenue projections over the forward estimates do not include receipts from the Government's announced but yet to be completed asset transactions or the related Asset Recycling Initiative payments from the Australian Government. When complete, these transactions will impact on the budget position and revenue and expense growth rates (see Box 2.2).

Expense growth continues to be contained and averages 3.0 per cent over the four years to 2019-20. As revenue growth has fallen, the Government has taken steps to maintain expenditure discipline and ensure the overall budget position remains strong. Chart 2.3 shows the four year average expense growth from 2002-03 to 2019-20.

Chart 2.3: Four year average expense growth [(a)]



(a) Four year average per cent change to indicated year.

Commencing in the 2011-12 Budget, the Government has implemented a program of savings, driving efficiencies to control expense growth without compromising the quality of government services. The 2016-17 Budget delivers further long-term savings through efficiencies and program reform.

The NSW Government's 2016-17 Budget confirms an annual efficiency dividend of 1.5 per cent on agencies, commencing in 2017-18, which will target savings from agency back offices.

It continues a practice the Government has undertaken since it was elected to impose modest efficiency dividends that target back office spending, allowing the Government to invest more on the frontline and maintain a strong fiscal position.

The efficiency dividend announced in the 2016-17 Budget is expected to attain a net saving of $1.41 billion over a three year period to 2019-20.

Record infrastructure investment

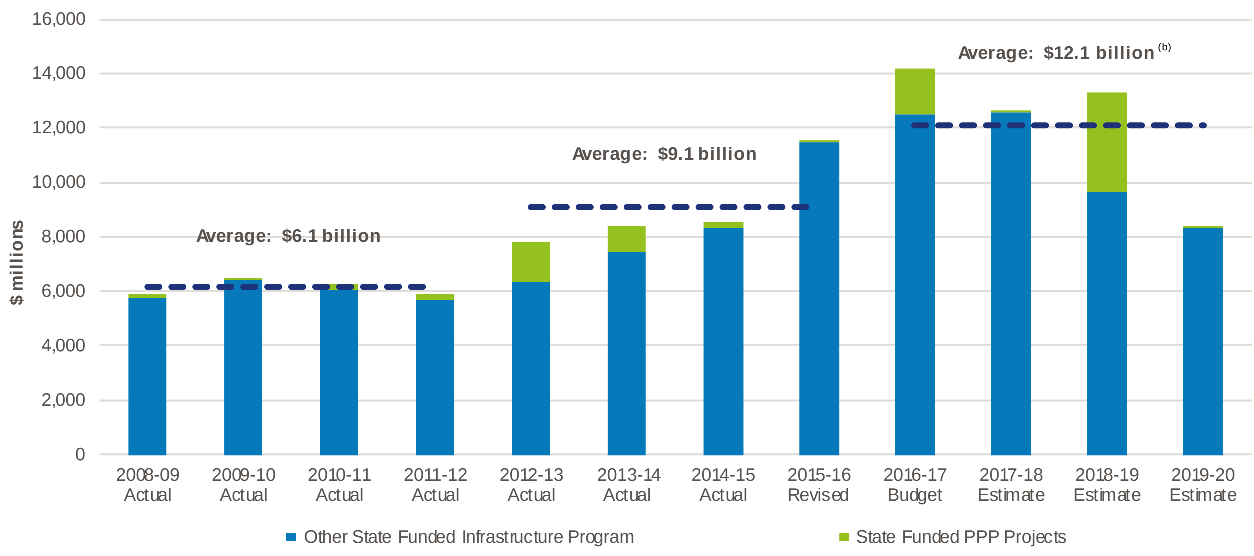
The 2016-17 Budget provides unprecedented investment in productive infrastructure in New South Wales and leverages ideal economic conditions for this investment. The record infrastructure investment includes projects that will lift productivity in New South Wales and deliver economic value to the State.

The timing of this investment coincides favourably with the national transition away from the mining boom. Economic and financial capacity that was previously committed to mining infrastructure is now available to be redirected to infrastructure projects across New South Wales. The State is experiencing the most favourable net interstate migration in 35 years facilitated by work opportunities shifting from Queensland and Western Australia to New South Wales. The State has created 338,600 new jobs since April 2011, with around 141,800 of these jobs created over the last year alone. Additionally, nearly half of the jobs created over the year to April 2016 have been in regional New South Wales.

Inflation is also low across Australia and globally. This provides a good opportunity to undertake a significant investment program, while minimising the risk of placing excess pressure on inflation.

The Government has accelerated infrastructure investment to deliver benefits early and leverage the unique economic conditions in this transitional period. Chart 2.4 shows the increase in investment.

Chart 2.4: State-funded capital expenditure program [(a)]



(a) The State-funded capital program includes expenditure in the general government sector, public transport public non-financial corporations (PNFCs), Darling Harbour Live and the State-funded contribution to WestConnex.

(b) Does not include capital commitments funded from transactions that are yet to be concluded, including Ausgrid, Endeavour Energy and Land and Property Information.

Net debt and net worth

The State's balance sheet remains in a strong position. Net worth and net financial worth are forecast to continue to increase over the forward estimates (see Box 2.1).

Net debt at 30 June 2016 is expected to be close to zero ($663.1 million and 0.1 per cent of GSP) reflecting receipts from the long-term lease of TransGrid. Net debt is projected to increase to 3.7 per cent of GSP ($24.0 billion) by the end of the forward estimates. However, this does not reflect proceeds from Ausgrid and Endeavour, which will improve the net debt figure (see Box 2.2).

Net debt projections for the forward estimates have increased since the 2015-16 Budget and the 2015-16 Half-Yearly Review, due to increased infrastructure spending. However this does not take into account the proceeds of future government asset transactions.

The main driver of the increase in net debt since the 2015-16 Half-Yearly Review is the inclusion of additional capital projects that are part of the $73.3 billion record infrastructure spending in the non-financial public sector in this Budget. The Sydney Metro City and Southwest project and expansions to justice facilities are the largest projects that have been included since the Half-Yearly Review. Revisions to the budget result since the Half-Yearly Review also contribute to higher net debt.

Box 2.1: Increasing the State's net worth

The net worth of the general government sector is defined as assets less liabilities. Net worth is an economic measure of wealth, reflecting the Government's contribution to the wealth of Australia.

New South Wales has the strongest net worth of any Australian government.

By the end of the forward estimates period, net worth is projected to be around a third larger than it is today – growing from an estimated $187.4 billion at the end of June 2016, to $246.9 billion by the end of June 2020.

Net worth is discussed further in Chapter 6 of this *Budget Statement*.

Retaining the State's triple-A credit rating

Maintaining the triple-A credit rating is a key objective of the State's fiscal strategy. New South Wales is rated triple-A by the two major credit rating agencies. Moody's reaffirmed NSW's triple-A credit rating, with a stable outlook, on 8 December 2015. Standard & Poor's (S&P) reaffirmed NSW's triple-A credit rating, with a stable outlook, on 30 September 2015.

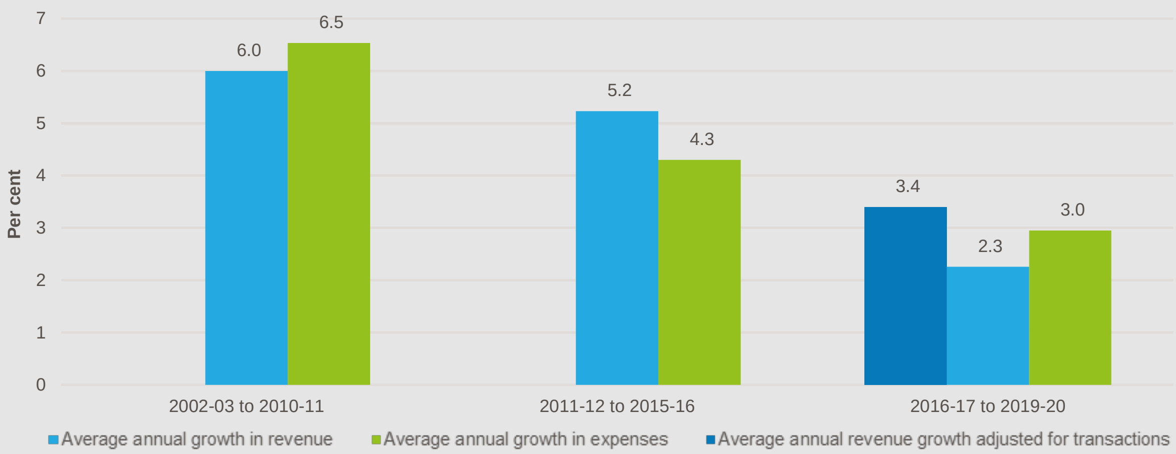
Box 2.2: Accounting for asset transactions

Established NSW budget practice is for asset transactions not to be reflected in the budget until the transaction contract has been signed. Consequently, the expected proceeds from the partial long-term lease of Ausgrid and Endeavour electricity network businesses, and other announced divestments and the resulting impacts are not reflected in the 2016-17 Budget. Similarly, the Budget does not include the expected receipts under the National Partnership Agreement on Asset Recycling relating to transactions that have not yet been completed.

The completion of all transactions announced by the Government would lift revenues and cash receipts and significantly reduce net debt by the end of the forward estimates period. The inclusion of transactions lifts revenue in the near term, principally due to the receipt of additional asset recycling revenue. Future capital spending would only be reflected at the time of formal Government commitment.

Once transactions announced by the Government and anticipated changes to dividends are factored in, average revenue growth over the budget and forward estimates would exceed average expense growth (Chart 2.5). This higher revenue also has the potential to lift surpluses above those forecast in this Budget once transactions are completed.

Chart 2.5: Average expense and revenue growth adjusted for announced asset transactions [(a)]



(a) This reflects the estimated impact of asset transactions the Government has announced or has underway and anticipated changes to dividends.

Depending on proceeds received, the State is likely to see very low net debt (or negative net debt) for longer, with net debt then increasing again as infrastructure spending picks up. Over time, net debt will return to higher levels (both in nominal terms and as a share of GSP) than recent lows due to the State's record investment in infrastructure.

2.3 Budget priorities

The 2016-17 Budget is about growing the economy, creating jobs, building infrastructure and improving service delivery to the people of New South Wales.

Boosting jobs

The Government is investing in a range of initiatives to drive economic growth in New South Wales and increase employment opportunities across the State.

Since April 2011, 338,600 jobs have been created in New South Wales. This includes 154,000 jobs since April 2015. The NSW Government has met its election commitment to create 150,000 jobs this term in just 13 months.

In the last year, New South Wales has created 141,800 jobs, nearly two thirds of the jobs added across Australia.

Job creation remains a priority for the Government and will continue to be supported by key policy initiatives including a focus on a key driver of jobs – the small to medium business sector. Key initiatives in this Budget to increase employment include the following:

- The Jobs for NSW program, which taps the insights and knowledge of leading private sector minds to increase NSW competitiveness and create new jobs. The Government has committed $190.0 million over four years to attract and grow the right businesses for future jobs growth.
- The launch of the Smart, Skilled and Hired program, with an investment of $100.0 million over two years. This program will work with businesses to provide greater opportunities for young people to find a job and get the skills they need to advance their careers. The program will also assist young people looking for opportunities such as apprenticeships and traineeships.
- The creation of the Sydney School of Entrepreneurship, a joint collaboration between the State, NSW universities and TAFE NSW. Commencing in 2016-17, this program will provide opportunities for collaboration between students and the business sector to develop and grow businesses in new and emerging areas.
- The Small Business Incentive Scheme, encouraging small businesses to create new jobs. Small businesses in New South Wales may apply for a grant of up to $2,000 when they hire new employees. In the year to 31 May 2016, there have been over 2,380 positions registered for the Small Business Grant, with 64 per cent for full time positions.
- Refocusing the Jobs Action Plan scheme to better assist small businesses, who are a key driver of jobs growth. From 31 July 2016, new applications will be available to businesses with 50 or less full-time equivalent staff. The value of the payroll tax rebate will be increased from $5,000 to $6,000.
- Social Impact Investment that seeks to deliver measureable social outcomes and financial returns. The Government has committed $10.0 million to develop a new social impact investment aimed at achieving better outcomes for regions with high youth unemployment.

Record $73.3 billion investment in infrastructure throughout the State

The Government is delivering its Rebuilding NSW commitment, with record infrastructure investment throughout the State. The 2016-17 Budget capital program sees record non-financial public sector investment of $73.3 billion in the four years to 2019-20. This includes $44.6 billion in general government sector capital investment over four years. The program will provide a strong foundation for economic growth and maintain and improve the standard of services provided to NSW residents.

Investing in infrastructure will increase the productive capacity of New South Wales over the long term. High value infrastructure makes it easier to do business and removes supply constraints and bottlenecks. This provides ongoing benefits for the firms and individuals that use the new and upgraded infrastructure assets. The International Monetary Fund found that an increase in efficient, high value public infrastructure investment of 1 percentage point of GDP, increases output by 2.5 per cent over the long term for advanced economies.[1]

Key programs in this Budget include:

- rail projects including Sydney Metro City and Southwest ($6.2 billion across the four years, refer to Box 2.3), Sydney Metro Northwest ($5.8 billion), more than $1.0 billion over four years for growth trains on the suburban rail network, Fixing the Trains ($154.2 million), the next generation of the intercity rail fleet ($518.4 million), funding for planning and procurement activities to replace the XPT rail fleet ($35.0 million) and the Northern Sydney Freight Corridor ($27.0 million)
- $3.8 billion over four years for the Prison Bed Capacity program to add new capacity to the system
- $2.6 billion over four years to fund capital projects for education, including new schools and upgrades at existing schools to meet the growth in student numbers and to improve facilities
- $2.4 billion over four years for social housing projects, including $1.4 billion to support the Communities Plus social housing program
- $129.0 million over four years for the construction of new and upgraded production, studio, rehearsal and performance venues at the Walsh Bay Arts Precinct
- $64.0 million in 2016-17 to continue planning for the Parramatta Light Rail system.
- $50.0 million for the Fixing Country Roads program to fund road and bridge upgrades in rural and regional areas
- $49 million in 2016-17 to continue Stage 5 of the Multipurpose Services (MPS) strategy, including further planning to deliver integrated health services for rural and remote communities
- funding for sporting stadia, including a new stadium for Western Sydney, and upgrading existing facilities at Olympic Park and Moore Park.

Box 2.3: Sydney Metro City and Southwest

An accessible and reliable transport network supports the productivity of the labour force, as well as the efficient and timely movement of goods and services. It connects consumers to more businesses and brings workers into contact with more opportunities for employment and training.

The Government is investing $6.2 billion over four years in the 2016-17 Budget to progress the Sydney Metro City and South West project. The Sydney Metro City and South West is a major public transport project creating new capacity for the whole Sydney rail network, delivering more trains and faster services for customers. This project will deliver a new 30 kilometre metro line, commencing from Chatswood and extending under Sydney harbour, through new CBD stations and then south west to Bankstown.

The fully automated, state-of-the-art Sydney Metro network will have the capacity to operate 30 trains an hour through the CBD in each direction – a train every two minutes each way – with trains required to run on time 98 per cent of the time. This means the railway network across greater Sydney will have room for an extra 100,000 train customers an hour in the peak.

Improving the quality of services

Record spending

The Government is committed to investing in and improving services. This Budget includes record spending on services, including in the areas of health and education.

[1] International Monetary Fund, 2014, *World Economic Outlook: Legacies, Clouds, Uncertainties,* Washington (October).

Chart 2.6: Increased recurrent spending for selected general purpose classifications [(a)]

(a) Data is presented on an ABS Government Financial Statistics (GFS) basis and does not align with agency data in Budget Paper No. 3.

Premier's Priorities

The 2016-17 Budget includes funding aimed at progressing the Premier's Priorities.

Key initiatives include:

- an extra $375.0 million in 2016-17 to meet increased patient demand for hospital and emergency department services as part of the 2015 election commitment
- doubling government investment in specialist domestic and family violence initiatives to over $300 million over four years, up from $148.5 million in the 2015-16 Budget (refer to Box 2.4)
- $370 million over four years for additional out-of-home care services
- $190 million over four years to reform the child protection and out-of-home care systems. Initiatives include targeted early intervention, intensive family restoration and preservation services and targeted programs for Aboriginal children.
- $50.0 million new funding to offer more agency transactions through the Service NSW network
- $40.0 million over four years for youth homelessness initiatives that prioritise young people leaving out-of-home care
- $14.0 million to tackle childhood obesity.

To tackle housing affordability and boost supply the government is investing more in social and affordable housing (refer to Box 2.5).

Box 2.4: Domestic and Family Violence

Domestic and family violence (DFV) is one of the biggest social policy issues that affects the lives of women, men and children in New South Wales. The Government is committed to improving its response to DFV.

New South Wales has taken significant steps to improve the response to DFV victims and hold perpetrators to account. The Government is committed to the Premier's Priority of reducing the proportion of DFV perpetrators re-offending within 12 months by 5 per cent by 2019.

This Budget provides for over $300.0 million over the next four years for specialist domestic violence initiatives, doubling its investment in the 2015-16 Budget. This includes the roll-out of Safer Pathway across New South Wales over four years, subject to the successful evaluation of pilot sites that will be completed in 2017. The Budget allocates $53.3 million over four years for the expected state wide roll-out, with $7.8 million for 2016-17 to roll out 19 new sites. A further $13.3 million over four years has also been allocated for Victims Services to pilot improved responses for male victims.

Further, New South Wales will introduce a $20 million Innovation Fund to support effective initiatives for crisis responses, prevention and early intervention. The Budget also invests $34.2 million over four years for the Women's Domestic Violence Court Advocacy Program, and an additional $6.3 million over four years to support them to meet unmet demand from police referrals. A rigorous approach to program and service evaluation will be central to new investments, to ensure they lead to improved outcomes.

Investing in the regions

Regional centres are critical for the success of New South Wales, accounting for one third of the State economy. The Government remains committed to supporting growth in regional New South Wales. As part of Restart NSW, 30 per cent of the investment in infrastructure is allocated to projects in regional New South Wales.

Key regional initiatives include:

- Fixing Country Roads, funding vital road and bridge upgrades to better connect local and regional roads to state highways. This is to ensure the transport and freight network better assists regional producers and growers, reducing the cost of doing business
- $133.0 million in 2016-17 for the redevelopment of Gosford Hospital, upgrading facilities and construction of a new carpark
- new major works including at Tweed, Port Macquarie and Singleton Hospitals and further stages of redevelopment at Dubbo Hospital.

Further information about priority spending in this Budget is included in Chapter 5 of this *Budget Statement*.

Box 2.5: Social and Affordable Housing Fund

The Social and Affordable Housing Fund (SAHF) was launched in January 2016, with the aim of boosting the delivery of social and affordable housing available for vulnerable families in New South Wales.

The Government has set aside $1.1 billion in cash reserves for the SAHF. The money will be invested by NSW Treasury Corporation and returns flowing from the fund will be used to support social and affordable housing projects.

Presently, social housing developments face a funding gap between the rental stream received and the revenue required to sustain a commercially viable project. The SAHF will provide a reliable long-term revenue stream to bridge this gap. The new model encourages private and non-government organisations to collaborate to develop social and affordable housing across New South Wales.

In May 2016, the Government announced that nine parties have been shortlisted to develop proposals tapping into the SAHF. This first phase will deliver an additional 3,000 social and affordable homes for vulnerable families.

3. THE ECONOMY

- New South Wales is a services-driven economy and is well positioned to continue benefiting from the current national transition away from mining investment. Low interest rates, a lower Australian dollar and solid population growth, together with the unprecedented pipeline of public infrastructure and dwelling construction, will continue to support strong economic growth.
- The State's above-trend economic growth is expected to continue over the next two years, with gross state product (GSP) forecast to rise by 3 per cent in 2016-17 and 2¾ per cent in 2017-18.
- Continuing strength in household consumption, dwelling construction and public investment means that state final demand (SFD) is forecast to grow by 3½ per cent in 2016-17, before moderating to 3 per cent in 2017-18 as dwelling construction and public investment remain steady at high levels.
- New South Wales is estimated to have grown at a faster rate than the rest of Australia in 2015-16 and is forecast to continue to do so in 2016-17 (on both a GSP and SFD basis).
- The NSW labour market has performed strongly over the last year and this strength is expected to continue over the next two years. Employment is expected to increase at an above-trend rate of 1¾ per cent in 2016-17 and 1½ per cent in 2017-18.
- Inflation forecasts for Sydney have been revised down for the next two years. This reflects the expectation that domestic cost pressures will pick up more gradually than previously anticipated. The lower inflation outlook also mirrors the low global inflationary environment.
- Risks to GSP forecasts appear evenly balanced. Downside risks stem from persistent weakness in global growth and demand from the rest of Australia. Ongoing strength in the labour market and housing construction pose some upside risks. The timing and extent of the recovery in non-mining business investment presents both an upside and downside risk to the economic growth forecasts.

3.1 New South Wales economic outlook[1]

The NSW economy remained robust in 2015-16, despite below-trend growth in the global economy and sub-par growth in national domestic demand. Low interest rates have fuelled above average growth in household consumption and dwelling investment, while the lower Australian dollar has led to a surge in overseas service exports (such as tourism, education and financial services). The State's infrastructure program has also become an important driver of economic growth.

The NSW economy is well placed to continue benefiting from the national transition away from mining investment given its comparative strength in business services and knowledge-based industries (see Box 3.1). Strong conditions in the services sector have driven robust employment growth over the last year. In time, this is also expected to foster a more resilient recovery in non-mining business investment. Interstate exports are also expected to recover as national conditions gradually improve.

Economic growth in New South Wales is expected to continue at an above-trend pace over the next two years, despite downward revisions to the outlook for both the global and national economies since the 2015-16 Half-Yearly Review (HYR).

[1] Economic forecasts are based on data available at the time they were prepared, which includes results to June 2015 for GSP, to the March quarter 2016 for SFD, the Wage Price Index and Consumer Price Index, to the September quarter 2015 for population and to April 2016 for the labour force.

GSP growth is forecast to pick up to 3 per cent in 2016-17, unchanged from the HYR forecast. Household consumption, dwelling construction and public investment are expected to continue to make strong contributions to growth. Business investment is expected to contribute to GSP growth as the drag from mining investment eases and the recovery in non-mining business investment gathers pace. Net overseas service exports are forecast to make an ongoing and noticeable contribution to GSP growth. Interstate trade, however, is expected to remain a drag on GSP growth due to ongoing weakness in the rest of Australia.

In 2017-18, GSP growth is forecast to moderate to 2¾ per cent. A further pickup in non-mining business investment and stronger interstate exports are expected to boost GSP growth. However, a moderation in housing construction and public investment growth is expected to provide less support to GSP growth (although both are expected to remain at high levels).

The estimate of trend GSP growth has been revised down to 2½ per cent from 2¾ per cent (see Box 3.2).

Table 3.1: Economic performance and outlook [(a)]

	2014-15 Outcomes	2015-16 Forecasts	2016-17 Forecasts	2017-18 Forecasts	2018-19 and 2019-20 Projections
New South Wales					
Real state final demand	3.3	3¼	3½	3	-
Real gross state product	2.4	2¾	3	2¾	2½
Employment	1.2	3½	1¾	1½	1¼
Unemployment rate [(b)]	5.9	5½	5¼	5	-
Sydney consumer price index [(c)]	2.0	1½	1¾	2¼	2½
- through the year to June quarter [(c)]	2.2	1	2	2¼	-
Wage price index	2.3	2¼	2½	2¾	3½
Nominal gross state product	3.6	4¼	4¾	4¾	-

(a) Per cent change, year average, unless otherwise indicated

(b) Year average, per cent

(c) 2014-15 includes ¾ percentage point detraction from the abolition of the carbon tax. 2014-15 to 2017-18 include ¼ percentage point contribution from tobacco excise increases.

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

The NSW labour market has performed strongly over the last year, with employment growing by 3.9 per cent, while the unemployment rate has declined by 0.6 percentage points to 5.2 per cent. Forward indicators (such as job vacancies and hiring intentions) and strong domestic demand growth point to solid momentum in labour demand being maintained. Employment is forecast to grow by an above-trend rate of 1¾ per cent in 2016-17 and 1½ per cent in 2017-18.

The relative strength of the NSW economy is drawing labour and capital into the State, particularly as resources are freed up from the mining investment boom. Net outward migration to other states is near its lowest level since the late 1970s and the State’s share of net overseas migration has picked up to its highest level since the early 2000s. Population growth of 1½ per cent per annum is expected to continue over the next two years, supporting growth in consumption, dwelling investment and employment. The combination of workforce participation at around record highs and solid population growth is expected to moderate the pace of decline in the unemployment rate. The unemployment rate is expected to gradually decline to 5 per cent over the next two years.

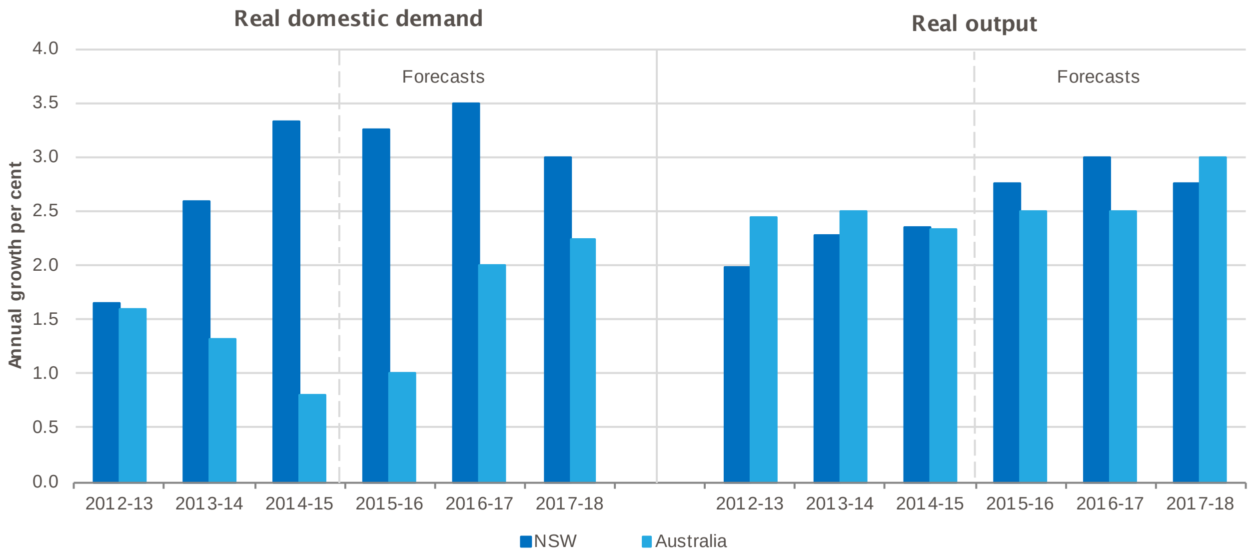
While employment growth has been strong, this has yet to feed into higher wage growth. Wage growth is forecast to lift gradually as some of the factors constraining wage inflation ease.

With domestic cost pressures expected to remain subdued and rise more gradually than previously anticipated, Sydney inflation forecasts have been revised down over the next two years. This lower inflation outlook also reflects increasing competition in the retail sector and a soft global inflationary environment, which is contributing to weaker import price growth and more modest inflation expectations.

The positive outlook for the NSW economy relative to national economic prospects reflects the different industry structures, the Government's infrastructure program, differing stages of the housing cycle and the State's greater sensitivity to interest rates and exchange rates.

New South Wales is estimated to have grown faster than the rest of Australia in 2015-16 and is forecast to do so again in 2016-17 on both a GSP and SFD basis. Strong growth in national export volumes, particularly liquefied natural gas (LNG) and iron ore exports, means that national gross domestic product (GDP) growth is expected to outpace NSW GSP growth in 2017-18 (see Chart 3.1).

Chart 3.1: NSW economic growth versus national economic growth



Source: ABS 5206.0, 5220.0 and Treasury

Abstracting from the impact of trade, NSW SFD growth is forecast to outpace national domestic final demand (DFD) growth in each of the next two years due to the following:

- NSW households receiving a greater benefit from the protracted low interest rate environment as they tend to have larger mortgages due to relatively higher house prices
- pent-up demand for additional dwellings following seven years of low levels of residential construction in New South Wales (from 2006 to 2012). The State is therefore at a different stage of the housing cycle relative to other states
- the lower Australian dollar – driven by lower commodity prices – will benefit activity and employment in non-mining export industries including manufacturing, tourism and education (in which New South Wales is more reliant on exports than the rest of Australia)
- the outlook for public investment is more favourable than in other states due to the substantial pipeline of public infrastructure projects to which the Government has committed
- New South Wales is less dependent on mining investment than the national economy, meaning the State is experiencing a smaller detraction from growth as mining investment unwinds. Similarly, the State is less affected by weak income growth – and consequently lower royalties – resulting from lower commodity prices.

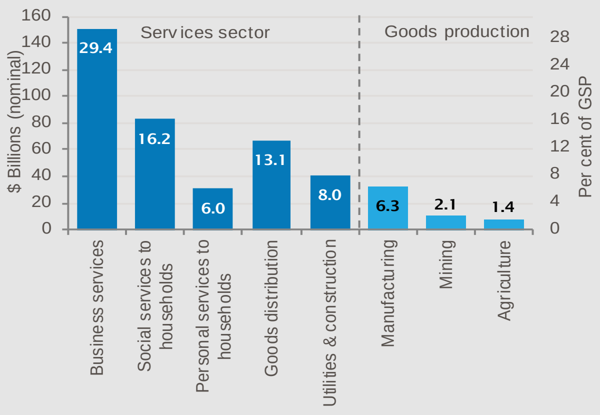
New South Wales has significant trade links with other states and interstate exports account for a larger share of GSP than overseas exports. The more challenging national economic environment suggests that interstate trade will remain a significant drag on NSW economic growth in the near term. The weaker global and national economic climate is also impacting business confidence and investment intentions, weighing on the non-mining business investment recovery.

Box 3.1: NSW services sector

New South Wales is a service-based economy, with this sector accounting for 73 per cent of economic activity and 89 per cent of employment in 2014-15.[2] The State has comparative strength in business services, particularly the knowledge-based industries of financial services, professional, scientific and technical services and information media and telecommunications.

Conversely, New South Wales has a relatively low exposure to mining, with the industry making up just 2 per cent of the economy and 1 per cent of the workforce in 2014-15.

Chart 3.2: NSW industry structure (2014-15)

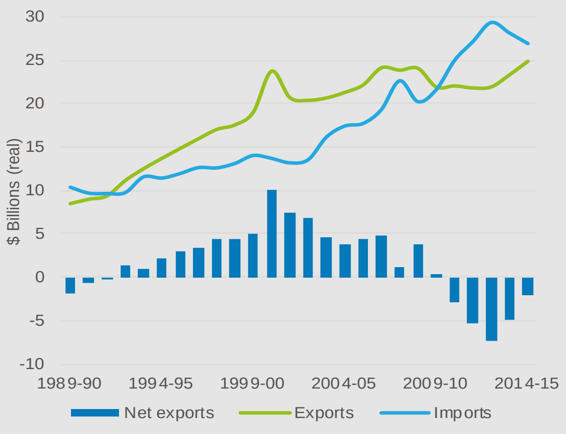


Source: ABS 5220.0 and Treasury

This industry structure has New South Wales well positioned to continue benefiting from the national economy rebalancing away from mining investment. The State is also well placed to benefit as a number of its East Asian trading partners, particularly China, shift away from manufacturing and export led growth, towards a more consumer and services led economy.

Strong conditions in the labour-intensive services sector have driven robust employment growth. There has also been a stronger than expected increase in overseas service exports over the last year.

Chart 3.3: NSW overseas services trade



Source: ABS 5220.0 and Treasury

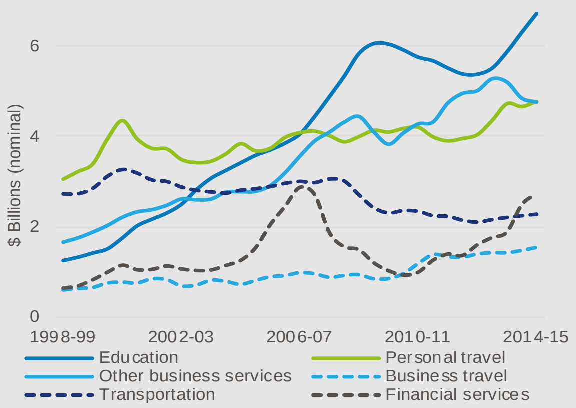
New South Wales has historically been a net overseas services exporter. However, after the global financial crisis, weaker global demand and a stronger Australian dollar saw net overseas service exports weaken. The strong dollar made overseas service exports relatively more expensive and consequently less competitive while also making service imports (which include overseas holidays) relatively cheaper, compared with domestic services.

Since 2013-14, however, service exports have lifted to record highs and service imports have fallen sharply on the back of a weaker Australian dollar. Over this period, net overseas service exports contributed around ½ percentage point to annual growth in economic activity. Data for 2015-16 to date indicates that the State has become a net overseas service exporter again.

Recent strong demand from Asia has also been a key driver of stronger service exports. For instance, China is the State's largest source of international visitors and overseas student enrolments (accounting for 16 per cent and 30 per cent respectively). This recent strong demand suggests there are further significant opportunities to grow the State's exports of education and tourism, as well as business and financial services.

The recent upswing in net overseas service exports has been driven by strong growth in exports of education, personal travel (tourism) and financial services, as well as falling imports of overseas travel, transportation and business services.

Chart 3.4: NSW major overseas service exports



Source: ABS 5368.0.55.003, 5368.0.55.004 and Treasury

In response to stronger demand for overseas service exports and the substitution of imports for domestic services, businesses are expected to increase hiring and investment over time. Domestic and international demand for the State's services will remain a vital driver of the expected recovery in non-mining business investment and the strong employment growth outlook.

[2] 2014-15 is the most recent output data by industry available.

3.2 Detailed NSW economic outlook

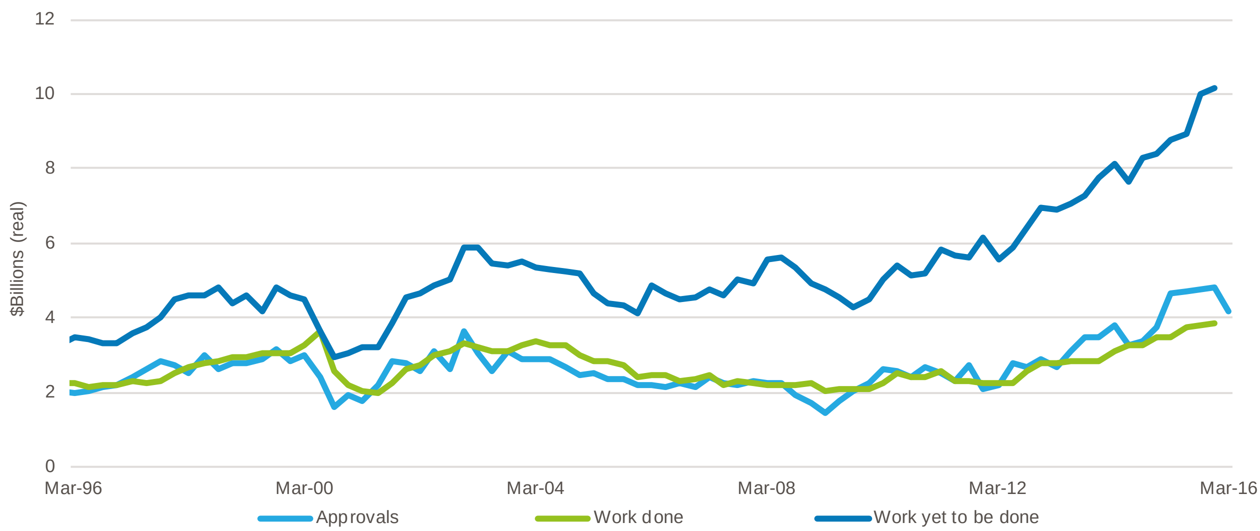
Household consumption

Household consumption has grown strongly in recent years, underpinned by a robust housing market, low interest rates and a declining saving rate, helping to offset soft wage growth. Consumers are also forecast to make a solid contribution to economic growth over the next two years, although spending growth is expected to ease back to its longer-run average. This is in line with house price growth moderating. Lower interest rates and a strong labour market are expected to support consumption growth as the housing market eases. Moreover, consumers are expected to continue to use their savings to bolster consumption, while wages growth remains relatively soft.

Dwelling investment

Dwelling investment has grown very rapidly over the last three years. This strength is expected to continue over 2016-17, supported by low interest rates. There is a large pipeline of work yet to be done, reflecting record high residential building approvals (see Chart 3.5). The majority of this recent growth has been driven by new dwelling construction, while alterations and additions have been subdued. The level of new dwelling construction is expected to remain high in 2017-18, with ongoing strong demand from solid population growth and an anticipated pickup in alterations and additions. Moreover, the current dwelling investment cycle is expected to be more prolonged than some previous cycles given there is a substantial built-up undersupply and activity is concentrated in high density dwellings. These buildings have longer lead and construction times compared to detached housing and will help drive a sustained period of high construction activity.

Chart 3.5: NSW residential construction [(a)]



(a) Value of residential approvals and work done are seasonally adjusted. Work yet to be done is in original terms.

Source: ABS 8752.0, 8731.0 and Treasury

Business investment

Business investment is expected to contribute an increasing amount to GSP growth in 2016-17 and 2017-18 as the drag from mining investment dissipates and the recovery in non-mining business investment gathers pace, albeit at a slower rate than expected in the HYR. The slower than anticipated recovery reflects a weaker global and national economic climate, soft capital expenditure expectations and relatively subdued business confidence. Despite weak investment intentions, other forward indicators are highly conducive to a pickup over the next two years. These include strong growth in business credit and above average capacity utilisation and business conditions. Moreover, the weaker Australian dollar will make export and import-competing industries more competitive, which coupled with low borrowing costs, will encourage greater investment in manufacturing, tourism and other trade exposed sectors.

Public demand

State infrastructure investment underway or in the pipeline, including projects such as WestConnex, NorthConnex, Sydney Metro Northwest and major hospital upgrades and redevelopments, will provide strong support for NSW economic activity over the next two years (see Budget Paper No. 2 *Infrastructure Statement*).

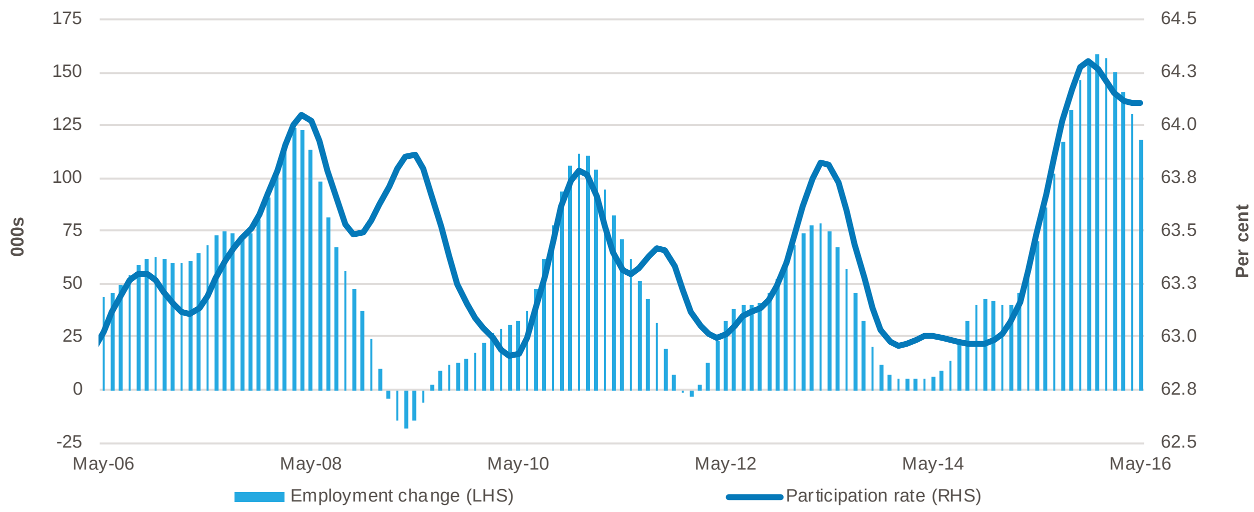
Trade

Overseas exports in 2015-16 are expected to be stronger than initially forecast. This reflects significantly stronger than expected rural, manufactured and service exports in the year to date. These have been partly offset by weaker than expected coal exports due to lower international demand. Overseas export growth is expected to remain strong over the next two years, driven by robust growth in service exports. A weaker than expected national outlook for 2016-17 suggests that the recovery in net interstate exports will be more protracted than anticipated in the HYR. Nevertheless, the forecast improvement in national conditions over the next two years should result in increased demand for NSW exports.

Labour market

Employment growth has been supported by strong activity in the labour-intensive services sector, subdued wages growth, strong population growth and some catch up following a period of under-hiring. Robust economic conditions in New South Wales suggest this trend will continue. While the NSW unemployment rate is expected to reach the level that would normally signal full employment, a number of measures such as the underemployment rate, average hours worked and wages growth point to evidence of spare capacity. Reflecting this, wage and inflation pressures are expected to remain more contained than would otherwise be the case given the forecast unemployment rate. The NSW Wage Price Index (WPI) is expected to grow by 2½ per cent in 2016-17 and 2¾ per cent in 2017-18.

Chart 3.6: NSW labour market [(a)]



(a) All data presented are in trend terms, employment change is presented in rolling 12 month sum terms.

Source: ABS 6202.0

Inflation

Recent inflation data indicates that there has been broad-based weakness in domestic cost pressures. The Sydney Consumer Price Index growth forecast has consequently been revised down since the HYR to 1½ per cent in 2015-16, 1¾ per cent in 2016-17 and 2¼ per cent in 2017-18.

3.3 National economic outlook

The outlook for the Australian economy has weakened since the HYR. Further declines in commodity prices have resulted in downward revisions to the outlook for Australia's terms of trade. In addition, major trading partner growth, capital spending expectations and wages growth have all been weaker than expected and consequently forecasts for these have been revised down.

National GDP growth is expected to be a little below trend at 2½ per cent in 2016-17. This reflects a slower than anticipated pick up in non-mining business investment, a downward revision to non-rural commodity exports (driven by a delay in the ramp up of LNG export volumes) and weaker income growth.

In 2017-18, GDP growth is expected to pick up to 3 per cent as income growth improves, the drag from mining investment eases, non-mining business investment accelerates and LNG export volumes pick up. However, stronger LNG exports are expected to have a relatively limited income and employment effect (given the high capital intensity and foreign ownership in the sector).

3.4 Global economic outlook

The global economic outlook is weaker than expected at the HYR, with slow growth in advanced economies and a mixed picture in emerging and developing economies. Declining commodity prices and an unexpectedly large slowdown in world trade are weighing on global growth. This continues to be a source of uncertainty for near-term prospects, particularly for emerging market and commodity producing countries.

Since October 2015, the International Monetary Fund (IMF) has revised down its global growth forecasts and indicated that risks are tilted to the downside. The IMF is now forecasting global growth to remain modest in 2016 at 3¼ per cent, before picking up to 3½ per cent in 2017. This is ½ and ¼ percentage point lower, respectively, than the forecasts that underpinned the HYR. Australia's major trading partners are now expected to grow by around 3¾ per cent over the next two years, below the long run average of 4¼ per cent.

3.5 Risks to the economic outlook

The risks to the State's economic outlook are broadly balanced. Risks to the downside include: a more protracted recovery in the global and national economies; a later and slower recovery in non-mining business investment; and a decline in the broader housing market. Upside risks include: the impact of low, and possibly even lower interest rates leading to stronger housing construction and consumer spending as well as a better-than-expected lift in national economic activity; and an earlier and stronger recovery in non-mining business investment.

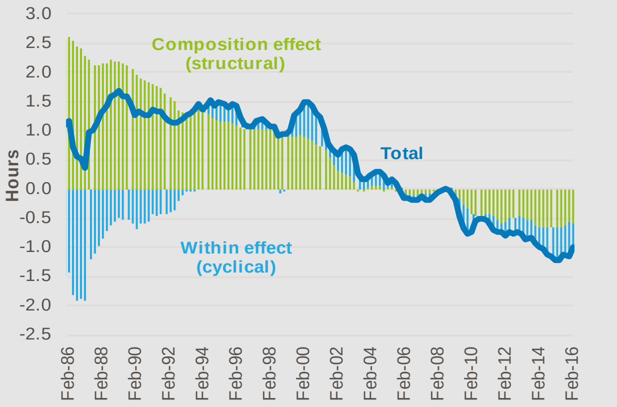
Box 3.2: Medium-term economic projections – trend GSP growth revised to 2½ per cent

The projection of trend (or potential) GSP growth has been revised to 2½ per cent from 2¾ per cent. The downward revision reflects the impact of ageing on workforce participation, the greater share of people working part-time and an expected slowing in population growth as migration trends to normal levels. These are the same factors that are expected to drive lower GSP outcomes in the future as outlined in the *NSW Intergenerational Report 2016*, and are consistent with recent revisions to trend GDP growth by the Australian Government Treasury.

The projection is based on an expectation that population growth and workforce participation are currently around their peaks and should slow over the next 10 years. Population ageing is expected to have a large impact on the participation rate. Similarly, as a greater proportion of older cohorts are expected to be employed part-time, ageing will also reduce average hours worked. The impact of ageing on participation is the dominant driver of the projected slowdown in overall GSP growth, reducing average annual GSP growth by around a quarter of a percentage point.

The long-term fall in average hours worked is estimated to be structural, driven by changes in the composition of employment. In particular, labour market deregulation has assisted growth in part-time employment relative to full-time employment. The current high participation rate reflects strong job opportunities in New South Wales. This is expected to fade with the State's relative outperformance dissipating as the rest of Australia strengthens over the medium term.

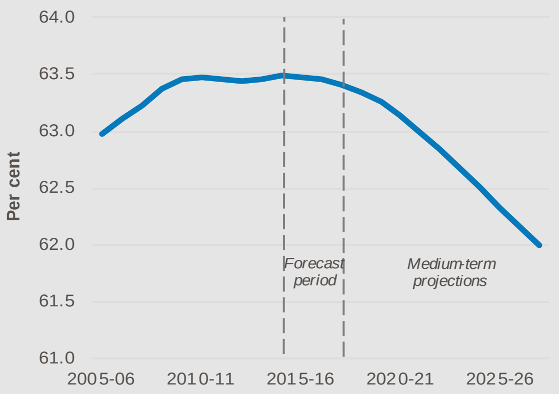
Chart 3.7: NSW average weekly hours worked [(a)]



(a) Deviation relative to August 2008. Composition effect captures changes due to shifts in employment by industry and part-time/full-time by holding average hours constant.

Source: ABS 6291.0.55.003 and Treasury

Chart 3.8: NSW equilibrium participation rate [(a)]



(a) The underlying participation rate is determined by long-run underlying workforce participation trends by age and sex.

Source: ABS 6291.0.55.001 and Treasury

4. REFORMING THE WAY NEW SOUTH WALES MANAGES ITS FINANCES

- A responsible government needs to consider current challenges as well as lay the foundations for a strong future. By embarking on an ambitious financial management reform program, the Government is doing just that – planning for the State's future while safeguarding its current financial sustainability.
- The Government is delivering comprehensive public sector financial management reform and creating value for the people of New South Wales by ensuring stronger financial oversight; facilitating data driven and quicker decision making; implementing innovative service delivery models; and de-risking the State's balance sheet. These reforms will support improved budget results, delivery of the State's priorities and protection of the triple-A credit rating.
- The Government is improving the way it manages the State's cash, financial investments and debt, by taking a proactive, whole-of-state approach that will deliver budget savings and more informed risk management. The Government is also drawing upon commercial best practice principles by establishing a new Asset and Liability Committee. This committee draws upon the technical and financial market expertise of New South Wales Treasury Corporation (TCorp) and the private sector by including representatives from these groups as members.
- Customer focus and quicker decision making by Government will be facilitated through the Financial Management Transformation program and the Data Analytics Centre. Finally, Government will continue to build upon its whole-of-government approach to service delivery and asset recycling reforms.

4.1 Introduction

The Government is undertaking a once-in-a-generation reform program to transform financial management in the New South Wales public sector. The reform addresses fiscal pressures, delivers greater transparency, efficiency and accountability and enables a stronger focus on risk management.

Financial management reform is important to ensure the State is operating at the most effective and efficient level. Over the last five years the Government has focused on restoring the fiscal sustainability of the State – maintaining strong surpluses, delivering record infrastructure and services investment and significantly reducing debt.

By unlocking the value of the State's balance sheet and applying innovative financial solutions, the Government will continue to maintain a strong fiscal position to meet the needs of the community and ensure our economy's resilience in dealing with future challenges. The emphasis on ongoing improvement and value for money through financial management reform will help protect the State from future economic downturns and other external shocks. Figure 4.1 outlines the Government's immediate reform deliverables.

Figure 4.1: Financial management reform deliverables

- ✓ Stronger Financial oversight
- ✓ Data driven and quicker decision making
- ✓ Innovative service delivery models
- ✓ De-risking the State's balance sheet

These deliverables will help achieve the following goals of financial management reform:

- strengthening the State's balance sheet
- delivering the Government's infrastructure and service commitments – while maintaining a strong fiscal position and
- protecting the triple-A credit rating, consistent with the *Fiscal Responsibility Act 2012.*

4.2 Stronger financial oversight

A strong balance sheet with robust financial oversight is crucial to protecting the State's triple-A credit rating. It supports a low cost of borrowing and attracts the widest range of potential investors to the State's debt issuance and private financing for capital projects. It also allows flexibility for the Government to respond to emerging fiscal and economic pressures, providing capacity for the Government to absorb adverse fiscal shocks or raise debt in a fiscally sustainable manner. A strong balance sheet and triple-A credit rating also facilitate the State's other financial management reform goals.

Making better use of the State's cash resources

The Government has undertaken a number of reforms to centralise and improve management of the State's cash resources.

The Government has adopted a new Cash Management Strategy that defines liquidity and other financial targets to measure performance. This reform frees up resources available to re-invest into productive infrastructure assets while continuing to protect NSW's triple-A credit rating.

The strategy will be sufficiently flexible to respond to government decisions, changing market conditions and other sensitivities. This will help the Government to deliver high quality services through economic cycles by achieving:

- better use and active management of the State's financial balance sheet
- enhanced investment returns for the State within acceptable risk parameters
- a greater ability for the State to absorb any future adverse fiscal shocks and
- reduced net interest costs that produce an improved budget result.

These reforms were developed in consultation with independent experts and leading banking institutions who endorsed the strategy.

As part of the Cash Management Strategy, the Government is developing a new investment approach for monies earmarked for future infrastructure spending in the State. The investment strategy will initially focus on Restart NSW funds, which have been earmarked for future infrastructure expenditure. Box 4.1 provides more detail.

Box 4.1: Maximising funds for infrastructure investment

An investment vehicle is being established to provide for more effective management of proceeds of asset and lease transactions that are earmarked for new infrastructure. Separately investing these monies enables the funds to be more efficiently managed by matching investment horizons with future spending commitments. The approach will centralise the State’s risk management activities in respect of the monies in the vehicle and will help to maximise the return on these monies. The investment strategy for the vehicle involves a diverse range of cash and growth assets, targeting investment returns with minimal levels of risk. The State will invest monies from Restart NSW into this investment vehicle.

Adopting a whole-of-government approach to financial risk management

The Government will continue to draw upon commercial best practice where appropriate, to ensure a strong, disciplined and whole-of-government approach to the management of balance sheet and fiscal risks.

As part of this, the Government is ensuring the appropriate forums are established to facilitate financial management reform, including through a new Asset and Liability Committee (Box 4.2).

Box 4.2: Establishment of an Asset and Liability Committee

One example of drawing upon commercial best practice is the creation of an Asset and Liability Committee (ALCO), a body typically established within banks and other financial organisations for advising on suitable asset and liability management policies and supervising their implementation. An ALCO generally comprises senior representatives of the institution.

The NSW Government ALCO draws on the technical and financial market expertise of TCorp and the private sector by including representatives from these groups as members. Mr Alden Toevs has been appointed as an independent member of the ALCO. Independent members provide expertise on the management of market, credit and operation risk. With this expertise and that of other members of the ALCO, the Government will receive advice on key decisions regarding the State’s assets and liabilities.

The Government has also announced in this Budget the establishment of a Financial Risk Management Group (FRMG) within Treasury. The FRMG will include experts in the fields of financial risk management, governance and portfolio analytics to implement and enhance Government’s financial management reforms.

Drawing upon the expertise of the ALCO and FRMG, the Government will implement public sector financial asset and liability management by weighing risk and return objectives at a whole-of-government level through the development of a whole-of-state risk appetite statement. This will articulate the Government’s risk tolerance limits in key areas and will underpin the State’s risk management strategy.

Commercial reforms of Government businesses

The Government is embarking on an overhaul of the State’s Commercial Policy Framework. The reforms reflect advances in commercial best practice, Government priorities and changes to regulatory and policy environments.

The Commercial Policy Framework is the ownership framework that applies to Government businesses. These businesses supply basic services to the community and their efficiency has a significant impact on the New South Wales economy, affecting taxpayers and customers alike. These reforms will promote greater efficiency, improve controls over capital expenditure and encourage capital management approaches more aligned with regulatory benchmarks and private sector practices.

Funds amalgamation and the common custodian project

In 2015, the Government announced the amalgamation of the State's core funds management activities within TCorp, harmonising its funds management arrangements. The amalgamation makes TCorp a top 10 Australian investment manager, responsible for over $65 billion of funds.

This project has standardised a number of funds management processes which are expected to generate substantial efficiencies and savings for the State. In addition, the amalgamation project enables the pooling of investment management expertise and intellectual property. This streamlined approach will achieve superior risk-adjusted investment returns, whilst also enabling the Government to have a holistic view of these funds under management.

The State is building upon these efficiencies by establishing one custodian for the relevant financial investments managed by TCorp. This will replace the three custodians that are currently utilised. Known as the 'common custodian project', the benefits of this approach are expected to include efficiencies through enhanced scale and operational benefits and quicker decision making through consolidated information.

4.3 Data driven and quicker decision making

The Government is also working to ensure it has the appropriate capability to implement reforms in financial management. This will drive customer-focused and quicker decision making by government through the availability of insightful and comprehensive data through the Financial Management Transformation program and the Data Analytics Centre (DAC). The DAC is a new project to facilitate data sharing and drive better decision-making.

The Financial Management Transformation program

The NSW Government is currently implementing the biggest financial reform in Australia – the Financial Management Transformation (FMT) program. The program will create a world class financial management and reporting framework for the NSW public sector. It will be underpinned by a new system for whole-of-government budgeting and reporting. The single system will provide government with improved data to support spending decisions, as well as better insight into how programs are performing against stated goals.

Policy reform

In order to help streamline decision making, the current legislative and policy framework will be modernised to reflect contemporary financial management practices. The new legislation and policy framework will articulate and promote key principles of sound public financial management and support a stronger focus on performance and outcome management. Existing NSW public sector financial management legislation is around thirty years old and is no longer fit for purpose.

New IT solution

Prime is the new information technology solution that will provide an integrated system to support a world-class financial management framework for New South Wales. Features of Prime will include:

- program based reporting for meaningful management and performance information to support resource and investment decisions
- improved efficiency through automated operating processes and
- a single source of public sector financial and performance management information.

Program budgeting and reporting will improve government decision making by focusing on performance, value for money and longer term spending pressures. It will enable:

- an assessment of whether resources have been allocated in accordance with government priorities
- better targeted funding decisions and
- a comparison of performance against plans and budgets.

This information will provide key data to enable quicker decisions, as well as enhancing resource allocation and facilitating performance monitoring.

Capability and culture

The FMT program will provide a unique opportunity for Treasury and State Government agencies to work in partnership to help set up New South Wales for long-term success. This will lead to enhanced financial management capability within the public sector to improve analysis and performance outcomes, supported by:

- efficient reporting and collaborative decision making and
- a new risk-based regulatory framework to encourage clear accountability and enable agency autonomy.

Box 4.3: Expected strategic and operational benefits of FMT

The FMT Program will deliver value to the people of New South Wales by:

- granting the Government access to timely information in order to conduct more accurate modelling and forecasting, which will further facilitate a stronger balance sheet and underpin future government decisions and
- providing the Government with a one-stop shop for financial information so it can more effectively manage and deliver public resources.

The FMT program will facilitate world class financial management reform, creating strategic and operational opportunities to:

- improve alignment of resources with the Government's priorities
- enhance confidence in financial management and certainty of fiscal performance
- deliver an effective platform for State Government agencies to focus on core service delivery and
- advance collaboration and capability within the Government.

The power of data analytics

The next opportunity for government is to examine inter-dependencies in data to facilitate information use at a whole-of-government level. Issues faced by government and by the people of NSW often involve multiple government agencies. Understanding the causes of complex social and economic issues can be difficult when agencies do not share information with each other, or when they analyse data in part or in isolation. The Data Analytics Centre (DAC) provides a central platform for information sharing and analytics on data from multiple agencies, and works with those agencies to generate solutions. The DAC facilitates data sharing between State Government agencies to inform more efficient, strategic, quicker, evidence based decision making.

As part of its ICT Strategy, government will also implement a digital tool that allows agencies to monitor and track a range of government performance indicators. This will be known as the NSW Customer Dashboard and will assist in monitoring progress towards the State Priorities, by providing a single snapshot of real time data across government.

4.4 Innovative service delivery models

The Government is applying innovative service delivery models to optimise outcomes for the State. The better delivery of services not only improves outcomes for the people of New South Wales, but enables public resources to be more effectively employed – further improving the financial position and balance sheet of the State.

Government has recently developed a whole-of-government approach to better service delivery. To support this reform, the Government has established a dedicated Commissioning and Contestability Unit. Commissioning is a tool that optimises service delivery and outcomes by first defining, scoping and costing a discrete service.

It is expected that the Commissioning Unit's work will improve service outcomes for customers and achieve savings and innovative financing solutions. This will be achieved based on the following principles:

- the market should provide services where it can achieve better outcomes and value for money for the people of New South Wales
- the Government should act as the regulator and customer advocate
- efficiency benefits should be shared between improved service delivery and improved value for money
- defining, scoping and costing a service should be considered from a whole-of-government view, focusing in on customers' needs and
- the State's appetite for financial and service delivery risks should be clearly defined and prudently managed throughout each defining, scoping and costing process.

These reforms put the customer at the centre of innovative service delivery.

4.5 De-risking the State's balance sheet

Where it is in the community's interest, capital tied up in a State asset or business can be recycled to build new infrastructure. This is particularly the case where:

- the private sector can leverage its industry experience to improve service delivery or provide price relief to customers
- assets are no longer at their productive use and
- assets that have been held by Government for future use are assessed as no longer required.

The Government has achieved demonstrated success in de-risking the balance sheet, with the successful 99-year lease of Port Botany and Port Kembla. In addition to unlocking benefits through recycling, a key consideration in the Port Botany and Port Kembla leases was that each member of the incoming consortium was a highly experienced asset owner who would ensure the operational integrity of the ports, bringing greater access to capital to ensure the ongoing development of the critical trade gateways of the State. The release of these assets also unlocked net proceeds of around $4 billion, which were invested to fund priority infrastructure projects.

Government has recently built upon this innovative reform, with the $10.258 billion TransGrid lease. This project further de-risked the State's balance sheet while also enabling the funding of a raft of infrastructure projects across the State as part of Rebuilding NSW. Further, in the TransGrid and upcoming Ausgrid and Endeavour partial leases (Network Businesses) a key issue was that New South Wales residents were paying more for their electricity than they should, and were not receiving the benefits of efficiency that flow to households and businesses in states which have privately-operated networks.

This approach has recently been applied to Superannuation Administration Corporation (better known as Pillar) – a Government owned superannuation administrator that provides services to a range of private and public sector clients. Detailed scoping studies indicated that private owners would put Pillar in a stronger position to improve growth opportunities and improve the long term financial viability of the business, while continuing to deliver quality services to its clients. In recognition of Pillar's existing operations in the Illawarra, the Government will seek commitments from bidders for a 10 year continued presence in the region.

The Government will continue to look for ways to de-risk the balance sheet and ensure value for money for the people of New South Wales.

4.6 Next steps in reforming the way New South Wales manages its finances

Ongoing financial management reform will be critical to sound and sustainable fiscal management – ensuring that the Government continues to meet the community's demand for services and infrastructure. Government will continue to support financial management reform, through stronger financial oversight, quicker and evidence based decisions (through use of data), innovative service delivery models and de-risking the State's balance sheet.

5. BUDGET POSITION AND OUTLOOK

- The 2016-17 Budget is expected to deliver a $3.7 billion surplus, and maintain surpluses averaging $2.0 billion across the Budget and forward estimates. In 2015-16, a surplus of $3.4 billion is expected.
- Revenue in 2016-17 is forecast to grow by 4.4 per cent. Across the four years to 2019-20, revenues are estimated to increase at an annual average rate of 2.3 per cent. This does not include expected transfer duty receipts from future State Government asset transactions.
- The strong performance of the NSW economy is expected to support growth in transfer duty, land tax and payroll tax over this period. However, weaker growth in GST payments is expected as a result of the State's strong economic performance in recent years reducing its share of the national GST pool.
- Expense growth in 2016-17 is expected to be 4.2 per cent. Expenses are forecast to grow by an average 3.0 per cent over the budget and forward estimates period.
- The Government remains committed to delivering its election commitments and achieving the Premier's and State Priorities. By investing additional expenditure in a fiscally responsible way, the Government can deliver critical services that provide better outcomes for the people of New South Wales.
- The Budget delivers a record $44.6 billion capital expenditure program in the general government sector for 2016-17 and across the forward estimates to drive productivity, jobs growth and invest in helping the State prepare for upcoming demographic challenges.
- Reflecting the large infrastructure program, a net lending deficit of $3.6 billion is forecast in 2016-17.

5.1 Introduction

This chapter sets out the aggregates for the general government sector (GGS) and an analysis of the financial performance of the sector. The GGS comprises agencies controlled by the State that undertake regulatory functions, redistribute income and wealth and provide or distribute goods and services (on a non-market basis) to the community and other general government agencies.

Additional detail on revenue and expenses of the GGS are outlined in Appendix A4 of this *Budget Statement*.

The budget estimates do not include the impact of transactions, such as the long-term partial lease of Ausgrid and Endeavour until contracts are completed. The impact of the TransGrid lease transaction has been included following the successful lease, consistent with the Half-Yearly Review. This is consistent with previous NSW budget practice.

Unless otherwise stated the Budget captures all policy decisions taken up to 15 June 2016, as well as economic and other parameters that affect the financial statements.

The Government has identified a number of priority projects for which it has reserved Restart NSW funding, including for future Rebuilding NSW programs. This funding has been reserved with the intention that it will be included in future budget aggregates, once projects have been identified and the project assurance process is complete. For further information, refer to Budget Paper No. 2 *Infrastructure Statement*.

5.2 Budget aggregates

The expected budget result in 2015-16 is a $3.4 billion surplus. The improvement in 2015-16 reflects stronger revenue than estimated at the time of the 2015-16 Budget, but is comparable with the forecast at the time of the 2015-16 Half-Yearly Review. In 2016-17 a slightly higher surplus of $3.7 billion is expected.

Surpluses averaging $2.0 billion are expected across the budget and forward estimates years. These more modest surpluses reflect slower revenue growth due to moderating transfer duty receipts and lower growth in GST revenue. The key budget aggregates are presented in Table 5.1.

Table 5.1: Budget aggregates [(a)]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Revised	Budget		Forward Estimates	
Budget result	2,881	3,409	3,713	1,326	1,382	1,613
Per cent of GSP	0.6	0.6	0.7	0.2	0.2	0.2
Net lending/(borrowing)	(126)	(963)	(3,628)	(5,628)	(5,599)	(729)
Per cent of GSP	(0.0)	(0.2)	(0.6)	(1.0)	(0.9)	(0.1)
Net Debt	5,461	663	7,539	15,023	21,856	23,994
Per cent of GSP	1.1	0.1	1.3	2.6	3.5	3.7

(a) The impacts of electricity networks lease transactions are not included until contracts are signed.

The Budget includes a record $44.6 billion capital expenditure program for 2016-17 and the forward estimates. This includes investment in Sydney Metro and major upgrades to the State's prison system.

The net lending position adjusts the budget result for capital expenditure. A positive result represents a surplus or a net lending position, while a negative result represents a deficit or a net borrowing position. A net lending deficit (or net borrowings) of $962.5 million is estimated in 2015-16, compared with a deficit of $1.8 billion projected in the 2015-16 Budget. In 2016-17, the net lending deficit is forecast to be $3.6 billion, increasing to $5.6 billion by 2017-18. The net lending deficit averages $3.9 billion over the budget and forward estimates, reflecting the significant increase in infrastructure spending.

The future long-term leasing of Ausgrid, Endeavour and other transactions such as Pillar and Land and Property Information (LPI) and the capital investment these proceeds will unlock, will impact on future budgets as set out in Chapter 2 of this *Budget Statement*.

Box 5.1: Meeting the Premier's Priorities and delivering on election commitments

In September 2015, the Premier launched 12 Premier's Priorities reflecting the Government's commitment to deliver high-quality public services and infrastructure, while protecting the most vulnerable in our society. This Budget has prioritised new expenditure to help meet the program's ambitious targets.

The 12 priorities are being progressed in this budget by targeted initiatives that address domestic and family violence (see Box 2.4, Chapter 2), protect vulnerable children, reform out-of-home care and reduce litter, particularly through the new container deposit scheme. Investments to improve hospital service levels, reduce childhood obesity, lift education results and to support innovation and growth in New South Wales are also guided by the Premier's Priorities. Targeting budget decisions to priority areas of expenditure ensures that government spending goes to where it is needed most.

This Budget also continues funding for the Premier's Implementation Unit, which was established within the Department of Premier and Cabinet to drive delivery of the priorities.

This Budget provides additional funding for the Government's remaining election commitments. Funding provided in this Budget will support the delivery of 45 per cent of the Government's election commitments by March 2017. This includes hospital redevelopments, programs to deliver jobs across the State, and sporting facilities in Gosford and Western Sydney. An additional 31 per cent of commitments will meet a critical milestone by March 2017.

5.3 General government revenue

Government revenue is essential to fund the delivery of services to the people of New South Wales. At the same time, a competitive revenue and tax system is critical to support the future growth of the NSW economy.

Revenues in 2015-16 are estimated to be $73.8 billion, which is 2.3 per cent higher than forecast in the 2015-16 Budget. In 2016-17, revenues are expected to grow to $77.0 billion. This represents an increase of 4.4 per cent compared with 2015-16.

Across the four years to 2019-20, revenues are estimated to increase at an annual average rate of 2.3 per cent. Subdued revenue growth is primarily a result of both GST revenues and transfer duty growing relatively slowly. The strong economic performance of the State in recent years is expected to reduce its share of the national GST pool.

Revenue growth over the forward estimates will also be reduced by a number of other factors, including the up-front payment profile of Australian Government grants for large infrastructure projects, the expiry of various National Partnership payments, the cessation of funding under the National Disability Agreement, lower mineral royalties and the abolition of Intergovernmental Agreement taxes from 1 July 2016.

Table 5.2 provides a reconciliation of revenue estimates between the 2015-16 and 2016-17 Budget. Most of the movement reflects the impact of non-policy factors.

Table 5.2: Revenue reconciliation

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Revenues - 2015-16 Budget	**72,143**	**75,663**	**76,157**	**77,315**
Policy measures				
- Tax (Wagering tax parity, BlueScope payroll tax deferral, Emergency services levy)	(38)	(63)	(62)	(65)
- Other	35	30	42	43
Total policy	**(3)**	**(33)**	**(20)**	**(22)**
Parameter and other budget variations				
- Transfer duty	863	70	73	77
- Other state taxes	88	187	249	261
- Royalties	(129)	(127)	(205)	(373)
- Other	430	(156)	(23)	(171)
Total parameter and other budget variations	**1,252**	**(26)**	**95**	**(206)**
Revenues - 2015-16 Half-Yearly Review	**73,393**	**75,604**	**76,232**	**77,087**
Policy measures				
- Foreign investor transfer duty surcharge	...	61	154	183
- Removal of off-the-plan deferral for foreign investors	...	165	62	9
- Foreign investor land tax surcharge	...	36	40	43
- Levy on point to point transport providers	...	25	56	56
Total policy	**...**	**287**	**312**	**291**
Parameter and other budget variations				
- Transfer duty	183	551	560	568
- Payroll tax	(26)	(94)	(136)	(134)
- Other state taxes	109	143	158	161
- Commonwealth grants (including GST)	502	793	(10)	(941)
- Royalties	(141)	(232)	(272)	(228)
- Other	(247)	(47)	104	674
Total parameter and other budget variations	**379**	**1,114**	**404**	**101**
Revenues - 2016-17 Budget	**73,772**	**77,005**	**76,948**	**77,479**

Measures since the 2015-16 Budget

Policy measures announced in this Budget are expected to increase revenue by around $1.2 billion over the four years to 2019-20.

Foreign investor transfer duty surcharge

From 21 June 2016, a flat transfer duty surcharge of 4.0 per cent will apply to all acquisitions of NSW residential real estate by foreign persons, including foreign individuals, corporations, trusts and governments. The surcharge will not apply to Australian citizens, including those living abroad as well as most permanent residents living in Australia. The surcharge will be in addition to normal duty payments on these transactions. Furthermore, the current concession for residential off-the-plan purchases (which allows for a delay of up to 12 months in the payment of duty) will no longer be available to foreign persons. Combined, these measures are forecast to generate additional revenue of $835.0 million over the four years to 2019-20.

Foreign investor land tax surcharge

Commencing from the 2017 land tax year, a land tax surcharge of 0.75 per cent will apply to holdings of NSW residential land by foreign persons. There will be no tax-free threshold and no principal place of residence exemption for the tax surcharge. The tax surcharge will be additional to normal land tax, which remains unchanged. This measure is forecast to raise $166.0 million over the four years to 2019-20.

Levy on point to point transport services

The NSW Government is progressively introducing reforms to the taxi, hire car and rideshare industry to improve safety and choice for customers and to ensure a competitive and viable industry. Regulatory reform includes strengthened safety regulation and simplified vehicle specifications. The changes allow rideshare drivers to provide services, provided they meet certain safety standards.

In recognition of the impact these changes have on existing taxi and hire car licence holders, the Government has set aside $250.0 million in a structural assistance fund to help licence owners adjust to the new framework. This package will be funded by a $1 levy on all point-to-point transport trips by the taxi or booking company, for up to five years commencing in 2016-17. This measure is expected to raise $193.8 million over the four years to 2019-20.

Previously announced measures

Wagering tax parity

NSW wagering tax rates will be progressively reduced to achieve racing tax parity with Victoria by 2020-21. This is expected to reduce wagering tax revenue by $220.8 million over the four years to 2019-20. The reduction in tax rates replaces previous arrangements under which wagering tax rates remained unchanged, but equivalent funding was distributed as grants to the racing industry. There is no net impact on the budget outcome from the new arrangements.

BlueScope Steel payroll tax deferral

The NSW Government is providing payroll tax relief to BlueScope Steel to help secure its Port Kembla operations and to support job growth in the Illawarra.

From 1 January 2016, BlueScope Steel and its other taxpayer entities were provided with a structured deferral of payroll tax, of up to $60.0 million over three years through a defined payment schedule.

For the period 1 January 2016 to 31 December 2018, the payroll tax deferral will be:

- 1 January 2016: deferral of up to $25.0 million
- 1 January 2017: deferral of up to $20.0 million
- 1 January 2018: deferral of up to $15.0 million.

From 1 December 2018, BlueScope Steel will be required to pay their payroll tax liability on a normal monthly basis. The company will be required to pay their deferred payroll tax, plus their normal payroll tax, over a period of ten years, from 2020 to 2029.

Box 5.2: Emergency Services Levy reform

The Government will abolish the current insurance based Emergency Services Levy and replace it with an Emergency Services Property Levy, bringing New South Wales in line with all other mainland states from 1 July 2017.

This policy will be budget-neutral and the level of funding provided to the State's fire and emergency services will not be adversely affected. The Government will continue to ensure these vital services receive the funding they need.

This reform will provide a fairer system of funding fire and emergency services, while also helping to reduce high levels of underinsurance by improving the affordability of property insurance. The vast majority of insured residential property owners are expected to be better off under the reform, with the average insured residential property owner being around $40 better off per year. Discounts will be in place for pensioners.

The new levy will be based on the value of unimproved land and will be used to fund all fire-fighting and State Emergency Services in New South Wales. Different property levy rates will be applied to different categories of land. The Government is considering appropriate classifications such as residential, commercial, farmland and public benefit land.

Abolition of intergovernmental agreement taxes

The Government has previously announced the abolition of the remaining stamp duties listed under the Intergovernmental Agreement. Stamp duty on business mortgages, unlisted marketable securities and transfer duty on non-real business assets will be abolished from 1 July 2016. The abolition of these taxes will drive an improvement in business competitiveness with an expected cost to the Budget of $1.8 billion over the next four years.

General government sector revenue

Table 5.3 provides a summary of general government sector revenue.

Table 5.3: General government sector summary of revenue

	2014-15 Actual $m	2015-16 Budget $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	% Average Growth p.a. 2015-16 to 2019-20
Revenue from transactions								
Taxation	26,067	27,855	29,034	29,759	31,240	32,503	34,021	4.0
Grant revenue (including GST)	29,158	29,775	30,208	32,344	30,976	29,917	30,858	0.5
Sales of goods and services	6,255	8,212	8,229	8,296	8,276	8,540	8,804	1.7
Interest income	658	508	758	914	835	726	694	(2.2)
Dividends and income tax equivalents from other sectors	2,407	1,468	1,218	1,173	889	953	1,270	1.0
Other dividends and distributions	1,164	424	324	441	457	477	496	11.3
Royalties	1,254	1,431	1,161	1,257	1,339	1,407	1,475	6.2
Fines, regulatory fees and other revenues	2,655	2,470	2,841	2,821	2,937	2,956	3,038	1.7
Total revenue	**69,617**	**72,143**	**73,772**	**77,005**	**76,948**	**77,479**	**80,656**	**2.3**
Annual change	*5.5%*		*6.0%*	*4.4%*	*-0.1%*	*0.7%*	*4.1%*	
Revenue without National Partnerships	**66,718**	**69,431**	**70,993**	**72,323**	**74,206**	**75,900**	**79,110**	**2.7**
Annual change	*7.5%*		*6.4%*	*1.9%*	*2.6%*	*2.3%*	*4.2%*	

In 2015-16, transfer duty will exceed expectations, reflecting the ongoing strength in the property market as a result of historically low interest rates and strong investor demand. GST and Australian Government grants are expected to be higher than forecast, offset by a decline in royalties due to lower than anticipated coal export volumes and prices (see Chart 5.1).

Chart 5.1: Influences on 2015-16 total revenue budget forecast versus 2015-16 revised estimate

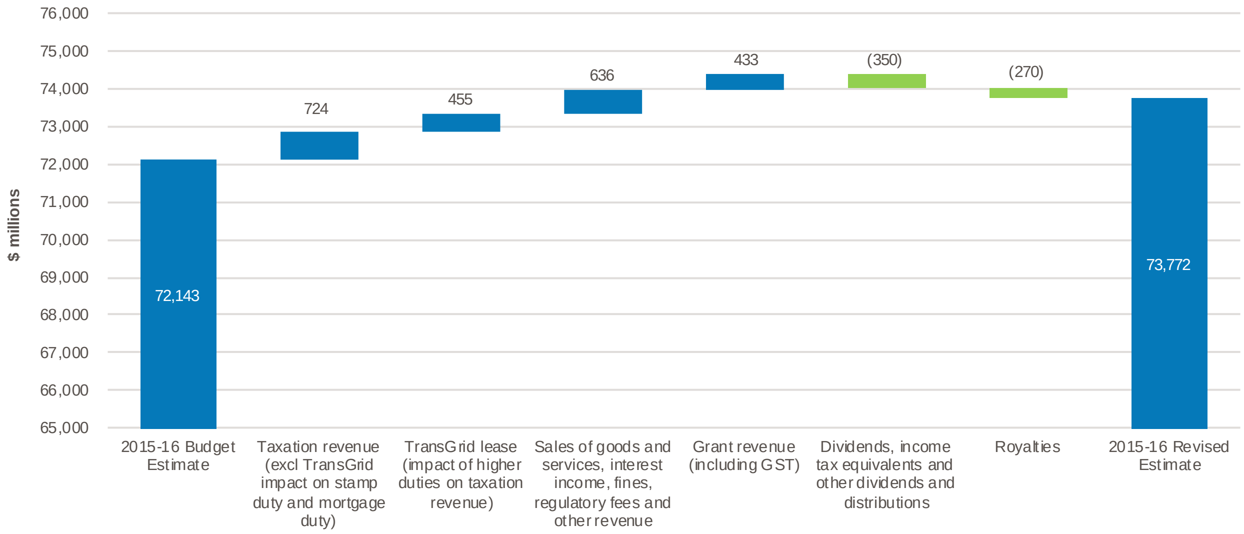
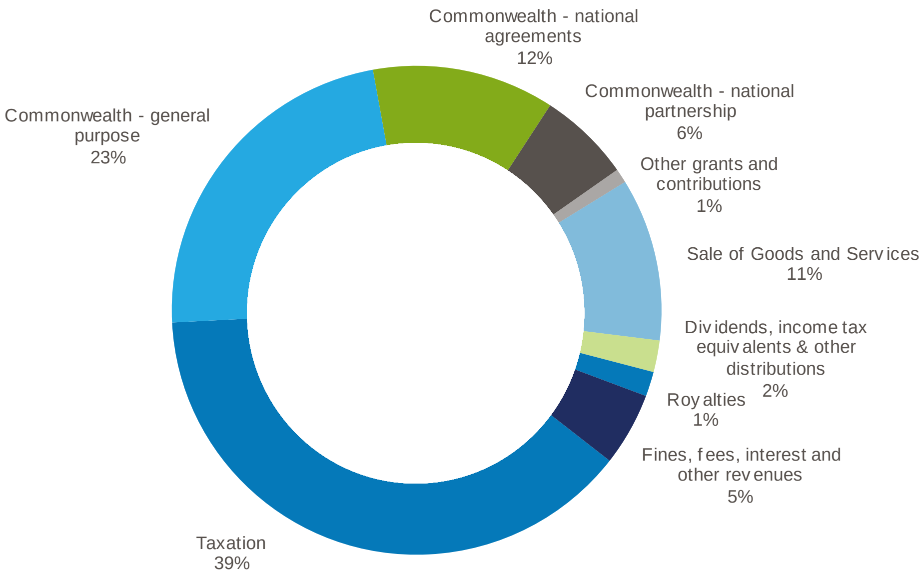


Chart 5.2 shows the composition of total revenue in 2016-17. Australian Government funding makes the largest contribution, accounting for around 41 per cent of the total, while taxation revenues account for 39 per cent.

Chart 5.2: Composition of total revenue, 2016-17



Taxation revenue

The three largest state taxes are stamp duty on property transfers (transfer duty), payroll tax and land tax, together providing around 67.8 per cent of taxation revenue in 2016-17. The forecasts for taxation revenues are set out in Table 5.4.

Taxation revenue is expected to grow by an average of 4.0 per cent per annum over the four years to 2019-20.

Table 5.4: General government sector summary of taxation revenue

	2014-15 Actual $m	2015-16 Budget $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	% Average Growth p.a. 2015-16 to 2019-20
Stamp duties								
Transfer duty	7,388	7,841	8,887	8,777	9,124	9,445	9,789	2.4
Insurance [(a)]	898	934	934	974	941	989	1,042	2.8
Mortgages	212	201	260	...	...	...	...	(100.0)
Marketable securities	37	59	40	...	...	...	...	(100.0)
Motor vehicles	705	738	782	836	882	932	986	6.0
Other	(0)	0	0	0	0	0	0	...
	9,240	**9,773**	**10,903**	**10,587**	**10,947**	**11,366**	**11,817**	**2.0**
Payroll tax	**7,461**	**7,854**	**7,851**	**8,247**	**8,725**	**9,142**	**9,663**	**5.3**
Land tax	**2,467**	**2,660**	**2,758**	**3,136**	**3,444**	**3,626**	**3,761**	**8.1**
Taxes on motor vehicle ownership and operation								
Weight tax	1,872	1,946	1,967	2,052	2,140	2,265	2,390	5.0
Vehicle registration and transfer fees	387	403	403	420	438	461	479	4.4
Other motor vehicle taxes	39	39	39	40	42	44	46	4.2
	2,298	**2,388**	**2,409**	**2,512**	**2,620**	**2,770**	**2,915**	**4.9**
Gambling and betting taxes								
Racing	160	161	132	111	110	98	85	(10.4)
Club gaming devices	721	741	778	801	826	852	879	3.1
Hotel gaming devices	595	623	681	712	747	784	823	4.9
Lotteries and lotto	327	364	365	365	373	385	394	1.9
Casino	250	341	246	264	282	300	414	13.9
Other gambling & betting	14	15	15	15	16	17	17	3.5
	2,067	**2,245**	**2,217**	**2,268**	**2,353**	**2,435**	**2,612**	**4.2**
Other revenues								
Health insurance levy	178	194	194	202	211	221	234	4.8
Parking space levy	104	107	104	107	109	111	114	2.3
Emergency services levy contributions [(a)]	720	762	769	785	...	...	...	(100.0)
Emergency services property levy [(a)]	...	...	...	...	860	854	870	...
Waste and environment levy	584	634	675	634	572	518	519	(6.3)
Government guarantee fee	456	509	469	543	608	646	679	9.7
Private transport operators levy	34	37	22	41	72	72	72	35.1
Pollution control licences	27	31	28	28	29	30	31	2.4
Other taxes	430	660	634	668	689	712	736	3.8
	2,533	**2,934**	**2,895**	**3,008**	**3,150**	**3,164**	**3,254**	**3.0**
Total taxation revenue	**26,067**	**27,855**	**29,034**	**29,759**	**31,240**	**32,503**	**34,021**	**4.0**
Annual change	*7.3%*		*11.4%*	*2.5%*	*5.0%*	*4.0%*	*4.7%*	

(a) The Emergency Services Levy on insurers will be abolished from 1 July 2017 and replaced by the Emergency Services Property Levy. The new levy will replace the insurance-based Emergency Services Levy and associated stamp duty which is estimated to be around $78.0 million in 2016-17. The changeover will be budget-neutral.

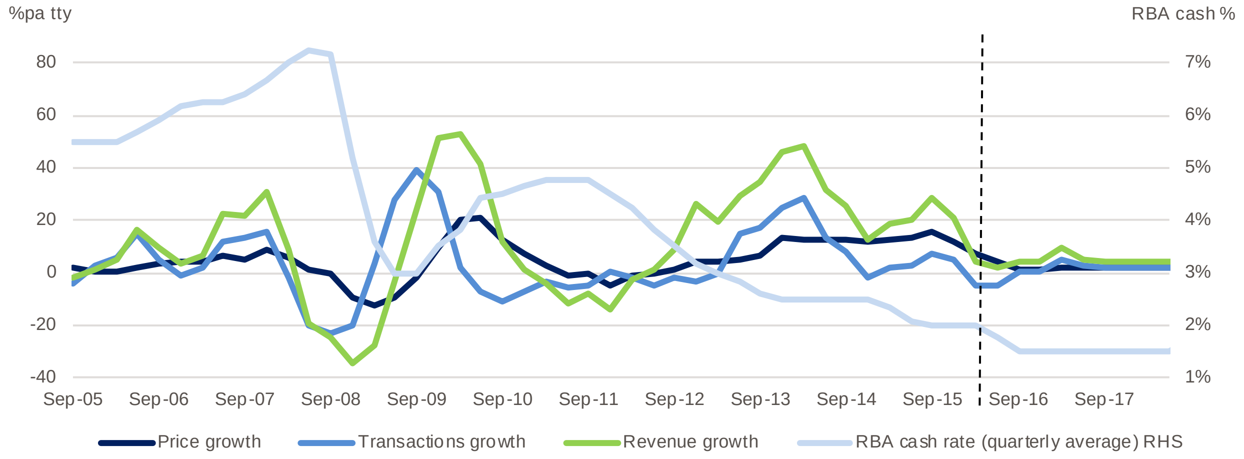
Transfer duty is forecast to grow at an average rate of 2.4 per cent per annum over 2016-17 and the forward estimates period, which is significantly more subdued than the pace seen in recent years. However, transfer duty is a large and highly cyclical revenue source that exhibits variability through the economic cycle. The residential component of transfer duty is expected to grow by an average rate of 4.7 per cent per annum over the four years to 2019-20, excluding the foreign investor transfer duty surcharge. While the current housing cycle is longer than previous cycles, historically low interest rates, strong population growth and continued supply limitations are expected to support activity.

Excluding the foreign investor transfer duty surcharge, residential transfer duty revenue in 2016-17 is expected to grow by 5.5 per cent compared to 13.6 per cent in the previous year. The softer growth in residential transfer duty is expected to continue over the period of the forward estimates with annual growth averaging 4.4 per cent.

Consistent with past budgetary practice, transfer duty forecasts do not include the impact of future State Government business asset transactions.

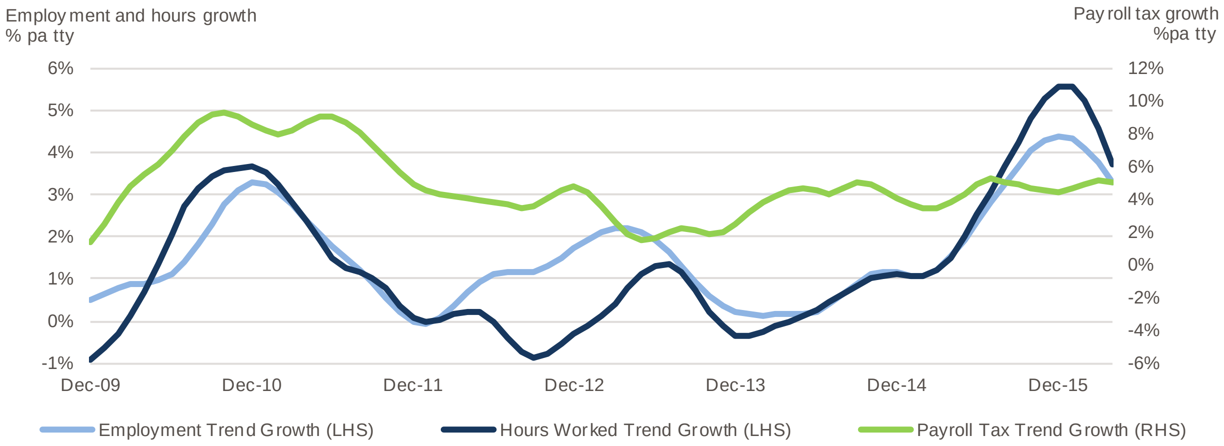
Chart 5.3 illustrates the growth in residential transfer duty and the factors that impact its growth.

Chart 5.3: Residential transfer duty, housing transactions and interest rates



Payroll tax is forecast to grow by 5.3 per cent per annum over 2016-17 and the forward estimates. Growth in employment is forecast to remain strong as the pace of economic growth increases, underpinning firmer payroll tax receipts (see Chart 5.4).

Chart 5.4: Growth of payroll tax, employment and hours worked



Further detail on taxation revenue is provided in Appendix A4 of this *Budget Statement.*

Grant revenue

In 2016-17, New South Wales is expected to receive $31.6 billion (41.1 per cent of total revenue) in Australian Government untied payments for general purposes (primarily GST) and tied grants for National Agreements and National Partnerships (to be used for particular purposes).

Total Australian Government grant revenue is expected to increase by 0.7 per cent on annual average basis over the four years to 2019-20 (see Table 5.5).

Table 5.5: Grant revenue

	2014-15 Actual $m	2015-16 Budget $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	% Average growth p.a. 2015-16 to 2019-20
Commonwealth - general purpose	17,065	17,346	17,647	17,663	17,679	17,808	18,285	0.9
Commonwealth - national agreements	8,103	8,619	8,844	9,272	9,780	9,728	10,212	3.7
Commonwealth - national partnership	2,899	2,712	2,779	4,682	2,742	1,579	1,546	(13.6)
Total Commonwealth grants	**28,067**	**28,678**	**29,271**	**31,618**	**30,201**	**29,115**	**30,043**	0.7
Annual change in Commonwealth grants	*2.8%*		*4.3%*	*8.0%*	*-4.5%*	*-3.6%*	*3.2%*	
Other grants	1,091	1,098	938	727	775	803	815	(3.4)
Total grant revenue	**29,158**	**29,775**	**30,208**	**32,344**	**30,976**	**29,917**	**30,858**	**0.5**

General purpose payments

In 2015-16, GST payments are $324.0 million higher than budget, due to previous year adjustments, a higher than expected GST pool and increases in the NSW population share.

GST revenues have been revised down by $1.4 billion over the four years to 2018-19, compared with the 2015-16 Budget estimates. The reduction is due to strong economic growth in the State lowering its share of GST received from the Australian Government.

In 2016-17, GST revenues are expected to be $850.5 million lower, compared to the distribution of funding in 2015-16, following the reduction in the State's GST relativity (see Box 5.3). Reductions of similar magnitude can be expected in 2017-18 and 2018-19 as strong growth in NSW transfer duty revenue and large falls in Western Australia's mining royalty revenue feed into the Commonwealth Grants Commission's calculations. The State's share of GST revenues is expected to reach an historic low during the period of the forward estimates.

New South Wales has long advocated the application of the GST to imported goods valued under the $1,000 threshold. The Australian Government announced this measure in their 2016-17 Budget, increasing the GST pool by around $270.0 million over the four years to 2019-20.

Box 5.3: GST relativity and Horizontal Fiscal Equalisation at work

GST is distributed unequally amongst states according to the principle of Horizontal Fiscal Equalisation based on relativities calculated by the Commonwealth Grants Commission. The relativities are a weighting, assigned to each state, based on an equalisation of each state's fiscal capacity to provide the same standard of services and same standard of infrastructure.

Table 5.6: 2016 update – impact of major changes to NSW GST relativity in 2016-17

Assessment	$ million	Reasons for change
Transfer duty	(457)	Increased New South Wales assessed capacity to raise this revenue
Commonwealth payments	(311)	Growth in National Partnership payments to New South Wales
Mining revenue	(145)	Sharp declines in Western Australia's mining value of production
Natural disaster relief	(96)	Queensland's net natural disaster relief expenses remained at historically high levels in 2014-15
Population growth	263	Stronger population growth in New South Wales in 2014-15 compared to 2011-12 increased assessed investment needs
Other changes	(104)	
Total relativity change	**(850)**	

NSW GST relativity is expected to decline to historic lows by 2019-20, reflecting stronger than average growth in NSW transfer duty revenue and weaker Western Australian royalties revenue. The NSW Government has long-called for reform of the equalisation process, arguing that the current system is complex, opaque, subject to decisions based solely on the Commonwealth Grants Commission's judgement and discourages state initiative and tax reform.

National Agreements

Table 5.7 summarises the National Agreement payments by key service delivery area. Revenue from National Agreements is forecast to total $9.3 billion in 2016-17, an increase of 4.8 per cent on 2015-16, and is expected to increase at an annual average rate of 3.7 per cent over the four years to 2019-20.

Table 5.7: National Agreement and other payments to New South Wales [(a)]

	2014-15 Actual $m	2015-16 Budget $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	% Average growth p.a. 2015-16 to 2019-20
Health	4,861	5,243	5,510	5,686	6,010	6,350	6,707	5.0
Education [(b)]	1,605	1,753	1,758	2,003	2,153	2,203	2,302	7.0
Skills and workforce development	459	464	464	473	480	487	495	1.6
Affordable housing	418	422	424	430	436	443	450	1.5
Disability	446	460	462	476	493	...	...	(100.0)
Other [(c)]	314	277	227	203	207	244	257	3.2
Total National Agreement and other payments	**8,103**	**8,619**	**8,844**	**9,272**	**9,780**	**9,728**	**10,212**	**3.7**

(a) Excludes payments 'through the state' such as non-government school funding.
(b) National Education Agreement until 1 January 2014, National Education Reform Agreement thereafter.
(c) Includes other payments such as service level agreements between the Australian Government and New South Wales line agencies, which are in addition to the Intergovernmental Agreement.

New South Wales will receive an additional $1.3 billion in funding from 2016-17 to 2019-20 for public hospitals compared to the 2015-16 Commonwealth Mid-Year Economic and Fiscal Outlook. Annual growth in funding has been capped nationally at 6.5 per cent following agreement at Council of Australian Governments on 1 April 2016.

The Australian Government has committed to discussions with the states regarding National Education Reform Agreement funding.

New South Wales will no longer receive grants under the National Disability Agreement from 2018-19, as payments will be paid directly to clients and service providers under the National Disability Insurance Scheme.

National Partnerships

The Australian Government provides National Partnership payments to the states to support the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements.

Table 5.8 summarises the payments for National Partnerships by key service delivery area. New South Wales will receive just over $10.5 billion in National Partnership payments over the four years to 2019-20.

Table 5.8: National Partnership payments to New South Wales

	2014-15	2015-16		2016-17	2017-18	2018-19	2019-20	% Average growth p.a. 2015-16 to 2019-20
	Actual	Budget	Revised	Budget	Forward Estimates			
	$m	$m	$m	$m	$m	$m	$m	
Roads and rail including ARI	1,648	1,853	1,707	3,845	2,193	1,326	1,315	(6.3)
Education and skills	392	186	233	279	66	1	...	(100.0)
Nation building plan for the future	311	2	...	16	...	...	...	...
Health	212	153	168	120	90	89	91	(14.3)
Housing	98	46	78	30	...	...	...	(100.0)
Environment	85	152	88	113	84	35	9	(42.8)
Other	154	320	504	279	309	127	130	(28.7)
Total National Partnership payments	**2,899**	**2,712**	**2,779**	**4,682**	**2,742**	**1,579**	**1,546**	**(13.6)**

National Partnership payments for roads and rail, housing and environment service areas decline over the forward estimates. This is due to the expiry of National Partnership agreements across most service areas and the up-front funding profile for major infrastructure projects such as the WestConnex, NorthConnex and the Pacific Highway.

The Australian Government has indicated that New South Wales will receive around $2.2 billion under the National Partnership Agreement on Asset Recycling Initiative (ARI). This is for projects such as Sydney Metro, Parramatta Light Rail, Smart Motorways and Sydney's Rail Future (see Box 5.4).

In 2016-17, New South Wales is expected to receive $994.0 million in payments for the National Partnership Agreement on Asset Recycling Initiative following the sale of the State's superannuation administration business, Pillar, and the long-term lease of TransGrid. The remaining National Partnership payments expected from other asset transactions, such as Ausgrid and Endeavour Energy, are not included in this Budget given that their contracts have not yet been finalised.

Box 5.4: National Partnership on Asset Recycling Initiative

All Australian jurisdictions committed to the National Partnership Agreement on Asset Recycling in May 2014. Through this agreement, the Australian Government is supporting states committed to divesting specific assets and reinvesting the proceeds in additional infrastructure. To be eligible for funding, infrastructure projects must enhance the long-term productive capacity of the economy and, where possible, enhance private sector involvement in the funding and financing of new infrastructure.

In May 2016, the NSW Government signed a bilateral agreement with the Australian Government that reserves incentive payments of around $2.2 billion in National Partnership payments to New South Wales.

The proceeds from the long-term lease of 49.0 per cent of the State's electricity network assets and the incentive payments expected under the National Partnership with the Australian Government will be deposited in the Restart NSW Fund, a special deposit account established under the terms of the *Restart NSW Fund Act 2011*.

Further detail on grant revenue is provided in Appendix A4 of this *Budget Statement*.

Federal financial relations

Certainty and stability in funding from the Australian Government, under existing federal financial relations architecture, is essential for states to be able to provide high levels of service delivery and infrastructure to their citizens.

In 2016-17, New South Wales will pursue these intergovernmental objectives:

- examine broader opportunities for tax reform with the states. New South Wales will continue to advocate for more autonomy and certainty over Australian Government grants to the states
- work with other jurisdictions to develop a new competition and productivity enhancing reform agreement
- enhance transparency through initiatives of the Council of Australian Governments, by providing a greater level of real time data on how government money is spent and the outcomes and performance of government initiatives.

Other general government revenues

Other general government revenues account for around 19.4 per cent of total revenue. They include sale of goods and services, interest income, dividends and income tax equivalents, royalties, fines, regulatory fees and other revenues.

Dividend and tax equivalent payments for 2015-16 are forecast to be $1.2 billion and $4.3 billion from 2016-17 to 2019-20. For more details refer to Chapter 7 of this *Budget Statement*. Further detail on other general government revenue is provided in Appendix A4 of this *Budget Statement*.

Revenue risks

Appendix C of this *Budget Statement* sets out general budget risks, including the sensitivity of total revenue to changes in economic conditions.

5.4 General government expenses

Expenses in 2015-16 are estimated to be $70.4 billion, $739.0 million higher than at the 2015-16 Budget.

Expense growth in 2016-17 is expected to be 4.2 per cent. The four-year average growth rate across the Budget and forward estimates is lower at 3.0 per cent. This result demonstrates the Government's commitment to keep annual expense growth below long-term average revenue growth of 5.6 per cent, consistent with the requirements of the *Fiscal Responsibility Act 2012* (FRA).

The Government remains committed to delivering on its election commitments and achieving the Premier's and State Priorities. By investing additional expenditure in a fiscally responsible way, the Government can deliver critical services that provide better outcomes for the people of New South Wales.

Table 5.9 provides a reconciliation of budget expense aggregates between the 2015-16 Budget and the 2016-17 Budget.

Table 5.9: Expense reconciliation

	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
Expenses – 2015-16 Budget	**69,624**	**72,469**	**73,567**	**75,058**
Policy measures	99	266	9	85
Total Policy	**99**	**266**	**9**	**85**
Parameter and Other Budget Variations				
- Superannuation	44	(136)	(101)	(74)
- Interest	2	4	(8)	(6)
- Depreciation	5	(6)	6	19
- Economic Parameters and Technical Adjustments	33	136	240	118
- Other	191	311	(74)	50
Total Parameter and Other Budget Variations	**275**	**308**	**62**	**108**
Total Expense changes since 2015-16 Budget	**374**	**574**	**71**	**193**
Expenses – 2015-16 Half Yearly Review	**69,998**	**73,043**	**73,639**	**75,251**
Policy Measures	651	1,922	2,132	1,914
Reforms and Savings	...	206	(269)	(560)
Total Policy	**651**	**2,128**	**1,863**	**1,355**
Parameter and Other Budget Variations				
- Superannuation	26	29	(16)	59
- Interest	(25)	(81)	(47)	23
- Depreciation	7	(31)	13	40
- Economic Parameters and Technical Adjustments	145	318	357	449
- Other	(439)	(2,115)	(187)	(1,081)
Total Parameter and Other Budget Variations	**(286)**	**(1,879)**	**119**	**(509)**
Total Expense changes since 2015-16 Half Yearly Review	**365**	**249**	**1,982**	**846**
Expenses – 2016-17 Budget	**70,363**	**73,292**	**75,622**	**76,097**

Expenses in 2015-16 are expected to be $739.0 million higher than forecast in the 2015-16 Budget. This increase is being driven by new spending on government policy decisions, including the taxi and point to point transport market and the creation of stronger councils through local government reform. The increase is also being driven by extra expenses for the provision of new Hepatitis C treatments in public hospitals following the Australian Government initiative announced on 1 March 2016.

From 2016-17 to 2018-19, expenses are forecast to be $3.1 billion higher relative to the 2015-16 Half-Yearly Review. Key drivers of the change over this period include:

- new policy measures amounting to $6.0 billion that deliver on the priorities of the Premier and the State. This includes key services that protect the vulnerable and provide for better outcomes in the areas of health, education and transport
- economic parameter and technical adjustments, that increase expenses by $1.1 billion, which primarily reflects increased demand for critical services, including increased school enrolments
- whole-of-government savings and service delivery reforms, which are expected to deliver $622.8 million in efficiencies, ensuring the Government is able to deliver key services and deliver stronger communities in a fiscally responsible way
- a reduction in expenses of $3.4 billion due to other budget variations. This includes a change in sector classifications for the delivery of infrastructure projects and a change in funding arrangements for the National Disability Insurance Scheme (NDIS)
- an overall decrease in interest expense of $105.0 million reflecting a reduction in interest on borrowing and low interest rates
- an increase in superannuation expense of $72.4 million due to actuarial changes
- an increase in depreciation expense of $22.1 million, which is being driven by a combination of revaluations of existing assets and the commissioning of new assets.

New policy measures

The Government remains committed to investing in critical services that are of value to families and communities across New South Wales. For further details on the Government's new policy measures refer to Chapter 5.5 of this *Budget Statement*.

New policy measures in this Budget that deliver on the priorities of the Premier and the State and impact expenses from 2016-17 and over the forward estimates include:

- $560 million over four years for children and young people in out-of-home care (OOHC) or at risk of entry to OOHC. This includes $190 million over four years to reform the child protection and out-of-home care systems. Initiatives include targeted earlier intervention, intensive family restoration and preservation services and targeted programs for Aboriginal children
- doubling the investment in specialist domestic violence initiatives to over $300 million over four years, up from $148.5 million in the 2015-16 Budget
- $570.0 million over four years (including recurrent and capital) to implement comprehensive, system-wide reform of the criminal justice system in New South Wales aimed at delivering fair, fast and accessible justice while effectively managing demand and costs
- an additional $146 million over four years to provide health, education and social security and welfare services to support the resettlement of refugees
- $40.0 million over four years for youth homelessness initiatives that prioritise young people leaving out-of-home care who are at high risk of homelessness
- $14.0 million to tackle childhood obesity by further supporting children and families to be healthy and active.

Box 5.5: Innovation in social policy

Social impact investment

The Government remains committed to facilitating growth in the social impact investment market and has made substantial progress following the release of its Social Impact Investment Policy in 2015.

The Government has now entered into the joint development phase for transactions in the following areas:

- reducing parolee reoffending and re-incarceration
- supporting vulnerable young people to transition to independence
- managing chronic health conditions
- reducing mental health hospitalisations.

The Government also provides valuable resources and facilitates capacity building for the sector through the Office of Social Impact Investment.

The Budget will build on this momentum by providing $10.0 million over four years from 2017-18 to 2020-21 in new funding for the development and implementation of a social impact investment to achieve better outcomes for unemployed young people from disadvantaged backgrounds.

National Disability Insurance Scheme

The National Disability Insurance Scheme (NDIS) is a once-in- a-generation reform that replaces the current New South Wales disability support system and will improve the lives of people with disability.

The NDIS will give people with disability real choice and control over their lives. People with disability will be able to make choices about the support they require and the providers that will deliver this support.

Upon full implementation, the NSW Government will contribute $3.2 billion per annum to the NDIS. It is estimated the NDIS in New South Wales will support around 140,000 people with disability. The NDIS will also create an additional 30,000 jobs in the disability services sector in New South Wales.

To support the transition to the NDIS, the NSW Government is transferring all of its specialist disability services to the non-government sector. The transfer will help support a vibrant, diverse and competitive market for disability services in New South Wales.

Sustainable expense growth and service delivery reform

The provision of quality service delivery and sustainable expense growth is at the forefront of the Government's agenda. The *NSW Intergenerational Report 2016* showed that without a change in policy government expenses are projected to grow at an average annual rate of 5.3 per cent over the next 40 years. In the face of long-term fiscal pressures, the Government remains committed to developing new and innovative ways to deliver high quality services in a fiscally responsible way.

The NSW Government's 2016-17 Budget confirms an annual efficiency dividend of 1.5 per cent on agencies, commencing 2017-18, which targets agency back office savings.

It continues a practice the Government has undertaken since it was elected to impose modest efficiency dividends that target back office spending, allowing the Government to invest more on the frontline and maintain a strong fiscal position.

The efficiency dividend announced in the 2016-17 Budget is expected to attain a net saving of $1.41 billion over a three year period to 2019-20.

As shown in Table 5.10, efficiencies introduced since 2011-12, result in $26.2 billion in whole-of-government efficiency savings from 2015-16 to 2019-20.

Table 5.10: Identified efficiencies since 2011 covering the period 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
		Budget	Forward estimates			
	$m	$m	$m	$m	$m	$m
2011-12 to 2013-14 commitments[(a)]	**4,393**	**4,736**	**4,765**	**4,765**	**4,765**	**23,424**
2015-16 commitments						
1.5% Efficiency Dividend	129	134	136	138	138	675
Eliminating unnecessary duplication across NSW Government	15	25	40	40	40	160
Implementation of procurement savings initiatives	63	109	116	117	117	520
2016-17 commitments						
1.5% Efficiency Dividend			234	469	708	1,411
Total additional savings	**4,600**	**5,004**	**5,291**	**5,528**	**5,768**	**26,190**

(a) 2011-12 to 2013-14 commitments are based on total amount published in 2014-15 Budget Paper No. 2.

In addition to these efficiency measures, the Government has also achieved substantial savings from its wages policy to cap wages at 2.5 per cent. This has helped to lower the aggregate expense profile and overall expense growth with an estimated avoided cost of $2.5 billion over the period July 2011 to March 2016.

Parameter and other budget variations

Parameter and other budget variations are the result of changes that affect the cost and timing of service delivery that are largely beyond the control of the Government. Key drivers of parameter and other budget variations expected to impact upon expenses over the budget and forward estimates include:

- a reduction in expenditure of $1.7 billion over four years due to a change in sector classification for the delivery of infrastructure projects
- a reduction in Australian Government funded state expenditure of around $630 million per annum from 2018-19 due to the transition to the NDIS, which will see Australian Government funding no longer flow through to the New South Wales budget
- funding of $683.6 million over four years to meet growth in student numbers in schools and increased depreciation expense related to asset revaluation for school buildings
- an increased expense of $215.9 million over four years relating to changes to depreciation and amortisation of road and transport assets.

Expenses trends and outlook

Table 5.11 shows the outlook of general government expenses by major operating statement categories:

- employee-related expenses are expected to increase by 3.9 per cent over the budget and forward estimates. This is primarily driven by an increase in frontline employee numbers for the delivery of key services in education, health and other community services
- depreciation and amortisation expenses are expected to grow by 4.2 per cent on average over the budget and forward estimates, reflecting the investment in critical infrastructure and the commissioning of new assets
- capital grants are expected to decrease by 2.7 per cent on average over the budget and forward estimates. This is primarily being driven by a reduction in grants from 2017-18 as a result of completed capital works related to ferries and a reduction in grants from the Crown Finance Entity
- interest expenses are expected to increase by 3.8 per cent on average over the budget and forward estimates. This is being driven by higher borrowings to help fund the Government's commitment to address the State's infrastructure requirements.

Table 5.11: General government sector expense

	2015-16 Revised $m	2016-17 Budget $m	2017-18 $m	2018-19 Forward Estimates $m	2019-20 $m	% Average Growth 2015-16 to 2019-20
Employee-Related	33,982	34,495	36,414	38,095	39,585	3.9
Other Operating	17,188	18,656	18,506	18,432	19,218	2.8
Depreciation and Amortisation	4,453	4,608	4,899	5,068	5,245	4.2
Current Grants and Subsidies	11,629	12,367	12,567	11,272	11,615	0.0
Capital Grants	889	1,000	1,039	953	798	-2.7
Interest	2,221	2,165	2,198	2,276	2,581	3.8
Total Expenses	**70,363**	**73,292**	**75,622**	**76,097**	**79,043**	3.0

Further details of trends in operating statement categories are outlined in Appendix A4 of this *Budget Statement*.

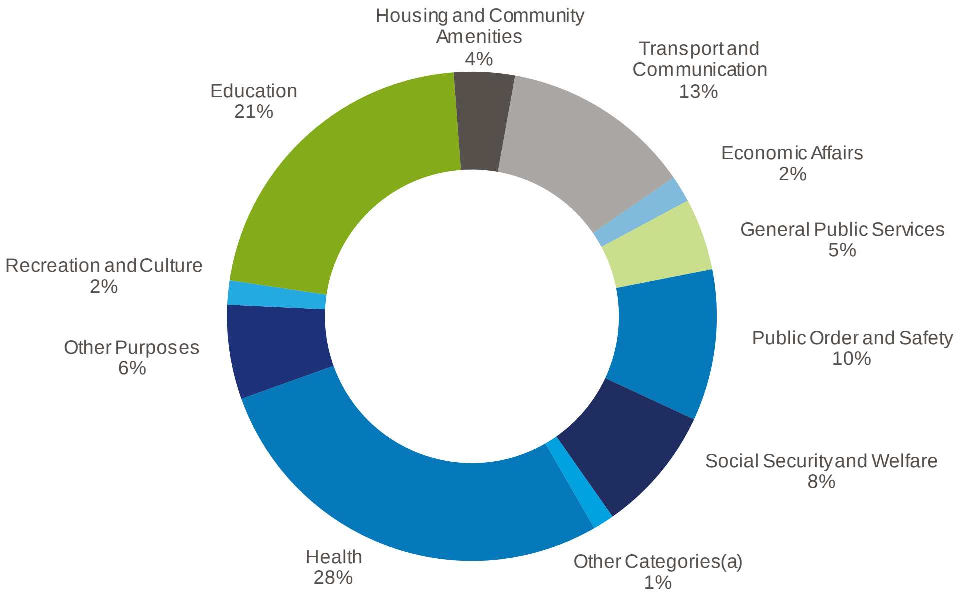
Recurrent expenses by function

The Uniform Presentation Framework, endorsed by the Australian Loan Council, and Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires that all Australian governments prepare certain financial information on a uniform basis.

The following section provides information on the State's total expenditure by General Purpose Classification (GPC). The objective is to provide better understanding of a government's budget papers and allow comparison of each government's expenditure by GPC function. Due to differences in reporting classifications, the GPC expense data presented below will differ from financial data presented on a cluster, agency and service group basis in Budget Paper No. 3 *Budget Estimates.*

The Government remains committed to investing in and improving quality services for the people of New South Wales. As shown in Chart 5.5, the five largest areas of expense in 2016-17 will be health (27.9 per cent of total expenses), education (21.5 per cent), transport and communication (12.6 per cent), public order and safety (10.0 per cent) and social welfare (8.3 per cent). These five functions account for 80.2 per cent of the GGS total expenses.

Chart 5.5: Composition of total expenses 2016-17: by policy area [(a)]



(a) The composition of total expenses is classified by Government Finance Statistics (GFS) General Purpose Code (GPC)

Health

Budget expenses for health in 2016-17 are $20.4 billion, or 27.9 per cent of total GGS expenses. This funding will deliver better health outcomes for the people of New South Wales by improving performance in many key areas, including acute care and mental health and community health services.

In 2016-17, an extra $375.0 million is being invested toward delivering on the NSW Government's commitment to improve service levels in hospitals and cut waiting times for planned surgeries. This includes an estimated 3.3 per cent (43,200) increase in acute inpatient separations, including additional elective surgery for 4,500 more patients.

To support this growth in hospital activity, significant investment in the health workforce will continue with this Budget adding an estimated 900 nurses, doctors, allied health and other support staff in 2016-17.

The 2016-17 Budget adds to the Government's investment in mental health services with an increase of $106 million, with $40 million to continue the implementation of *Living Well: A Strategic Plan for Mental Health Reform in NSW 2014-2024,* an increase to mental health services across New South Wales and $8.0 million for a new suicide prevention fund over four years for new non-government led initiatives.

Expenditure of $118.0 million will be incurred in 2016-17 to provide new drug treatments for chronic Hepatitis C, the drug cost being recoverable from the Australian Government. Funding of $83.0 million in 2016-17 will also be provided for specialist domestic and family violence and sexual assault services and Women's Policy.

In 2016-17, $20.0 million is being invested in an integrated care approach to create a sustainable and connected health system in order to support the provision of health care in the community. This funding will expand existing successful integrated care initiatives already underway.

Box 5.6: Increased health funding to support the vulnerable

The Government is committed to delivering better health outcomes for the people of New South Wales. This Budget invests in a range of health related services, including:

- an additional $375.0 million to meet the Government's commitment to improve service levels in hospitals and cut wait times for planned surgeries
- investing $1.8 billion in mental health to deliver increased mental health services across New South Wales
- allocating $197.0 million for drug and alcohol services and prevention and harm minimisation programs. This includes helping young people through early intervention and supporting more people into treatment and after care, as well as providing additional support to families
- investing $17.9 million to accelerate the recruitment of 35 specialist paramedics and an additional 85 paramedics to manage growth in road patient services
- allocating $17.0 million to enhance the Ambulance Service of NSW through a new Helicopter Retrieval Network, which will allow aircraft to respond to emergencies up to 30 minutes faster
- providing $14.0 million to tackle childhood obesity by supporting children and families to be healthy and active. This includes funding toward programs in primary schools and early childhood services, a new focus on children and families as part of the Make Healthy Normal campaign, as well as new programs for adolescents and increased support for parents and community based interventions.

Education

The budget expenses in the education sector in 2016-17 are $15.7 billion or 21.5 per cent of total expenses.

In 2016-17, funding for primary and secondary schools is the largest component of total education spending, at $11.1 billion. This reflects the Government's commitment to deliver funds that will drive better outcomes for students under the National Education Reform Agreement (NERA). NERA funding is supporting comprehensive reforms in New South Wales in five key areas: quality teaching; quality learning; empowered school leadership; meeting student needs; and transparency and accountability.

In 2016-17, the Budget contributes funding of $50.0 million toward the Government's 'Supported Students, Successful Students' election commitment. This provides for additional school counsellors, flexible wellbeing resources to provide student support, state-wide support for positive behaviour for learning, and targeted support for Aboriginal and refugee students, their families and communities.

The Budget also allocates $38.0 million in 2016-17 as part of the $224.0 million 'Quality Teaching, Successful Students' election commitment. This package will enable up to 1,000 of the best teachers to mentor and coach other teachers, monitor student performance data across schools to ensure teachers are focused on areas of need and support principals to help schools become thriving learning communities.

In 2016-17, funding for early childhood education will increase by 13.1 per cent on 2015-16 to $372.2 million. This includes continued funding of $150.0 million per annum for the Preschool Funding Model, which aims to build sustainable and quality preschool services across the State. This Budget also includes funding of $38.0 million over four years for regional and remote preschools to enhance participation by Aboriginal and low income families.

New funding of $2.9 million ($11.6 million over four years from 2016-17) has also been allocated to enhance Business Intelligence capability within the Education cluster. This is to provide a single data source for strategic reporting, analytics and support to decision making for the education sector and other agencies.

Student transportation expenses are expected to be $741.3 million in 2016-17. This includes additional funding of $14.6 million to support the Assisted School Travel Program.

Box 5.7: School maintenance and School Infrastructure boost

With a growing population and a shift in where families are living there are new pressures on our schools. To meet this challenge, the Government has allocated nearly $1 billion in additional funding over four years for school infrastructure to provide new and upgraded schools to respond to the expected growth in government school enrolments. This is part of $2.6 billion of capital spending over the forward estimates.

The Budget also includes an allocation of more than $330 million over the next two years to address backlog maintenance in schools, an increase of $170 million.

Transport and communication

2016-17 Budget expenses in the transport sector are estimated at $9.2 billion, which is 12.6 per cent of total expenses.

The 2016-17 Budget continues the Government's commitment to deliver key transport initiatives, including point to point transport services, Sydney Metro Northwest and Sydney Metro City and Southwest. Funding of $4.0 billion (including recurrent and capital) in 2016-17 will support rail services by maintaining Sydney Trains' assets, as well as continue the delivery of a new rapid transit service for Sydney Metro.

In addition, $1.5 billion will be provided in 2016-17 for the maintenance of road and maritime assets, reducing congestion on roads and waterways and improving services for regional and metropolitan New South Wales.

The 2016-17 Budget also provides $1.4 billion for bus services in rural and regional areas, including funding to cover the financing costs of the 218 buses needed to replace older vehicles and provide capacity for growth services.

Box 5.8: Rail enhancements

The Government has committed $406.6 million in 2016-17 to plan, develop and deliver rail infrastructure. These funds will improve fleet availability and help the Government deliver on its election commitments to integrate the Sydney Metro Northwest, provide more services to Western Sydney and fully integrate the South West Rail Link.

The NSW Budget allocates more than $1.0 billion over the next four years for growth trains on the suburban rail network.

The Government will also use funds raised from the long-term lease of poles and wires to invest in new infrastructure, signalling and power supply in Western Sydney. This will allow the delivery (in 2018) of two additional Western Line express services between Parramatta and the Sydney CBD. These additional services will occur in the busiest part of the morning peak hour, every weekday, providing additional capacity and reduced crowding for the Western Line customers.

Public order and safety

The Government will be spending $7.3 billion in 2016-17 for public order and safety.

Expenses for law courts and legal services are estimated to be $1.5 billion for 2016-17. This includes funding in 2016-17 to support comprehensive reform of the justice system, which provides immediate resources to reduce demand on courts and prisons and to implement systemic reforms to reduce reoffending (see Box 5.9).

The 2016-17 Budget also includes additional funding as part of the whole-of-government priority to support specialist domestic and family violence services within the justice sector. This includes $24.7 million for the establishment of a NSW Police Domestic Violence High Risk Offender team in all six police regions and ensuring earlier deployment of Domestic Violence Liaison Officers.

In 2016-17, expenses for prisons and corrective services are estimated to be $1.5 billion. This is driven primarily by additional funding for increased prison bed capacity as part of the Prison Bed Capacity program.

Box 5.9: Protecting our community

The Government is allocating $570.0 million over four years (including recurrent and capital) to implement system-wide reform of the NSW justice system.

While crime rates continue to fall across the state, the cost of the criminal justice system has continued to grow over recent years. Increased police numbers, advances in technology and a focus on more serious matters is driving volume and complexity into the system. This results in a higher number of trials, increased trial duration and a growing prison population.

The Government recognises the need for reform of the justice system and is investing in a reform program designed to deliver fair, fast and accessible justice, while effectively managing demand and costs. Funding will support immediate measures to reduce the pressures on courts and prisons. Funding will also support reforms to strengthen offender management and reduce reoffending.

Social Security and Welfare

Total expenses in 2016-17 for the social security and welfare policy area are estimated at $6.1 billion. This funding helps to support vulnerable children, young people and families and build stronger communities.

In 2016-17, funding for welfare services that support individuals living with a disability represents the majority of total social security and welfare expenses. This includes $1.3 billion for the implementation of the NDIS in New South Wales to assist delivery of this State priority by 2018.

In 2016-17, the Budget allocates $1.9 billion to help protect children and young people from abuse and neglect (see Box 5.10). In addition, Aboriginal Child and Family Centres will be funded $5.6 million in 2016-17 ($15 million over four years) to continue their services.

The 2016-17 Budget also delivers funding that provides for safe, engaged and harmonious communities. This includes $23 million for the Community Building Partnership program to provide improved community infrastructure and encourage community-based activities. Funding of $9.0 million will also be spent on interpreting and translation services in over 100 languages and dialects.

Box 5.10: Out-of-home care (OOHC) reforms

The Government has committed an additional $560 million over four years for children and young people in OOHC or at risk of entry to OOHC. This includes $370 million over four years to support an expected increase in the number of children and young people in need of OOHC.

There will be funding for new programs to further improve outcomes for vulnerable children and young people including $190 million over four years to reform the child protection and OOHC system. Initiatives include targeted earlier intervention, intense family restoration and preservation services and targeted programs for Aboriginal Children.

The aim of this additional funding is to build on the earlier Safe Home for Life legislative reforms and to place the system on a more sustainable footing. The implementation of reforms will support the Premier's Priority to reduce the percentage of children re-reported at risk of significant harm by 15 per cent by June 2017.

Box 5.11: Support for refugees

The NSW Government is allocating an additional $145.6 million over four years to provide a range of health, education and social security and welfare services to assist refugees. This includes:

- $93.0 million for the education of all school aged refugees, including Intensive English Centre education
- $32.4 million for specialised health services, including health nurse screening, interpreting services, therapeutic interventions for physiological problems, vaccinations and specialist paediatric clinics
- $8.4 million for a range of programs including community hubs, a school liaison program, an employment triage model and youth peer mentoring
- $4.0 million to support legal aid services
- $3.9 million for initial private rental assistance towards securing long term accommodation
- $2.2 million to support unaccompanied minors
- $1.7 million towards an Enhanced Family Assessment and expanded Families in Cultural Transition program.

This funding delivers on the Premier's commitment to provide assistance for the settlement of refugees fleeing the humanitarian crisis in Syria and Iraq.

Housing and community amenities

The Government is investing $2.9 billion in 2016-17 on:

- social housing assistance to prevent homelessness and support people in finding housing
- environment protection and natural resource management programs that improve landscape, water management, reduce environmental degradation and pollution to improve community amenities.

In 2016-17, funding for housing assistance is expected to be $1.3 billion. This includes $188 million for crisis homelessness services and support, including support services for refuges.

In 2016-17, funding of $6.1 million ($14.3 million over four years) will support operations for the $1.1 billion Social and Affordable Housing Fund (SAHF). The SAHF will support up to 3,000 additional new social and affordable housing dwellings.

Funding for environmental protection, water supply and community development will be $1.6 billion in 2016-17. This includes $109.7 million for environmental protection, audit and enforcement programs, emergency services and waste programs. Other significant environment related programs for 2016-17 include $67.2 million for the Environmental Trust, $40.4 million for managing fire risk in national parks and reserves and $30.7 million to help local councils prepare and implement coastal and floodplain management plans and for works to restore and protect coastal and estuarine environments.

5.5 Expense measures statement

Table 5.12: Net impact of expense measures since 2015-16 Half-Yearly Review [(a)(b)]

	2016-17 Budget	2017-18	2018-19	2019-20	Four year Total	Comment on major decisions
		Forward estimates				
	$m	$m	$m	$m	$m	
Education	23.9	199.6	(35.0)	(34.4)	154.1	New funding for schooling and acceleration of maintenance expenditure to address priority backlog maintenance needs in schools.[(c)]
Family and Community Services	110.4	150.5	160.4	169.1	590.4	Additional funding to address demand and for reform the out-of-home care system. Additional funding for the Premier's Priority on youth homelessness and extended services for refugees.
Finance, Services and Innovation	334.8	78.5	22.0	12.7	448.0	New funding for Service NSW Strategic Roadmap and better targeting of the Jobs Action Plan.
Health	37.4	24.6	25.6	21.8	109.4	Additional funding for initiatives that aim to prevent and respond to domestic and family violence.
Industry, Skills and Regional Development	102.7	109.0	24.5	24.7	260.9	Additional funding for *Smart, Skilled and Hired*, and changes to VET funding to drive better outcomes for students.
Justice	275.0	447.7	635.5	779.2	2,137.4	Additional funding for reforms to the NSW criminal justice system, increased bed capacity in prisons, and for domestic and family violence initiatives.
Planning and Environment	335.6	(16.6)	(11.7)	(15.7)	291.6	New funding for local government reform. 2016-17 grants expenditure is subject to proclamation of the councils by the Governor of New South Wales. Additional expenditure for the delivery of private land conservation under the biodiversity reforms.
Premier and Cabinet	113.0	204.3	176.7	33.9	527.9	New funding for a range of sporting initiatives and infrastructure across the State.
The Legislature	...	0.3	1.0	1.2	2.5	Expenditure associated with new capital projects.
Transport, Roads and Maritime	559.2	874.2	815.5	169.8	2,418.7	Delivery of rail infrastructure and improved fleet availability to integrate Sydney Metro Northwest, provide more services to Western Sydney and fully integrate the South West Rail Link, and delivery of the point to point transport reform.
Treasury	15.7	25.3	7.7	4.9	53.6	New grants for infrastructure projects funded from Restart NSW.
Whole-of-Government and Other	220.0	(233.9)	(468.5)	(708.3)	(1,190.8)	Efficiency dividend.

(a) A positive figure increases, a negative figure decreases expenses.
(b) The figures presented are the net figure for new policy decisions that increase or reduce expenditure.
(c) Ongoing education maintenance funding will be reviewed in the 2017-18 Budget.

6. MANAGING THE STATE'S ASSETS AND LIABILITIES

- The general government sector's (GGS) asset base is projected to grow substantially in the coming years, made possible by the use of innovative financing solutions, including asset recycling, to fund priority infrastructure projects.
- The Government's record infrastructure program will boost the State's infrastructure assets. This program includes construction of Sydney Metro City and Southwest, as well as the upgrading of hospital facilities and public schools across the State. This capital program supports the future needs of the State's growing and ageing population, and will boost the economy over both the short and long-term.
- This capital program is being supported by active balance sheet management. The use of asset recycling proceeds, efficient practices and incremental borrowing ensures that sufficient resources will be available to support future infrastructure investment, while keeping the balance sheet strong and resilient.
- Net worth of the GGS is expected to be $205.0 billion at 30 June 2017, showing an overall increase in the value of the State of $17.5 billion over the year. Further increases are expected over the forward estimates, with net worth projected to reach $246.9 billion by June 2020.
- As foreshadowed in the 2015-16 Budget and Half-Yearly Review, GGS net debt is forecast to increase over the forward estimates to $24.0 billion by June 2020, driven by the State's significant infrastructure program. The use of modest debt to fund productive infrastructure reflects responsible financial management, particularly in current economic conditions. Future transactions not accounted for in this Budget will reduce GGS net debt in the near term until capital is reinvested.
- Total GGS liabilities are forecast to fall over the budget and forward estimates period. Reductions to unfunded superannuation liabilities are expected to more than offset the modest rise in debt for infrastructure.

6.1 Introduction

The balance sheet shows the value of all GGS assets, liabilities and net worth at the end of each financial year.

Unlocking balance sheet value has been a key focus of the Government's financial management reforms. Significant work has been undertaken to review and optimise the State's asset and debt portfolio to deliver the best possible government services in the most sustainable way.

Assets that were due for renewal or no longer fit for purpose have formed part of the State's asset recycling program, with sale proceeds reinvested to fund further investments in productive infrastructure. Restructuring the Government's debt portfolio to minimise debt servicing costs over the medium-term will also assist this process. Similarly, more active management of the Government's cash and financial investments has enabled the pursuit of higher yielding and growth investments to support infrastructure plans. Combined, these strategies make it possible to deliver a record infrastructure spend, while also improving the reliability of government services.

With the State's financial management reforms well underway, net worth is forecast to strengthen substantially. Table 6.1 shows net worth increasing as a share of gross state product (GSP) from 35.0 per cent at June 2016 to 38.0 per cent by June 2020. This strong balance sheet means the Government has scope to respond to financial and economic pressures and can continue to focus on growing the NSW economy. This view is reinforced by the State's reaffirmed triple-A credit rating.

Table 6.1: Key balance sheet aggregates of the general government sector

	June 2015 Actual	June 2016 Revised	June 2017 Budget	June 2018	June 2019	June 2020
				Forw ard Estimates		
Total Assets ($m)	298,902	316,682	327,865	339,428	353,676	363,584
Total Liabilities ($m)	117,579	129,235	122,887	117,990	119,303	116,727
Net Worth ($m)	181,323	187,447	204,978	221,437	234,373	246,857
Net Worth as a per cent of GSP	35.3	35.0	36.5	37.7	37.9	38.0
Net Debt ($m)	5,461	663	7,539	15,023	21,856	23,994
Net Debt as a per cent of GSP	1.1	0.1	1.3	2.6	3.5	3.7

6.2 Balance sheet

Total assets are projected to be $316.7 billion at June 2016, increasing in each year to reach $363.6 billion by June 2020. The State's total asset position can be broken down into either financial or non-financial assets.

Financial assets

Financial assets on the general government's balance sheet are expected to be $143.7 billion at June 2016, increasing to reach $149.6 billion by June 2020. They include cash, receivables, financial investments and equity investments and are principally invested by the State to match against future liabilities and manage liquidity needs.

Ensuring that the State holds and has access to an adequate store of liquid assets is key to sound balance sheet management. Liquid assets are held to cover debt obligations, short-term financing commitments and the everyday operational needs of the State.

Access to and holdings of sufficient liquidity are also key considerations for credit rating agencies as part of their assessment of the State's overall creditworthiness. This State's liquidity position is one of the measures considered in the assignment of the State's credit rating. The State's liquidity holdings exceed the levels required for consistency with a triple-A credit rating.

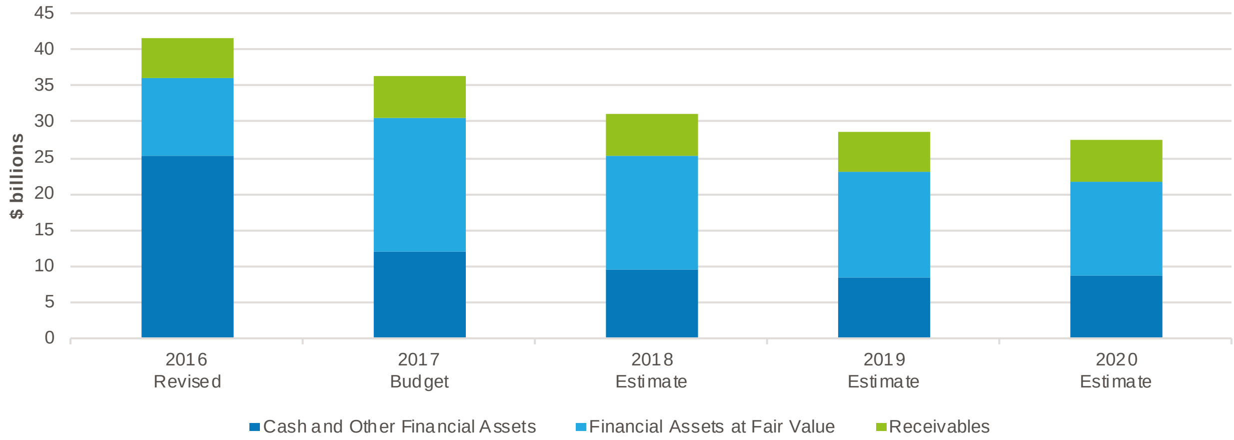
A number of factors are driving this result, principally:

- the successful sale or lease of significant business assets
- strong cash operating results achieved through expenditure restraint.

Effective management of the State's liquidity is part of the Government's strategy of active and efficient balance sheet management. The strategies employed will ensure that the State continues to hold and be able to access an adequate level of liquidity against its future obligations, and any surplus holdings are put to better use.

The application of these strategies is reflected in Chart 6.1 which shows a gradual decrease in the GGS cash holdings as a share of non-equity financial assets. Overall, the GGS non-equity financial asset holdings are forecast to decrease by $14.1 billion over this period to $27.6 billion by June 2020. This will be overseen by the newly established Asset and Liability Committee (ALCO). For further details on the ALCO, refer to Chapter 4 of this *Budget Statement*.

Chart 6.1: Non-equity financial assets of the general government sector at 30 June



Most of the State's cash and financial investment holdings are set aside for the State's record infrastructure package under Restart NSW. Funds set aside for delivering Restart NSW will now be invested into a newly formed investment vehicle to help ensure the State has the necessary resources available to deliver on its infrastructure spending commitments. This will be achieved by investing these monies in a range of longer-term financial assets to improve returns and to mature in a manner consistent with planned spending. In 2015, the Government centralised the State's financial investments to New South Wales Treasury Corporation (TCorp). The amalgamation makes TCorp a top 10 Australian investment manager, responsible for over $65 billion of funds, including the investment vehicle.

The centralisation of funds management allows investment decisions to be taken on a more streamlined basis and will deliver superior risk-adjusted investment returns over time. For further details on the investment vehicle's establishment and other associated financial management reforms, refer to Chapter 4 of this *Budget Statement*.

The Government also holds equity investments, predominantly in public non-financial corporations (PNFC) and public financial corporations (PFC). These deliver transport, housing, electricity, water and other services on behalf of the State and, in some cases, pay the GGS a dividend from the profits that they generate. The general government's equity investments are projected to be worth $101.9 billion at June 2016.

Over the coming years, the Government will deliver significant infrastructure projects in the PNFC sector. These projects include increased social housing, Next Generation Rail Fleet and installation of Automatic Train Protection on public transport. Upon completion of these projects, the people of New South Wales can expect improved social outcomes, improved safety, less crowding on trains, platforms and stations, as well as increased network capacity. This will lift the value of the GGS equity investments over the forward estimates to $122.0 billion by June 2020. Refer to Chapter 7 of this *Budget Statement* for more information.

Non-financial assets

Total non-financial assets are projected to be $173.0 billion at June 2016, increasing to $214.0 billion by 2020. This increase is driven by new infrastructure projects enabled by strong fiscal management including the Government's asset recycling strategy. To date, the State's asset recycling strategy has unlocked $13.8 billion for reinvestment into new economic and social infrastructure through the Restart NSW Fund. Box 6.1 provides details of the most recently announced proposed asset recycling transaction, which will help fund new infrastructure.

Box 6.1: Funding new infrastructure – Land and Property Information

Land and Property Information (LPI) provides land title registration, property information, valuation services, surveying, spatial data and mapping in New South Wales. The Government will invite the private sector to invest in and operate the land titling and registry functions of LPI under a 35 year long-term concession. The spatial and valuation divisions will remain within government ownership and management.

The transfer will deliver better outcomes for both the industry and its users, through increased efficiency and by utilising greater expertise and investment in technology. It will also allow government to focus on its core regulatory functions, while reducing exposure to the cyclical revenue streams that flow from the property market.

The integrity of the titling system will be protected by a strong regulatory framework. Service standards, key performance indicators and regulatory controls will be included in the terms of the concession deed to ensure standards are upheld. This will be monitored and enforced by a newly created regulator. Furthermore, consumers will be protected with a cap on pricing for monopoly products for the entire term of the concession. Titling data will continue to be owned by the Government and stored onshore.

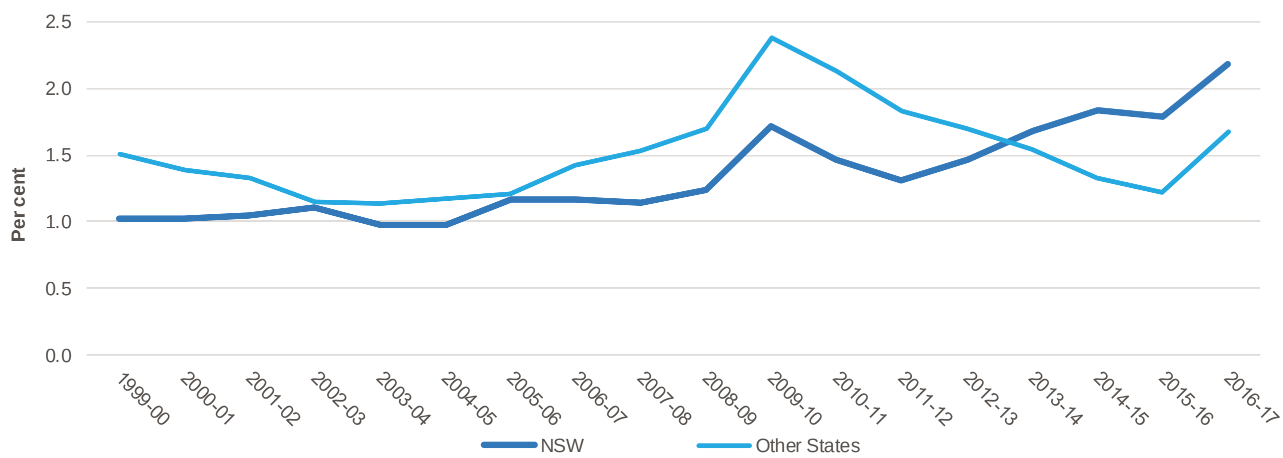
The net proceeds from this transaction will be invested in Restart NSW to be recycled into priority infrastructure.

The 2016-17 Budget continues to focus on high value infrastructure projects, to support the State's future growth. Infrastructure investment allows the Government to provide for a growing population and lays the platform for economic growth. New road and rail projects ease congestion for motorists and public transport customers and connect growing population centres in Sydney, with jobs and employment. In the short-term, capital expenditure directly supports jobs while in the longer-term it can enhance productivity. These projects will assist the Government as it continues to reduce the State's infrastructure gap, with transport remaining a key focus.

The Government's significant program of infrastructure spend can be delivered because of the strength of the State's fiscal and balance sheet management. Funding provided by strong operating surpluses, asset recycling, partnerships with the private sector, and modest borrowing is supporting the delivery of this ambitious infrastructure program while maintaining the State's triple-A credit rating.

Transport and road infrastructure remains the major focus of the Government's capital investment program. Investment in the State's transport networks, including new roads and rail projects, accounts for a large proportion (60.7 per cent) of general government capital investment over the four years to 2019-20. There is also a large increase in the Justice sector, largely driven by the funding for new correctional facilities. These programs are growing infrastructure assets and land and buildings in particular, which are expected to increase by $30.2 billion (35.5 per cent) and $7.3 billion (10.4 per cent) from 2015-16 to 2019-20, respectively. General government capital expenditure as a share of GSP has grown from 1.3 per cent in 2011-12 to 2.2 per cent in 2016-17 (see Chart 6.2).

Chart 6.2: General government – capital spend to GSP [(a)]



Source: ABS data for 1999-00 to 2014-15. 2015-16 and 2016-17 data based on State Budget Papers and NSW Treasury calculations.

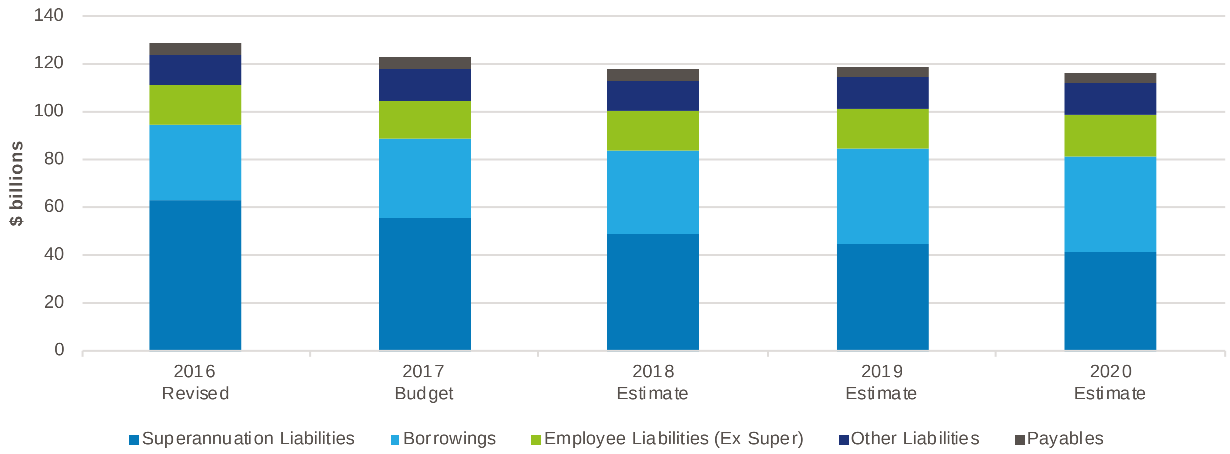
(a) Purchases of non-financial assets, percentage of GSP. For consistency with other states, assets acquired through finance leases are excluded.

Liabilities

The State's liabilities represent contractual obligations of the government to pay another entity and are often incurred in the normal course of delivering government services. The Government continues an active approach to balance sheet management, which will gradually remove excess risk from the GGS balance sheet over the coming years, and ensures adequate risk return benchmarks are achieved in the interim. Similarly, the Government continues to manage and service its liabilities in an efficient way.

Total liabilities for the GGS are projected to be $129.2 billion at June 2016 and $116.7 billion by June 2020. The composition and projection for the GGS liabilities are shown in Chart 6.3.

Chart 6.3: Liabilities of the general government sector at 30 June



Superannuation liabilities are the largest category of liabilities that the GGS holds and are expected to total $63.3 billion by June 2016. This liability is forecast to fall to $41.3 billion by June 2020. The falling liability represents the Government's commitment to eliminate the GGS unfunded superannuation liability by 2030, consistent with the *Fiscal Responsibility Act 2012*.

Unfunded superannuation liabilities arose from defined benefit superannuation schemes that were previously available to government employees. Although virtually all of these schemes have been closed to new entrants for over twenty years, the accumulated liabilities remain. The Government has made a commitment to build sufficient assets over time to fully fund the forecast superannuation benefit payments. A comprehensive review of the state and sufficiency of the defined benefit superannuation schemes is carried out by the schemes' actuary every three years. The last review was completed in December 2015 with the results outlined in Box 6.2.

Box 6.2: Managing the State's unfunded superannuation liabilities

A review into the State's superannuation liabilities was performed as at 30 June 2015 to inform the preparation of the *Report on the Actuarial Investigation of the State Superannuation Schemes 2015* (the 2015 Review). This report is prepared every three years and determines the sufficiency of funding for the State's defined benefit schemes based on the latest demographic and economic assumptions. The economic assumptions used in this report are then used to value the unfunded superannuation liability each year. In accordance with AASB 119 *Employee Benefits*, the discount rate for financial reporting purposes will be based on the 10-year Commonwealth Government bond rate as at 30 June. The valuation of the superannuation liability is particularly sensitive to changes in the discount rate.

Since the 2012 Review, a number of economic and demographic assumptions have been revised to reflect current and future state expectations. The assumed long-term investment rate of return has fallen, supported by recent declines in the performance of equity and other financial markets. Similarly, current and medium-term inflation forecasts support lower long-term salary increase expectations. As outlined in the *NSW Intergenerational Report 2016*, the ageing population has also been incorporated into future expectations.

The 2015 Review concluded that the Government's current contribution plan appears reasonable to deliver full funding by 2030. The Government will keep the current funding plan under review to ensure the commitment is met.

Borrowings, through direct debt raising or leasing arrangements, form the next largest liabilities for the GGS. As at June 2016, the GGS is projected to hold $31.7 billion of borrowings. As the GGS infrastructure program ramps up, it is anticipated that government borrowings will modestly increase to service some of these plans, reaching $40.5 billion by June 2020. By actively managing these liabilities, the Government can maintain financial stability without compromising service delivery. See Box 6.3 for further details.

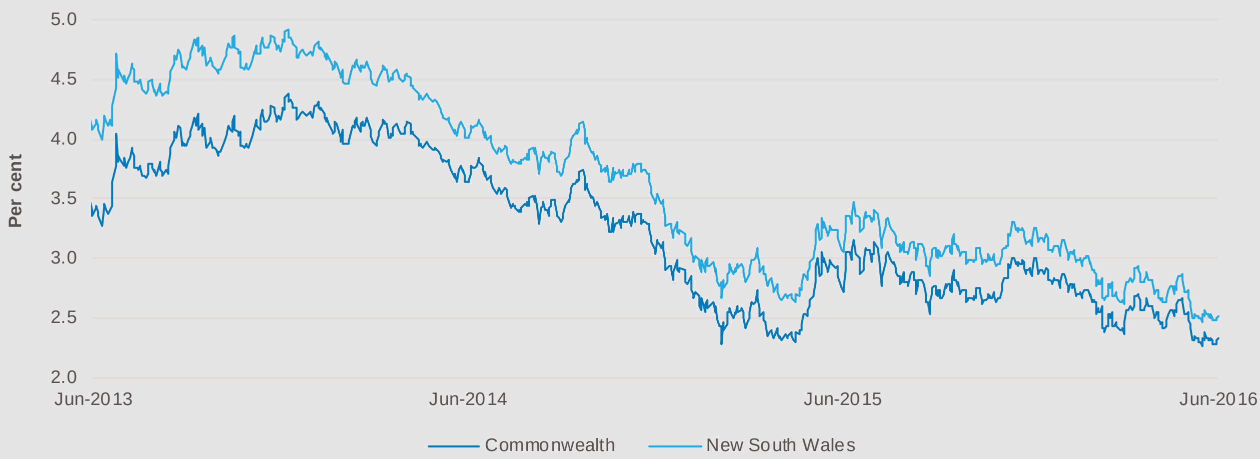
Box 6.3: Debt management strategy

The Government is managing its debt liabilities as part of its dynamic balance sheet management strategy. This approach extends to TCorp, who continue to apply an active risk management strategy in managing the Government's debt portfolio.

Specifically, GGS debt is currently being restructured by replacing shorter-term debt with longer-term debt. This lengthens the portfolio to better match liabilities with the infrastructure assets they are funding and correspondingly reduces refinancing risks. It also allows the Government to secure low coupon debt, taking advantage of the current historic low interest rate environment.

In addition to market interest rates being at historic lows, the State's triple-A credit rating enables the Government to further benefit by obtaining even lower cost of funds. The comparison between Commonwealth 10-year bond yields with NSW 10-year bond yields is shown in Chart 6.4.

Chart 6.4: Comparison of New South Wales and Commonwealth 10-year bonds



Source: Bloomberg and Reserve Bank of Australia.

Chart 6.4 shows the cost of borrowing based on 10-year bonds of New South Wales and the Australian Government. The cost of borrowing has dropped by 1.6 per cent for New South Wales and 1.0 per cent for the Australian Government over the three years since 31 May 2013, reflecting the low interest rate environment being experienced domestically and globally. Significantly, the low risk nature of NSW bonds, as underpinned by its triple-A credit rating and high investor demand for Government bonds, saw the NSW bond spread to Commonwealth bonds drop to its lowest level since 2004.

Taking the opportunity to restructure debt whilst also raising a modest amount of new debt will benefit the GGS. The State's triple-A credit rating ensures open access for the State to utilise capital markets at low borrowing costs, supporting projected future needs for increased borrowings over the forward estimates.

6.3 Net debt

Net debt measures the Government's ability to repay its debt and is calculated as the sum of borrowings, deposits held and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid. The successful long-term lease of TransGrid, achieved late last year, as part of the Government's plan to partially lease the State's electricity network businesses, has driven GGS net debt down to $0.7 billion at June 2016; a decrease of $9.2 billion from the projection in the 2015-16 Budget ($9.9 billion). This, along with other proceeds from asset recycling and a more efficient use of the Government's balance sheet, is supporting a record level of infrastructure spending.

This record program is a necessary investment in preparation for the State's future challenges as highlighted in the *NSW Intergenerational Report 2016*. Investing in infrastructure now will improve the State's productivity and economic growth, allowing it to prepare for the demographic challenges ahead.

Capital expenditure for the State's infrastructure program will grow as construction continues on major transport projects, and investments increase in hospitals, schools, and other productive infrastructure. This will drive the rise in GGS net debt over the forward estimates to $24.0 billion by the end of June 2020. Net debt will improve following the long-term lease of Ausgrid and Endeavour, which once complete will be included in future estimates. These asset transactions are providing the capacity to increase investment. As with other asset recycling, this improvement will become less pronounced over time once the remaining parts of the Rebuilding program are delivered. Further information on Rebuilding NSW is provided in Chapter 3 of Budget Paper No. 2 *Infrastructure Statement*.

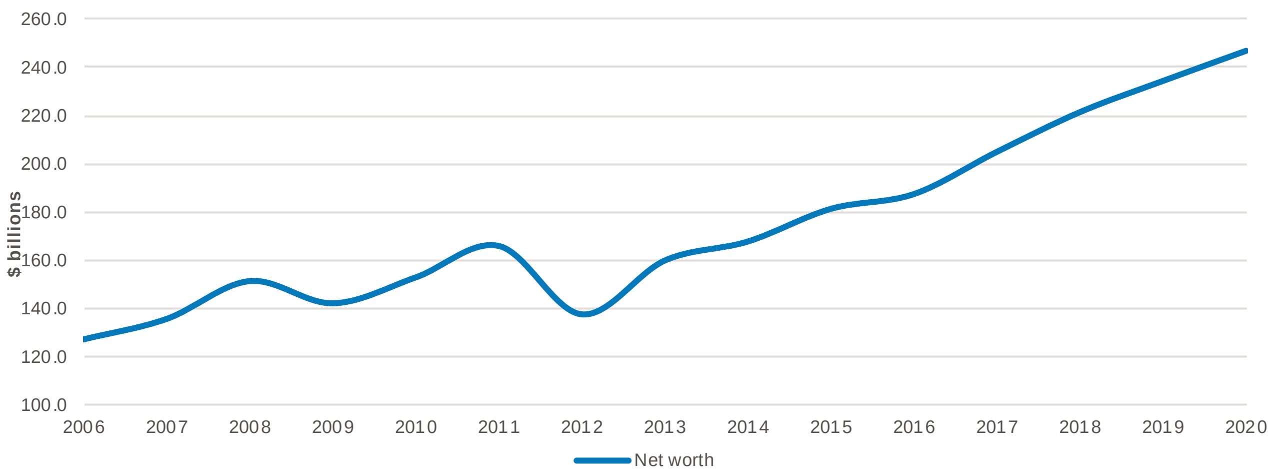
6.4 Net worth

Net worth measures the overall wealth of the GGS and is the difference between total assets and total liabilities. In New South Wales, the State's wealth is well represented by the strong and growing positive net worth forecast over the budget year and forward estimates period. This is principally driven by the GGS record infrastructure program.

Over the four years to June 2020, capital assets, in the form of non-financial assets, are forecast to increase by 23.7 per cent. The strong operating surpluses and the successful sale and lease of business assets achieved to date, give the Government a head start to delivering this infrastructure program with a strong liquidity position. Where appropriate, these funds will be placed in high growth investments until they mature, at which time they will be used to fund infrastructure. Meanwhile, further planned sales and leases of business assets, as well as the development of a robust debt management strategy to lock in the current low interest rates to finance future infrastructure programs, will support infrastructure delivery in later years.

The combination of financial management reforms, record infrastructure spending, and active financial liability management delivers a growing asset base with a declining stock of liabilities. As a result, the wealth of the GGS continues to grow with net worth forecast to increase from $205.0 billion in June 2017 to $246.9 billion in June 2020. This is shown in Chart 6.5 where net worth has grown in every year since June 2012. This is consistent with the net worth of the broader public sector due to the reflection of the Government's investments in PFCs and PNFCs on the GGS balance sheet.

Chart 6.5: General government net worth at 30 June



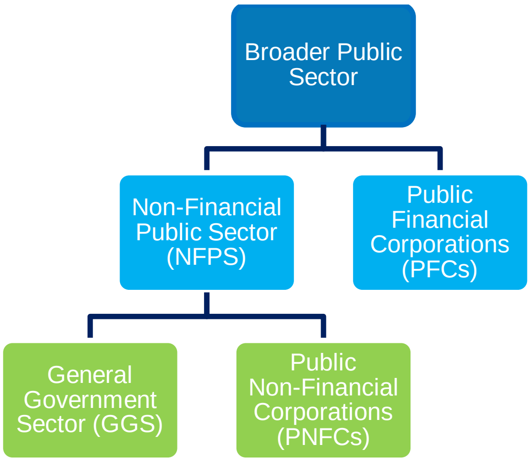
7. PERFORMANCE AND OUTLOOK OF THE BROADER PUBLIC SECTOR

- The broader public sector comprises the total state government in New South Wales and includes the general government sector (GGS), the public non-financial corporation (PNFC) sector and public financial corporation (PFC) sector.
- The GGS comprises agencies that provide public services or perform a regulatory function and are funded mainly by taxation. The PNFC sector is made up of government controlled businesses that operate with a broadly commercial orientation and for which user charges represent a significant portion of revenue, such as Sydney Water Corporation (Sydney Water).
- The non-financial public sector (NFPS) operating result, an aggregate of the GGS and PNFC sector results, is expected to be $1.7 billion for 2015-16. This is $1.5 billion more than forecast in the 2015-16 Budget. The upward revision is due to a stronger than expected operating result for both the GGS and PNFC sectors. Within the PNFC sector, the main drivers of the upward revision are the long-term lease of TransGrid, lower interest expenses for Sydney Water and a reduction of operating expenses for Sydney Harbour Foreshore Authority. For the main GGS drivers, refer to Chapter 5 of this *Budget Statement*.
- A number of major reforms are underway in the PNFC sector including: a new customer-centric business model for Sydney Water to maintain customer service levels while delivering a decrease in a typical household water and sewerage bill of $100 per annum; a new business focus for UrbanGrowth NSW; and implementing the Future Directions for Social Housing in NSW policy, which was released in early 2016.
- The PNFC and PFC sectors pay dividends and tax equivalent payments to the State, providing a key revenue source while delivering essential services in a cost effective manner. The total dividends and tax equivalent payments received in 2015-16 are $1.2 billion, which is $250.3 million lower compared to the 2015-16 Budget.
- The net worth of the total public sector is predicted to reach a record of $187.4 billion in June 2016. Continued growth in net worth is forecast over the budget year and forward estimates by an average of 7.1 per cent per year which reflects growth in assets and a decrease in liabilities.

7.1 Introduction

The broader public sector comprises the non-financial public sector (NFPS) and public financial corporations (PFCs). The NFPS is further broken down into the general government sector (GGS) and public non-financial corporations (PNFCs). Chart 7.1 below shows the breakdown of the broader public sector.

Chart 7.1: The broader public sector



The GGS includes entities that provide public goods and services and are funded through a portion of the State's revenue base – for example education, health and police services. The PNFC sector includes entities that provide goods and services on a more commercial basis, such as water and electricity. Entities in the PNFC sector recover most of their costs through charging consumers for the provision of goods and services. The PFC sector includes entities that provide insurance and financial services such as bond issuance and financial asset management.

A full list of all New South Wales entities and their classification is provided at Appendix A3 of this *Budget Statement*.

7.2 Reform of the broader public sector

The Government continues to reform the broader public sector to increase efficiency, reduce costs for households, better manage the State's balance sheet and deliver better services to the people of New South Wales. The Government is also continuing its asset recycling strategy, investing any proceeds in new infrastructure and services.

Reforming water

Sydney Water Corporation (Sydney Water) has initiated a transformation project to improve its efficiency and effectiveness, and to increase its customer focus. The two key reforms are a new customer centric organisational structure and a new customer billing system (T2020 program) with an integrated technology platform. These reforms will help Sydney Water deliver better results by reducing complexity, duplication and operating costs. They will also deliver a more consistent customer experience.

At the same time, Sydney Water is delivering a decrease in a typical household water and sewerage bill of $100 per annum or 8.2 per cent in 2016-17. This is consistent with the Independent Pricing and Regulatory Tribunal's (IPART) final determination for the period July 2016 to June 2020. Prices will fall in 2016-17, after which bills will increase by annual inflation. Under this latest determination, Sydney will have one of the lowest capital city water and sewerage prices in the country.

Hunter Water Corporation (Hunter Water) has continued to implement its asset recycling program, which will allow it to improve its financial performance and efficiency. Hunter Water has divested its Newcastle head office, its consulting subsidiary Hunter Water Australia Pty Limited, surplus land and the Kooragang Industrial Water Scheme. These asset sales benefit Hunter Water's balance sheet by freeing up capital for further investment in the region.

Hunter Water is also committed to ensuring that its average water bills are among the cheapest in the country while continuing to invest in new and improved infrastructure. IPART's final determination for the four years from 1 July 2016 recommends a real price increase of no more than 1 per cent in 2016-17 and then 2.4 per cent in each year thereafter.

The Government has also focused on better asset management through splitting the policy and operational functions in the bulk water sector. The formation of WaterNSW (which merged the Sydney Catchment Authority and the State Water Corporation) in early 2015 was the start of this reform. The water related customer facing and operational functions of the Department of Industry, Skills and Regional Development are anticipated to transfer to WaterNSW on 1 July 2016. The water policy and regulatory functions will remain with the Department of Industry, Skills and Regional Development. This reform will allow WaterNSW to focus solely on customer service, and deliver efficiencies and cost savings by removing duplication.

Urban renewal

UrbanGrowth NSW (UGNSW) has reformed its business, moving from greenfield residential land development in the retail property sector to large-scale urban transformation projects. As part of the reform, UGNSW now acts as the master developer on complex urban transformation programs that leverage State land and transport infrastructure to stimulate economic growth.

One of the largest and most ambitious projects led by UGNSW is the Bays Precinct, which will transform the area into an internationally renowned urban space over the next 20 to 30 years. This large-scale project will see the Government delivering on its commitment to build infrastructure, create jobs and stimulate the State's economy.

The progress made on urban transformation projects over the past year has strengthened UGNSW's financial position and outlook. Over the budget and forward years there will be a continued focus on project development and investment. As these projects begin to mature, it is anticipated the business will generate an appropriate return on investment.

Increasing business efficiency

Since corporatising in 2013, Forestry Corporation of New South Wales has been actively engaged in streamlining and improving its business by reducing corporate overheads, enhancing contract management, removing duplication and simplifying business processes. To date, it has achieved ongoing savings in excess of $9.0 million per annum, while significantly improving the performance of its softwood and hardwood businesses. Looking forward, Forestry Corporation of New South Wales is making changes to improve customer services, including investing in electronic docketing and central dispatching technologies that will allow customers to track deliveries and improve efficiency.

The Port Authority of New South Wales (Port Authority) was formed through the amalgamation of the Newcastle Port Corporation, Port Kembla Port Corporation and Sydney Ports Corporation. Following the amalgamation, the Port Authority has consolidated its operational activities to deliver cost savings, while maintaining its focus on delivering marine operational activities in a safe and environmentally sustainable manner. Since July 2014, the Port Authority has reduced controllable costs by around 32 per cent. For 2015-16, the Port Authority is on track to achieve a further reduction in controllable costs in the order of 10 per cent.

On 30 April 2015, the Australian Energy Regulator (AER) handed down its final determination on Essential Energy's revenues for the 2014-2019 regulatory period. The determination significantly reduced Essential Energy's revenues over the period. The Australian Competition Tribunal has since ordered the AER to revisit its revenue decision based on a broader range of modelling and benchmarking methods. The AER has yet to release a revised final determination.

Notwithstanding this uncertainty, a business transformation program is underway within Essential Energy to align future operational and capital expenditure to the regulated allowances (as determined by the AER). This transformation program is aimed at ensuring a safe and reliable electricity supply to consumers, while ensuring effective capital investment and back office operations. It also seeks to ensure that network support costs are as streamlined and efficient as possible to offset any potential revenue decreases for the business.

The Government remains committed to the delivery of Transport Asset Holding Entity (TAHE), which will improve the asset management of the transport sector for the State. TAHE is currently in the first year of a four-year transition period agreed with the Australian Bureau of Statistics.

Continuing asset recycling

The State's asset recycling strategy continues to be a key source of funding for critical infrastructure investment in New South Wales. Since the 2015-16 Budget, the Government has completed the first stage in leasing 49 per cent of the State's electricity network businesses. The lease of the electricity transmission business, TransGrid, delivered gross proceeds of $10.3 billion, of which $6.6 billion is being invested in infrastructure projects across the State (through the Government's Rebuilding NSW program).

Ausgrid is in the final phase of the transaction process, with the Endeavour Energy transaction to commence in the first half of 2016-17. Consistent with past practice, these will be reflected in the budget following completion of the transactions.

Further details on the Ausgrid and Endeavour Energy leases are in Budget Paper No. 2 *Infrastructure Statement*.

The New South Wales Land and Housing Corporation (LAHC) is responsible for managing the Government's social housing portfolio. The Future Directions for Social Housing in NSW policy was released in early 2016. This details the Government's new Communities Plus strategy to engage the non-government and private sector to deliver up to 23,000 social housing dwellings (new and replacement).

LAHC's new asset and capital investment framework delivers more social housing by redeveloping older stock, selling stock and realising value through uplift in redevelopment. For example, the proceeds from the Millers Point property sales are being reinvested into some 1,500 new social housing dwellings. The redevelopment of the Ivanhoe Estate in Macquarie Park will lead to a substantial increase in social housing dwellings. Similar approaches will be used to leverage land in strategic locations such as Waterloo. LAHC's new asset framework will assist in realising additional value to deliver more fit-for-purpose social housing dwellings and improved social outcomes.

7.3 Non-financial public sector

Net operating balance

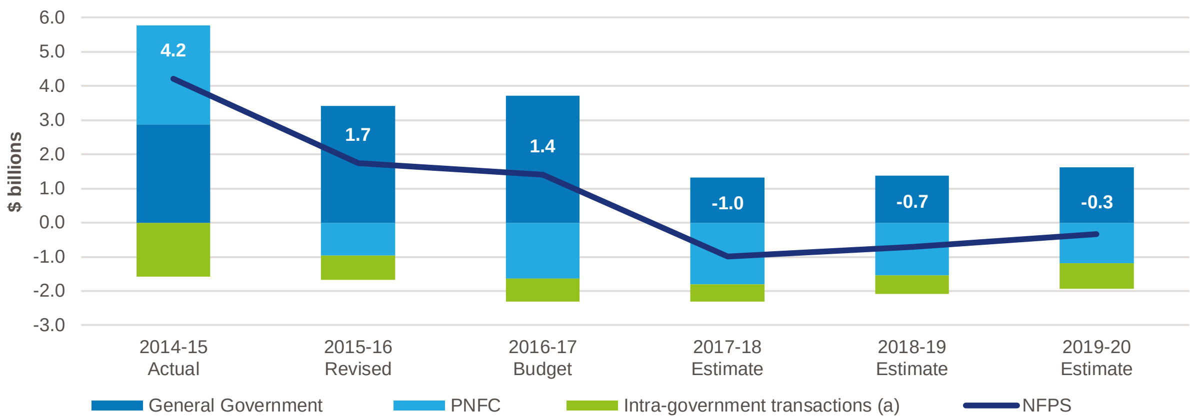
The $1.7 billion net operating balance for the NFPS in 2015-16 is better than forecast in the 2015-16 Budget. The upward revision is due to a stronger than expected operating result for both the GGS and PNFC sector. Within the PNFC sector, the main drivers of the upward revision are the divestment of TransGrid, lower interest expenses for Sydney Water and a reduction in operating expenses for the Sydney Harbour Foreshore Authority.

The net operating balance for the NFPS over the forward estimates is lower relative to the 2015-16 Budget forecast. For the PNFC sector, the downward revision is primarily driven by an increase in expenditure as investment in the State's Infrastructure Strategy continues.

Further details on the performance of the GGS are set out in Chapter 5 of this *Budget Statement*.

Chart 7.2 below shows the operating performance of the NFPS and its component GGS and PNFC sector over the period 2014-15 to 2019-20.

Chart 7.2: Components of the non-financial public sector net operating result



(a) Intra-government transactions accounts for payments between State entities, such as dividends paid from PNFCs to GGS.

Dividends and tax equivalent payments

Dividends received by the GGS from PNFCs are based on the operating performance of those businesses. To ensure competitive neutrality with private sector businesses, PNFCs also make tax equivalent payments and government guarantee fees to the GGS. The dividend and tax equivalent payments for 2015-16 are forecast to be $1.2 billion.

TransGrid was removed from the National Tax Equivalent Regime on 16 December 2015 following its successful lease and delivering gross proceeds of $10.3 billion to the State.

PNFCs in the water sector have reduced dividends and tax equivalent payments. The lower than expected revenue is due to a combination of a lower dividend payout ratio and lower distributable profits from Sydney Water. Lower distributable profits are the result of a lower pricing determination from IPART for the 2016-17 to 2019-20 period.

For the property and resources sector, payments increase in 2016-17, but decline thereafter. This decline is mainly due to the reforms undertaken by UGNSW. These reforms have temporarily reduced UGNSW's profit, although it is expected to increase again in the years beyond 2019-20.

Table 7.1 shows the dividend and tax equivalent payments of PNFC and PFC sectors over the period 2015-16 to 2019-20.

Table 7.1: Dividends and tax equivalent payments from non-financial public and financial public sectors

	2015-16	2016-17	2017-18	2018-19	2019-20
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
Electricity [(a)]	350.2	533.3	157.7	219.1	537.7
Water	718.3	438.3	488.7	506.3	527.2
Property and Resources	99.7	119.6	79.0	81.0	44.1
Ports	2.7	2.7	58.3	47.9	57.5
Public Financial Corporations	47.1	79.2	105.3	98.7	103.4
Total Dividends and Tax Equivalent Payments	1,218.0	1,173.0	889.0	952.9	1,270.0

(a) Electricity dividend forecasts reflect the latest information provided by electricity network businesses, but are dependent on the outcome of current legal proceedings and future regulatory decisions that have not yet been made. These legal proceedings and regulatory decisions could materially change these forecasts.

Capital expenditure

Capital expenditure within the PNFC sector is expected to be $7.1 billion in 2015-16. This is consistent with the 2015-16 Budget estimate. Further details on the Government's capital expenditure strategy are provided in Budget Paper No. 2 *Infrastructure Statement*.

7.4 Public financial corporation sector

The PFC sector includes New South Wales Treasury Corporation (TCorp), Insurance and Care NSW (icare) and the Superannuation Administration Corporation (trading as Pillar Administration).

TCorp is the central borrowing authority for the State. It has a balance sheet of over $80.0 billion and is responsible for raising funds in local and international debt markets for the New South Wales Government (including the PNFC sector). Strong investor demand for New South Wales' triple-A rated securities, combined with TCorp's economies of scale, means that TCorp is able to achieve a low cost of borrowing for the State.

TCorp is the State's central provider of funds management services and a top ten Australian fund manager. With the Government having successfully amalgamated the State's core funds management activities within TCorp in 2015, TCorp now manages over $65.0 billion in assets (as of May 2016). As part of providing funds management services, TCorp offers diversified funds and single asset class funds. TCorp provides flexibility across asset classes, securities, investment managers and investment styles. TCorp also provides tailored financial markets advice to New South Wales public sector agencies to help manage their financial risks effectively and efficiently.

For further details on TCorp please refer to Chapter 4 of this *Budget Statement*.

icare was established in September 2015 following a strategic review of the Government's insurance services. icare provides insurance and care services to the people of New South Wales under the NSW Workers Compensation Scheme, the Lifetime Care and Support Authority of New South Wales, the Dust Diseases Authority, the NSW Self Insurance Corporation and the Sporting Injuries Fund.

icare manages the insurance for more than 270,000 New South Wales employers and their 3.3 million employees. It handles around 60,000 new workers' insurance claims each year. With over $30.0 billion in assets, icare is one of the largest insurance service providers in Australia.

On 9 December 2015, the Government announced its intention to proceed with the sale of the State's superannuation administrator, Pillar Administration (Pillar). Pillar administers superannuation funds for the public and private sectors. Parliament passed legislation on 11 May 2016 allowing Pillar's divestment.

Private ownership will put Pillar in a stronger position to pursue growth opportunities and improve the long-term financial viability of the business. By divesting Pillar, the State will no longer be liable for the significant ongoing costs associated with owning the business. In turn, the transaction allows the Government to remain focused on delivering core services and vital infrastructure projects across New South Wales.

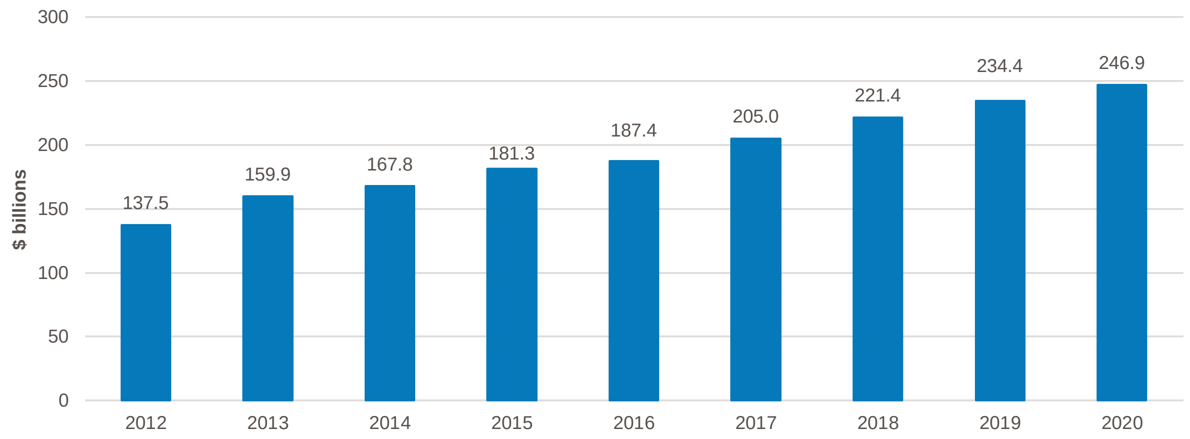
7.5 Total state sector

Net worth

The total state sector in New South Wales encompasses the GGS, PNFC and PFC sectors. Total state sector net worth reflects the financial value of the Government to the people of New South Wales. This comprises total assets, which is the stock of goods, cash and investments for which the Government has control, less total liabilities, which is the stock of debt and other obligations the Government is committed to repay.

Total state sector net worth is forecast to grow by 9.4 per cent by 30 June 2017 to $205.0 billion. Continued growth in net worth is forecast over the budget year and forward estimates by an average of 7.1 per cent per year, which reflects continued increases in total asset and an overall decrease in total liabilities over the period. The main drivers of the increase in assets are strategic infrastructure investments through the State's infrastructure plan, including Sydney Metro City and South West, Western Sydney Infrastructure Plan and NorthConnex. Building infrastructure is a state priority and is discussed in Budget Paper No. 2 *Infrastructure Statement.* The main cause of the decrease in liabilities is the reduction in the unfunded superannuation liability. More information on the State's unfunded superannuation liabilities is available in Chapter 6 of this *Budget Statement*.

Chart 7.3: Total state sector net worth at 30 June



Net debt

Total state sector net debt comprises the sum of, borrowings, deposits held and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid in the GGS, PNFC and PFC sectors.

Total state sector net debt is estimated to be $39.0 billion at 30 June 2016, which is lower than estimated in the 2015-16 Budget due to the receipt of transaction proceeds from the successful long-term lease of TransGrid ($10.3 billion) and its debt retirement for the forward estimates.

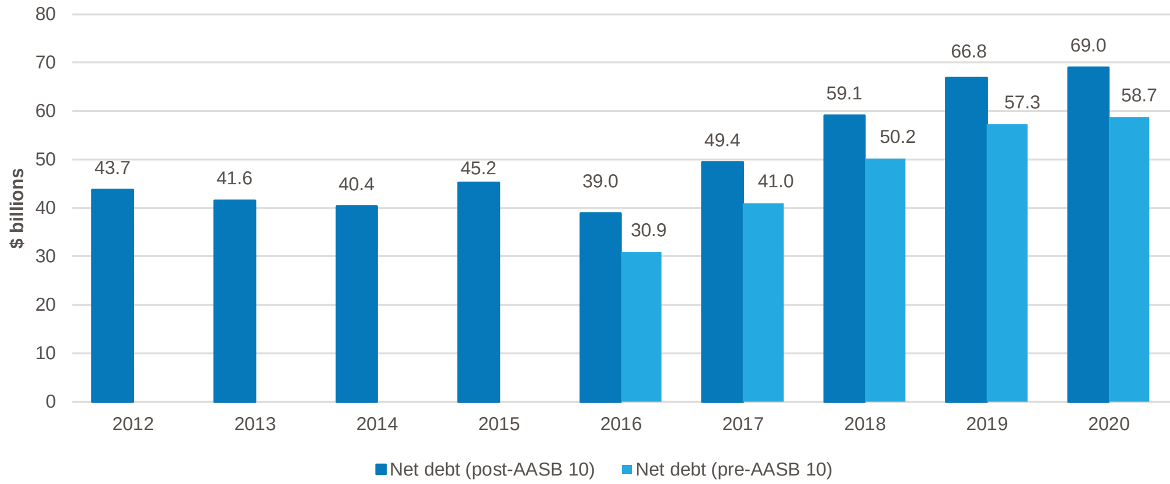
Total State net debt is projected to rise to $69.0 billion by 30 June 2020. This increase is being driven by infrastructure spending by both GGS and PNFCs, together with smaller cash operating surpluses. The infrastructure spending is being funded from operating cash flows and cash balances, funding from Restart as set out in the Government's capital plans and borrowings including a modest increase in GGS borrowings.

Since the 2015-16 Budget, the State has changed the way it accounts for TCorp's Hour-Glass Funds[1], which has also contributed to the increase in net debt relative to the 2015-16 Budget. The underlying listed equity investments in the Hour-Glass Funds have now been classified as other equity investments in the total state sector accounts. As the current definition of net debt does not include equity investments, net debt has increased. This reclassification increases net debt by up to $10.3 billion per annum, relative to the 2015-16 Budget but has no impact on net worth. Please refer to Chart 7.4 for the impact of this change.

Refer to Chapter 2 of this *Budget Statement* for further details on the State's record infrastructure plan.

[1] This change was due to the requirement of AASB 10 *Consolidated Financial Statements* as the State at its highest level controls these funds for accounting purposes.

Chart 7.4: Total state sector net debt at 30 June



A1. STATEMENT OF FINANCES

- This appendix presents the financial aggregates for the 2016-17 Budget.
- Financial aggregates in this appendix are prepared in line with:
  - the Uniform Presentation Framework (UPF) endorsed by the Australian Loan Council
  - Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised Government Finance Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) reporting basis.
- UPF Tables also include disclosures that identify 'convergence' differences as explained on pages A1-3 and A1-4.
- A 6-year time series is provided from 2014-15 to 2019-20 for the general government sector (GGS), public non-financial corporation (PNFC) sector, and consolidated non-financial public sector (NFPS).
- The Australian Bureau of Statistics (ABS) released a revised GFS-based Government Finance Estimates publication in December 2015 that will become effective from 1 July 2017.
- An analysis of general government revenue and expenses is presented in Appendix A4. This analysis supplements what is presented in Chapter 5: Budget Position and Outlook, and looks at each element of revenue and expenses by Government Purpose Classification (GPC) and category.
- Appendix A2 outlines the accounting policies and forecast assumptions adopted in the Budget. The Operating Statements as per Table A1.1, Table A1.10 and Table A1.14 quantifies the impact on the forward estimates from 2016-17 to 2019-20.

Introduction

This appendix presents financial aggregates for the GGS, PNFC sector and NFPS. These aggregates are prepared in line with the revised UPF agreed by the Australian Loan Council in March 2008.

The Australian Loan Council comprises each State and Territory Treasurer and the Australian Treasurer. It monitors state finances, particularly the forecast cash surplus/(deficit) of governments and their future financing/investing requirements. Accordingly, the objective of the UPF is to facilitate a better understanding of individual government's budget papers and provide for more meaningful comparisons of each government's financial results and projections.

The format of the aggregates is based on reporting standards set out by the Australian Accounting Standards Board – AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised GFS-GAAP reporting basis.

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.

Uniform Presentation Framework

The NSW Government financial tables in this appendix meet Loan Council obligations under the UPF.[1] Additional disclosures explain matters specific to New South Wales.

Framework

The UPF tables are in line with AASB 1049 which:

- adopts generally accepted accounting principles (GAAP) definitions, including recognition and measurement principles in almost all cases
- amends presentation requirements to encompass a comprehensive result that retains the GAAP classification system but overlays it with the transactions and other economic flows classification system based on GFS
- expands the disclosure requirements to include key fiscal aggregates required by GFS.

Due to differences in reporting classifications, GFS financial aggregates released by the ABS from 2008-09 will differ from UPF aggregates. These 'convergence' differences are not generally material for New South Wales, apart from GFS's exclusion of deferred tax, settlement provisions and obligation payments. For more information on other differences, see the primary financial statements later in this appendix. For details and amounts of the key 2014-15 convergence differences, see pages 7-161 to 7-164 of the *2014-15 Report on State Finances*.

Historical Series

To ensure a consistent historical series of fiscal aggregates, all jurisdictions have agreed to backcast published historical data on a best endeavours basis. For example, historic information in the consolidated operating statements has been recast on the basis of available dissections between GFS transactions and other economic flows.

Fiscal measures

UPF reporting measures evaluate the soundness of a government's fiscal position and the fiscal policy effect on the economy. The fiscal measures in the UPF framework are:

- net operating balance
- net lending/borrowing (fiscal balance)
- net worth
- change in net worth (comprehensive result)
- net debt
- net financial worth
- net financial liabilities
- cash surplus/(deficit)
- ABS GFS cash surplus/ (deficit).

Definitions of these measures are set out in the glossary to this budget paper.

[1] The complete UPF manual is available on the Australian Treasury website www.treasury.gov.au. Extracts from the manual are included in this appendix to explain key concepts while the glossary to this budget paper also includes key UPF terms.

Flow measures (net operating balance, net lending/borrowing and change in net worth) show changes in the fiscal position during the reporting period, reflecting the impact of government decisions and actions, and re-measurement effects during that time. Flows represent the creation, transformation, exchange, transfer or extinction of economic value.

Stock measures (net worth, net debt, net financial worth and net financial liabilities) highlight a government's fiscal position at a point in time, providing information on the aggregate results of past decisions.

Primary Financial Statements

UPF Presentation

Public sector estimates and outcomes are presented on an accrual accounting basis in three AASB 1049 based primary statements: the operating statement, including other economic flows; the balance sheet; and the cash flow statement. AASB 1049 adopts GFS principles where this does not conflict with GAAP. Details of key convergence differences between GFS and GAAP are explained in this appendix. The following statements, along with the Loan Council Allocation statement, form the UPF's core reporting requirements. Appendix A2 sets out the significant accounting policies and forecast assumptions adopted by New South Wales.

Operating Statement

The operating statement:

- presents information on transactions (revenue and expenses) and other economic flows (revaluations and adjustments)
- captures the composition of revenues and expenses and the net cost of government activities within a fiscal year
- shows the full cost of resources consumed by the government in achieving its objectives and the extent that these costs are met from various revenue sources
- shows information on capital expenditure and asset sales to derive a net lending/borrowing position.

The operating statement also reports three major fiscal measures:

- net operating balance which is calculated as revenue minus expenses from transactions. New South Wales recognises its budget result as the net operating balance for the general government sector
- total change in net worth (comprehensive result) which starts with the net operating balance and includes other economic flows such as revaluations
- net lending (fiscal balance) which starts with the net operating balance and includes net capital expenditure but excludes depreciation, giving the best indicator of a jurisdiction's call on financial markets.

Convergence differences in the Operating Statement

The main differences in treatment between the NSW GFS operating statement and the harmonised AASB 1049 operating statement presented are below.

- the harmonised aggregates exclude selected Australian Government transfer payment revenues and expenses that pass through the State's accounts. The ABS requires such payments to be grossed up in GFS reports. However, they are excluded from the AASB 1049 UPF reports as the NSW Government has no control over them. For information on the gross value of these grants see footnotes to the grants revenue and expense Table A1.6

- grants are recognised when the State gains control over the assets. Control is normally obtained when the cash is received. For example, the Australian Government gave the State a $960.0 million grant in June 2014 for road works to be carried out over several years. Under AASB 1049, this revenue was recognised in 2013-14 when the cash was received. However, in GFS reports, this revenue is recognised to match the timing of expenditure over the period 2014-15 to 2019-20. This GFS treatment is in line with an ABS direction
- dividends paid by the PNFC and PFC sectors are recognised as an expense in GFS (in the PNFC and PFC sector operating statements), but they are treated as an equity transaction for AASB 1049
- a liability is recognised in the UPF balance sheet for prepaid licence concession receipts. Income is subsequently recognised from amortising the prepaid licence over the concession period. GFS treats this as a sale of a non-produced intangible asset in the period that the prepayment is received.

Balance Sheet

The balance sheet:

- records the value of financial and non-financial assets and liabilities of governments, at the end of each financial year
- shows the resources at the government's disposal and the type and valuation of its liabilities
- reveals the make-up of the government's financial assets, its fixed asset holdings, and the extent of liabilities such as borrowings and unfunded superannuation
- allows comparisons of asset and liability levels between jurisdictions and time periods.

The UPF balance sheet fiscal aggregates include net worth, net financial worth, net financial liabilities and net debt.

Convergence differences in Balance Sheet

The main differences in treatment between the GFS balance sheet and the harmonised AASB 1049 balance sheet presented here include the following.

- allowance for doubtful debts is recognised and reported in the UPF balance sheet, but is excluded from the GFS balance sheet, as GFS does not recognise an economic event has occurred
- a prepaid income liability is recognised in the UPF balance sheets for unamortised prepaid licences. This liability is excluded from the GFS balance sheet, which treats the prepaid income as an upfront sale of a non-produced intangible asset
- GFS balance sheets exclude deferred tax assets and deferred tax liabilities, but they are reported in accounting balance sheets. The convergence difference only affects GGS, PNFC and PFC sector balance sheets, as the assets and liabilities are eliminated for the consolidated non-financial public sector and Total Public Sector balance sheets
- GFS balance sheets exclude provisions for asset remediation liabilities, and the related capitalised asset value, but they are reported in accounting balance sheets. GFS will only recognise the liability when it effectively becomes payable to a counterparty. The convergence difference affects net financial liabilities, but not net worth
- GFS balance sheets also do not recognise other settlement provisions and obligation payments as there is no present counterparty to the transactions
- net financial worth and net financial liabilities aggregates are affected by the differing treatments for prepayments. Prepayments are treated in GFS as a receivable (financial asset), but in the UPF they are classified as a non-financial asset under AASB 1049. While this difference affects net financial liabilities and net financial worth, it does not affect net debt and net worth aggregates

- GFS net debt for the general government sector will always be lower than (AASB 1049) net debt, as the ABS requires that certain equity investments (in multi-jurisdictional agencies) be reclassified for GFS purposes as advances, reducing the value of GFS net debt. While this affects net debt, it does not affect net financial liabilities and net worth aggregates
- by definition, GFS net worth for the PNFC and PFC sectors will always be zero, as owner's equity is classified as equivalent to a liability. However, under the UPF, liabilities exclude owner's equity.

Cash Flow Statement

The cash flow statement reveals how a government obtains and expends cash. It shows how government cash inflows and outflows are allocated between various activities, and their net impact on cash held.

This statement requires cash flows to be categorised into:

- operating activities comprising activities linked to collecting taxes, distributing grants, and providing goods and services
- investing activities comprising activities linked to acquiring and disposing financial and non-financial assets
- financing activities comprising activities linked to changing the size and composition of a government's financial structure.

The sign convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows).

The cash flow statement reports two fiscal measures:

- net increase in cash held which is the sum of net cash flows from all operating, investing and financing activities
- cash surplus/(deficit) which comprises only net cash from operating activities, plus sales and less purchases of non-financial assets (less dividends paid for the PNFC and PFC sectors).

The ABS GFS cash surplus/(deficit) is shown in a separate table. The ABS GFS cash surplus/(deficit) is derived by deducting finance leases and similar financing arrangements from the AASB 1049 cash surplus/(deficit) for all sectors.

Exclusion of non-cash finance leases and similar financing arrangements is the only difference between the GFS cash result and the AASB 1049 cash result.

New South Wales uses the AASB 1049 cash result (excluding the impact of finance leases and similar financing arrangements) as its headline cash result.

Institutional sectors

Appendix A3 lists NSW-controlled entities. The NSW-controlled entities have been classified according to their government sector. These sectors are defined in the ABS GFS manual.

Emerging Issues

Market/non-market agency classification

The ABS released the revised *Standard Economic Sector Classification of Australia (SESCA)*, Australia, 2008 (Cat.no.1218.0) in November 2009.

The ABS applies a principles-based approach in classifying agencies as either market or non-market. The principle is that market operators make decisions about what to produce and how much to produce in response to expected levels of demand and expected costs of supply. A market producer should therefore earn a significant amount from sales, but other factors may need to be taken into account.

Applying the market/non-market definition may result in some public sector agencies moving between the public corporations and general government sectors. The ABS *GFS Concepts, Sources and Methods* currently references the 2008 SESCA. This will remain the standard in GFS until the revised ABS *GFS Concepts, Sources and Methods* becomes effective from 1 July 2017, however, the broad concepts will not change.

Revised GFS Manual

The International Monetary Fund's (IMF) *Government Finance Statistics Manual 2001* (GFSM 2001) was revised to reflect the 2008 System of National Accounts. The IMF released the final version of the international Government Finance Statistics Manual in December 2014. The ABS GFS manual has been updated to reflect the new international standards (where applicable).

The revised Australian GFS Manual was released in December 2015 and will take effect from 1 July 2017. The publication of GFS data under the revised ABS GFS manual will begin from the September quarter 2017 and in the Annual GFS publications from 2017-18.

Uniform Presentation Tables

These tables are set out by institutional sectors showing the order of operating statement, balance sheet and cash flow statement.

In addition to the UPF minimum disclosure requirements, these tables also include a historical and forward year time series. The tables for general government sector also include:

- tax revenues by type
- a dissection of grant revenue and expense
- dividend and income tax equivalent income by sector
- total expenses by function
- purchases of non-financial assets by function.

Table A1.1: General government sector operating statement

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Revenue from Transactions						
Taxation	26,067	29,034	29,759	31,240	32,503	34,021
Grants and Subsidies						
- Commonwealth General Purpose	17,065	17,647	17,663	17,679	17,808	18,285
- Commonwealth Specific Purpose Payments	8,103	8,844	9,272	9,780	9,728	10,212
- Commonwealth National Partnership Payments	2,899	2,779	4,682	2,742	1,579	1,546
- Other Grants and Subsidies	1,091	938	727	775	803	815
Sale of Goods and Services	6,255	8,229	8,296	8,276	8,540	8,804
Interest	658	758	914	835	726	694
Dividend and Income Tax Equivalents from Other Sectors	2,407	1,218	1,173	889	953	1,270
Other Dividends and Distributions	1,164	324	441	457	477	496
Fines, Regulatory Fees and Other	3,909	4,002	4,078	4,276	4,363	4,513
Total Revenues from Transactions	**69,617**	**73,772**	**77,005**	**76,948**	**77,479**	**80,656**
Expenses from Transactions						
Employee	27,818	29,510	30,058	32,008	33,613	35,061
Superannuation						
- Superannuation Interest Cost	1,683	1,569	1,436	1,514	1,566	1,554
- Other Superannuation	2,846	2,903	3,001	2,892	2,916	2,969
Depreciation and Amortisation	4,172	4,453	4,608	4,899	5,068	5,245
Interest	2,243	2,221	2,165	2,198	2,276	2,581
Other Property	...	...	...	...	...	...
Other Operating	14,809	17,188	18,656	18,506	18,432	19,218
Grants and Subsidies						
- Current Grants and Subsidies	9,895	11,629	12,367	12,567	11,272	11,615
- Capital Grants	3,270	889	1,000	1,039	953	798
Total Expenses from Transactions	**66,736**	**70,363**	**73,292**	**75,622**	**76,097**	**79,043**
Transactions from Discontinuing Operations	...	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**2,881**	**3,409**	**3,713**	**1,326**	**1,382**	**1,613**

Table A1.1: General government sector operating statement (cont)

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(819)	(693)	277	258	92	163
Other Net Gains/(Losses)	382	176	(182)	108	46	145
Share of Earnings from Associates (excluding Dividends)	18	(7)	13	17	22	12
Dividends from Asset Sale Proceeds	177	...	271	...	...	...
Deferred Income Tax from Other Sectors	137	...	...	...	...	...
Other	3	(702)	63	45	51	79
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(102)**	**(1,226)**	**443**	**428**	**210**	**399**
Operating Result	**2,779**	**2,183**	**4,156**	**1,754**	**1,592**	**2,011**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	(3,183)	(9,762)	8,657	7,157	3,846	3,717
Revaluations	6,631	4,710	4,161	4,417	4,214	4,168
Share of Earnings from Associates from Revaluations	894	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	6,590	12,377	4,906	5,116	5,196	4,723
Net Gain/(Loss) on Equity Investments in Other Sectors Discontinued	(220)	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	0	1	...	...	...	...
Other	64	(3,410)	(3,945)	(1,985)	(1,912)	(1,944)
Other Economic Flows - Other Comprehensive Income	**10,775**	**3,917**	**13,778**	**14,705**	**11,344**	**10,664**
Comprehensive Result - Total Change in Net Worth (a)	**13,555**	**6,099**	**17,934**	**16,459**	**12,935**	**12,675**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**13,555**	**6,099**	**17,934**	**16,459**	**12,935**	**12,675**
Less: Net Other Economic Flows	(10,674)	(2,691)	(14,221)	(15,133)	(11,553)	(11,062)
Equals: Budget Result - Net Operating Balance	**2,881**	**3,409**	**3,713**	**1,326**	**1,382**	**1,613**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	9,376	9,472	12,358	11,948	8,904	7,555
Sales of Non-Financial Assets	(700)	(864)	(663)	(328)	(423)	(270)
Less: Depreciation	(4,172)	(4,453)	(4,608)	(4,899)	(5,068)	(5,245)
Plus : Change in Inventories	(8)	1	(8)	(4)	(4)	(2)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	107	89	156	128	3,418	154
- Other	(1,596)	126	106	109	155	150
Equals: Total Net Acquisition of Non-Financial Assets	**3,007**	**4,371**	**7,341**	**6,954**	**6,981**	**2,341**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(126)**	**(963)**	**(3,628)**	**(5,628)**	**(5,599)**	**(729)**
OTHER FISCAL AGGREGATES						
Capital Expenditure (b)	9,484	9,561	12,514	12,075	12,322	7,709

(a) 'Total change in net worth' is before transactions with owners as owners, and before revisions to equity from changes to accounting policies. Therefore, it may not equal the movement in balance sheet net worth.

(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

Table A1.2: General government sector balance sheet

	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	12,433	6,145	1,582	1,572	1,829	1,689
Receivables	7,355	5,750	5,885	5,691	5,627	5,810
Tax Equivalents Receivable	156	94	98	65	78	197
Investments, Loans and Placements						
Financial Assets at Fair Value	10,487	10,687	18,613	15,672	14,566	13,106
Other Financial Assets	3,231	14,075	5,087	2,706	1,225	1,294
Advances Paid	928	1,081	1,237	1,289	1,212	1,293
Deferred Tax Equivalents Assets	4,659	3,878	3,955	4,029	4,114	4,227
Equity						
Investments in Other Public Sector Entities	91,341	97,474	102,380	107,496	112,692	117,415
Investments in Associates	3,949	3,935	3,927	3,921	3,918	3,905
Other Equity Investments	10	540	562	585	610	634
Total Financial Assets	**134,549**	**143,660**	**143,326**	**143,024**	**145,870**	**149,570**
Non-Financial Assets						
Inventories	239	240	232	228	224	222
Forestry Stock and Other Biological Assets	9	10	10	10	10	10
Assets Classified as Held for Sale	349	119	84	77	49	47
Investment Properties	...	3	3	3	3	3
Property, Plant and Equipment						
Land and Buildings	67,821	69,952	72,032	74,046	75,934	77,222
Plant and Equipment	10,929	11,373	12,530	12,809	13,109	14,002
Infrastructure Systems	79,590	85,027	91,664	100,179	111,204	115,252
Intangibles	2,904	3,103	3,475	3,296	2,987	2,646
Other Non-Financial Assets	2,512	3,195	4,509	5,756	4,285	4,611
Total Non-Financial Assets	**164,353**	**173,021**	**184,539**	**196,403**	**207,806**	**214,014**
Total Assets	**298,902**	**316,682**	**327,865**	**339,428**	**353,676**	**363,584**
Liabilities						
Deposits Held	126	123	113	103	93	98
Payables	5,720	5,107	4,917	4,644	4,895	4,883
Tax Equivalent Payables	10	12	9	12	12	...
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	11	8	6	5	3	2
Borrowings at Amortised Cost	31,500	31,656	33,067	35,332	39,882	40,489
Advances Received	903	865	873	822	710	787
Employee Provisions	15,313	16,518	16,519	16,402	16,638	16,823
Superannuation Provisions [(a)]	52,498	63,322	55,510	48,630	44,930	41,286
Deferred Tax Equivalent Provisions	406	297	280	275	275	276
Other Provisions	8,234	8,461	8,684	8,843	9,058	9,363
Other Liabilities	2,858	2,866	2,910	2,922	2,808	2,719
Total Liabilities	**117,579**	**129,235**	**122,887**	**117,990**	**119,303**	**116,727**
NET ASSETS	**181,323**	**187,447**	**204,978**	**221,437**	**234,373**	**246,857**
NET WORTH						
Accumulated Funds	19,601	15,131	24,536	31,581	35,225	38,839
Reserves	161,722	172,316	180,443	189,856	199,147	208,017
TOTAL NET WORTH	**181,323**	**187,447**	**204,978**	**221,437**	**234,373**	**246,857**
OTHER FISCAL AGGREGATES						
Net Financial Worth[(b)]	**16,970**	**14,426**	**20,440**	**25,034**	**26,567**	**32,842**
Net Debt[(c)]	**5,461**	**663**	**7,539**	**15,023**	**21,856**	**23,994**
Net Financial Liabilities[(d)]	**74,371**	**83,048**	**81,940**	**82,462**	**86,125**	**84,572**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net financial worth equals total financial assets minus total financial liabilities.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

Table A1.3: General government sector cash flow statement

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Cash Receipts from Operating Activities						
Taxes Received	26,288	29,118	29,742	31,253	32,557	34,084
Receipts from Sales of Goods and Services	6,585	8,903	8,776	8,896	9,217	9,255
Grants and Subsidies Received	29,026	30,298	32,317	30,997	29,922	30,867
Interest Receipts	617	722	862	795	703	650
Dividends and Income Tax Equivalents	2,240	2,223	1,178	1,077	918	948
Other Receipts	8,620	7,340	7,535	7,525	7,601	7,632
Total Cash Receipts from Operating Activities	**73,376**	**78,604**	**80,411**	**80,543**	**80,918**	**83,436**
Cash Payments from Operating Activities						
Payments for Employees	(27,423)	(29,627)	(29,834)	(32,085)	(33,362)	(34,772)
Payments for Superannuation	(3,424)	(3,575)	(3,592)	(4,130)	(4,336)	(4,451)
Payments for Goods and Services	(16,031)	(19,308)	(21,716)	(21,298)	(20,985)	(20,755)
Grants and Subsidies Paid	(9,482)	(9,922)	(10,896)	(11,006)	(9,715)	(9,811)
Interest Paid	(1,680)	(1,712)	(1,628)	(1,609)	(1,615)	(1,896)
Other Payments	(4,413)	(4,351)	(4,616)	(4,376)	(4,457)	(4,298)
Total Cash Payments from Operating Activities	**(62,453)**	**(68,494)**	**(72,282)**	**(74,504)**	**(74,469)**	**(75,983)**
Net Cash Flows from Operating Activities	**10,923**	**10,110**	**8,129**	**6,039**	**6,449**	**7,453**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	690	877	663	328	423	270
Purchases of Non-Financial Assets	(9,408)	(9,561)	(12,235)	(12,130)	(8,634)	(7,980)
Net Cash Flows from Investments in Non-Financial Assets	**(8,718)**	**(8,683)**	**(11,572)**	**(11,802)**	**(8,210)**	**(7,710)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	1,095	6,299	461	224	289	256
Payments	(1,281)	(3,604)	(3,453)	(2,225)	(2,096)	(2,165)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(186)**	**2,695**	**(2,992)**	**(2,001)**	**(1,807)**	**(1,909)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	12,422	13,476	10,595	8,168	4,581	3,587
Payments for Purchases of Investments	(11,791)	(23,840)	(9,091)	(2,437)	(1,716)	(1,747)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**632**	**(10,364)**	**1,504**	**5,731**	**2,864**	**1,840**
Net Cash Flows from Investing Activities	**(8,273)**	**(16,352)**	**(13,061)**	**(8,072)**	**(7,153)**	**(7,779)**
Cash Flows from Financing Activities						
Advances Received	150	110	47	37	38	34
Advances Repaid	(62)	(113)	(57)	(71)	(111)	(112)
Proceeds from Borrowings	1,130	446	1,319	2,737	1,793	818
Repayments of Borrowings	(1,188)	(475)	(547)	(675)	(758)	(480)
Deposits Received (net)	8	(4)	(11)	(11)	(11)	4
Other Financing (net)	(12)	...	...	...	...	...
Net Cash Flows from Financing Activities	**26**	**(38)**	**751**	**2,017**	**951**	**265**
Net Increase/(Decrease) in Cash Held	**2,676**	**(6,279)**	**(4,181)**	**(16)**	**247**	**(61)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	10,923	10,110	8,129	6,039	6,449	7,453
Net Cash Flows from Investments in Non-Financial Assets	(8,718)	(8,683)	(11,572)	(11,802)	(8,210)	(7,710)
Cash Surplus/(Deficit)	**2,205**	**1,427**	**(3,444)**	**(5,763)**	**(1,761)**	**(257)**

Table A1.4: Derivation of ABS GFS general government sector cash surplus/(deficit)

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Cash Surplus/(Deficit)	**2,205**	**1,427**	**(3,444)**	**(5,763)**	**(1,761)**	**(257)**
Assets Acquired under Finance Leases	(107)	(89)	(156)	(128)	(3,418)	(154)
Other Financing Arrangements [(a)]	42	75	(123)	182	(270)	425
ABS GFS Surplus/(Deficit)	**2,139**	**1,413**	**(3,722)**	**(5,709)**	**(5,449)**	**14**

(a) Comprises movements in payables and receivables of a capital nature.

Table A1.5: General government sector taxes

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m
Taxes on Employers' Payroll and Labour Force	**7,461**	**7,851**	**8,247**
Taxes on Property			
Land Taxes	2,467	2,758	3,136
Stamp Duties on Financial and Capital Transactions	8,093	9,656	9,320
Financial Institutions' Transaction Taxes	...	...	...
Other	164	155	165
Total Taxes on Property	**10,725**	**12,570**	**12,620**
Taxes on the Provision of Goods and Services			
Excises and Levies	...	...	...
Taxes on Gambling	2,067	2,217	2,268
Taxes on Insurance	2,009	2,306	2,421
Total Taxes on the Provision of Goods and Services	**4,076**	**4,524**	**4,689**
Taxes on Use of Goods and Performance of Activities			
Motor Vehicle Taxes	3,037	3,214	3,389
Franchise Taxes	0	1	1
Other	768	874	812
Total Taxes on Use of Goods and Performance of Activities	**3,805**	**4,089**	**4,202**
Total Taxation Revenue	**26,067**	**29,034**	**29,759**

Table A1.6: General government sector grant revenue and expense

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m
Current Grants and Subsidies Revenue			
Current Grants from the Commonwealth [a]			
General Purpose Grants	17,065	17,647	17,663
Specific Purpose Payments	8,103	8,844	9,272
National Partnership Payments	1,163	1,140	877
Total	**26,331**	**27,632**	**27,812**
Other Grants and Subsidies	1,088	900	701
Total Current Grants and Subsidies Revenue	**27,419**	**28,532**	**28,514**
Capital Grants and Subsidies Revenue			
Capital Grants from the Commonwealth [a]			
General Purpose Grants	...	...	...
Specific Purpose Payments	0	0	0
National Partnership Payments	1,736	1,639	3,805
Total	**1,736**	**1,639**	**3,805**
Other Grants and Subsidies	3	37	25
Total Capital Grants and Subsidies Revenue	**1,739**	**1,676**	**3,831**
Total Grant Revenue	**29,158**	**30,208**	**32,344**
Current Grant, Subsidies, and Transfer Payments Expense to:			
State/Territory Government	...	...	...
Local Government [a]	530	1,032	973
Private and Not-for-Profit Sector [a]	6,378	7,419	7,607
Other Sectors of Government	2,987	3,177	3,787
Total Current Grants, Subsidies, and Transfer Payments Expense	**9,895**	**11,629**	**12,367**
Capital Grant, Subsidies, and Transfer Payments Expense to:			
State/Territory Government	...	...	...
Local Government [a]	158	331	344
Private and Not-for-Profit Sector [a]	333	361	370
Other Sectors of Government	2,779	197	286
Total Capital Grants, Subsidies, and Transfer Payments Expense	**3,270**	**889**	**1,000**
Total Grant Expense	**13,165**	**12,518**	**13,368**

Note:
(a) Grant revenue and expenses above exclude the following transfer payments from the Commonwealth that New South Wales passes on to third parties. They are not recorded as NSW revenue and expense elsewhere in Budget Papers as the State has no control over the amounts that it passes on. Details are as follows:

Transfer Receipts			
Current Transfer Receipts for Specific Purposes	4,293	4,075	4,156
Capital Transfer Receipts for Specific Purposes	...	...	...
Total Receipts	**4,293**	**4,075**	**4,156**
Current Transfer Payments to			
Local Government	716	711	712
Private and Not-for Profit Sector	3,222	3,364	3,444
Capital Transfer Payments to			
Local Government	...	...	...
Private and Not-for Profit Sector	...	...	...
Total Payments	**3,937**	**4,075**	**4,156**

Table A1.7: General government sector dividend and income tax equivalent income

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m
Dividend and Income Tax Revenue from the PNFC Sector	2,282	1,171	1,094
Dividend and Income Tax Revenue from the PFC Sector	125	47	79
Other Dividend Income	1,164	324	441
Total Dividend and Income Tax Equivalent Income	**3,571**	**1,542**	**1,614**

Table A1.8: General government sector expenses by function

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m
General Public Services	2,650	3,100	3,484
Defence	...	...	...
Public Order and Safety	6,551	7,110	7,334
Education	14,008	14,686	15,727
Health	18,323	19,505	20,417
Social Security and Welfare	5,541	6,224	6,117
Housing and Community Amenities	2,543	2,731	2,941
Recreation and Culture	1,096	1,159	1,170
Fuel and Energy	26	31	36
Agriculture, Forestry, Fishing and Hunting	750	751	779
Mining and Mineral Resources other than Fuels; Manufacturing; and Construction	179	192	211
Transport and Communications	9,161	9,085	9,217
Other Economic Affairs	716	964	1,291
Other Purposes [(a)]	5,193	4,824	4,567
Total Expenses	**66,736**	**70,363**	**73,292**

(a) 2016-17 includes $150.0 million Advance to the Treasurer, which will be allocated across functions as the funds are expended on recurrent in the Budget Year. This is the same overall amount as that allocated to the Treasurer's Advance in 2015-16.

Table A1.9: General government sector purchases of non-financial assets by function

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m
General Public Services	459	445	224
Defence	...	...	...
Public Order and Safety	482	464	1,574
Education	422	461	653
Health	1,257	1,249	1,459
Social Security and Welfare	209	194	114
Housing and Community Amenities	204	145	182
Recreation and Culture	178	213	213
Fuel and Energy	7	...	...
Agriculture, Forestry, Fishing and Hunting	29	19	191
Mining and Mineral Resources other than Fuels; Manufacturing; and Construction	0	7	8
Transport and Communications	6,104	6,244	7,239
Other Economic Affairs	18	11	37
Other Purposes [(a)]	6	19	464
Total Purchases of Non-Financial Assets	**9,376**	**9,472**	**12,358**
Assets Acquired under Finance Leases			
Health	22	...	...
Transport and Communications	85	89	156
Total Assets Acquired under Finance Leases	**107**	**89**	**156**
Total Capital Expenditure	**9,484**	**9,561**	**12,514**

(a) 2016-17 includes $20.0 million Advance to the Treasurer, which will be allocated across functions as the funds are expended on capital in the Budget Year. This is the same overall amount as that allocated to the Treasurer's Advance in 2015-16.

Table A1.10: Public non-financial corporation sector operating statement

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Revenue from Transactions						
Grants and Subsidies						
- Commonwealth Specific Purpose Payments	50	43	0	0	0	0
- Commonwealth National Partnership Payments	...	...	...	...	...	...
- Other Grants and Subsidies	3,554	2,769	2,896	3,068	2,985	2,812
Sale of Goods and Services	12,488	10,984	10,903	11,010	11,323	12,195
Interest	87	99	74	73	63	56
Fines, Regulatory Fees and Other	2,910	978	990	969	1,009	1,043
Total Revenues from Transactions	**19,089**	**14,874**	**14,863**	**15,120**	**15,380**	**16,107**
Expenses from Transactions						
Employee	3,416	3,358	3,323	3,492	3,342	3,352
Superannuation						
- Superannuation Interest Cost	85	66	66	66	64	61
- Other Superannuation	345	268	256	251	230	228
Depreciation and Amortisation	3,290	3,206	3,330	3,445	3,634	3,936
Interest	1,815	1,600	1,616	1,821	1,935	1,919
Income Tax Expense	705	415	416	282	313	423
Other Property	...	...	...	...	...	...
Other Operating	6,139	6,282	7,162	7,191	7,096	7,071
Grants and Subsidies						
- Current Grants and Subsidies	326	312	305	306	306	306
- Capital Grants	74	85	25	74	7	7
Total Expenses from Transactions	**16,195**	**15,591**	**16,499**	**16,930**	**16,928**	**17,302**
Transactions from Discontinuing Operations [(a)]	6	(239)	...	...	...	...
NET OPERATING BALANCE - SURPLUS AFTER TAX	**2,900**	**(957)**	**(1,636)**	**(1,810)**	**(1,547)**	**(1,196)**

Table A1.10: Public non-financial corporation sector operating statement (cont)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result						
Other Net Gains/(Losses)	352	3,915	672	698	388	(19)
Share of Earnings from Associates (excluding Dividends)	76	...	...	...	...	...
Dividends from Asset Sale Proceeds	...	...	...	...	...	...
Deferred Income Tax from Other Sectors	...	...	...	...	...	...
Other	(27)	(27)	0	15	(27)	(17)
Discontinuing Operations - Other Economic Flows	(39)	19	...	...	...	...
Other Economic Flows - included in Operating Result	**362**	**3,907**	**672**	**713**	**361**	**(36)**
Operating Result	**3,263**	**2,950**	**(964)**	**(1,097)**	**(1,186)**	**(1,232)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	108	(965)	625	539	303	300
Deferred Tax Direct to Equity	(108)	369	(100)	(98)	(62)	(101)
Revaluations	5,467	7,205	2,322	2,217	2,925	3,331
Share of Earnings from Associates from Revaluations	...	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Financial Instruments at Fair Value	(31)	10	3	2	2	1
Other	205	3,673	3,057	1,878	2,019	1,948
Other Economic Flows - Other Comprehensive Income	**5,640**	**10,292**	**5,908**	**4,539**	**5,185**	**5,479**
Comprehensive Result - Total Change in Net Worth [(b)]	**8,903**	**13,242**	**4,944**	**3,442**	**3,999**	**4,248**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**8,903**	**13,242**	**4,944**	**3,442**	**3,999**	**4,248**
Less: Net Other Economic Flows	(6,003)	(14,199)	(6,580)	(5,251)	(5,546)	(5,443)
Equals: Net Operating Balance - Surplus After Tax	**2,900**	**(957)**	**(1,636)**	**(1,810)**	**(1,547)**	**(1,196)**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	3,887	6,805	7,752	7,935	6,287	5,066
Sales of Non-Financial Assets	(348)	(799)	(858)	(614)	(589)	(537)
Less: Depreciation	(3,290)	(3,206)	(3,330)	(3,445)	(3,634)	(3,936)
Plus : Change in Inventories	(262)	(122)	9	347	250	533
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	42	247	1,570	11	110	...
- Other	2,373	443	490	399	494	512
Equals: Total Net Acquisition of Non-Financial Assets	**2,401**	**3,367**	**5,634**	**4,632**	**2,918**	**1,638**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**499**	**(4,323)**	**(7,270)**	**(6,442)**	**(4,466)**	**(2,834)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(c)]	3,928	7,052	9,322	7,946	6,397	5,066
Dividends Accrued [(d)]	(1,577)	(717)	(678)	(501)	(661)	(887)

(a) Discontinuing operations for 2014-15 includes Macquarie Generation and Delta Electricity. Discontinuing operations for 2015-16 includes TransGrid.

(b) 'Total change in net worth' is before transactions with owners as owners, and before revisions to accounting policies. The actual movement in balance sheet net worth may therefore differ.

(c) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

(d) 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 A1.11: Public non-financial corporation sector balance sheet

	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	1,404	2,533	2,132	1,841	1,594	1,232
Receivables	1,809	1,559	1,505	1,487	1,517	1,619
Tax Equivalents Receivable	10	12	9	12	12	...
Investments, Loans and Placements						
Financial Assets at Fair Value	151	126	103	83	75	80
Other Financial Assets	833	919	716	669	665	638
Advances Paid	0	0	0	0	0	0
Deferred Tax Equivalents Assets	400	291	274	269	269	270
Equity						
Investments in Associates	...	...	...	...	...	...
Other Equity Investments	525	2	152	152	152	152
Total Financial Assets	**5,133**	**5,442**	**4,890**	**4,511**	**4,284**	**3,990**
Non-Financial Assets						
Inventories	837	655	559	799	953	1,401
Forestry Stock and Other Biological Assets	858	899	899	899	899	899
Assets Classified as Held for Sale	243	154	93	93	92	93
Investment Properties	546	514	527	540	553	567
Property, Plant and Equipment						
Land and Buildings	58,925	63,748	66,608	68,048	69,750	71,666
Plant and Equipment	6,455	6,027	6,241	6,180	6,059	6,068
Infrastructure Systems	68,703	69,471	74,219	79,200	83,035	85,345
Intangibles	1,526	947	1,040	1,034	1,002	961
Other Non-Financial Assets	175	185	186	200	213	227
Total Non-Financial Assets	**138,269**	**142,600**	**150,372**	**156,992**	**162,558**	**167,227**
Total Assets	**143,402**	**148,043**	**155,263**	**161,503**	**166,842**	**171,216**
Liabilities						
Deposits Held	96	47	34	37	43	43
Payables	2,577	2,897	2,797	2,809	2,718	2,701
Tax Equivalent Payables	148	85	92	57	68	186
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	18	40	567	2,259	2,949	3,112
Borrowings at Amortised Cost	32,823	32,621	36,151	38,583	40,241	40,963
Advances Received	432	404	389	374	358	343
Employee Provisions	1,868	1,568	1,515	1,437	1,418	1,410
Superannuation Provisions[(a)]	2,656	3,131	2,582	2,099	1,839	1,592
Deferred Tax Equivalent Provisions	4,658	3,878	3,955	4,028	4,113	4,227
Other Provisions	2,618	1,557	1,351	1,089	1,105	1,297
Other Liabilities	294	295	317	276	197	189
Total Liabilities	**48,189**	**46,522**	**49,748**	**53,048**	**55,049**	**56,063**
NET ASSETS	**95,212**	**101,520**	**105,514**	**108,455**	**111,793**	**115,153**
NET WORTH						
Accumulated Funds	45,811	46,740	48,530	49,588	50,293	50,653
Reserves	49,401	54,780	56,984	58,867	61,500	64,501
TOTAL NET WORTH	**95,212**	**101,520**	**105,514**	**108,455**	**111,793**	**115,153**
OTHER FISCAL AGGREGATES						
Net Financial Worth[(b)]	**(43,057)**	**(41,080)**	**(44,858)**	**(48,537)**	**(50,765)**	**(52,073)**
Net Debt[(c)]	**30,981**	**29,534**	**34,190**	**38,661**	**41,257**	**42,513**
Net Financial Liabilities[(d)]	**43,057**	**41,080**	**44,858**	**48,537**	**50,765**	**52,073**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net financial worth equals total financial assets minus total financial liabilities.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

Table A1.12: Public non-financial corporation sector cash flow statement

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities						
Receipts from Sales of Goods and Services	13,153	11,970	11,892	11,863	11,856	12,343
Grants and Subsidies Received	3,589	2,812	2,896	3,068	2,985	2,812
Interest Receipts	86	94	69	67	57	49
Other Receipts	1,986	2,017	1,754	1,695	1,697	1,775
Total Cash Receipts from Operating Activities	**18,813**	**16,892**	**16,611**	**16,694**	**16,595**	**16,979**
Cash Payments from Operating Activities						
Payments for Employees	(3,539)	(3,454)	(3,519)	(3,733)	(3,517)	(3,519)
Payments for Superannuation	(433)	(669)	(246)	(261)	(251)	(236)
Payments for Goods and Services	(6,539)	(5,660)	(7,186)	(7,278)	(7,165)	(7,327)
Grants and Subsidies Paid	(330)	(351)	(322)	(313)	(313)	(313)
Interest Paid	(1,839)	(1,687)	(1,622)	(1,832)	(1,922)	(1,915)
Income Tax Equivalents Paid	(816)	(527)	(409)	(323)	(304)	(295)
Other Payments	(1,469)	(1,616)	(1,212)	(1,189)	(1,194)	(1,254)
Total Cash Payments from Operating Activities	**(14,963)**	**(13,964)**	**(14,515)**	**(14,929)**	**(14,666)**	**(14,859)**
Net Cash Flows from Operating Activities	**3,850**	**2,929**	**2,096**	**1,765**	**1,929**	**2,120**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	347	799	858	614	589	537
Purchases of Non-Financial Assets	(3,891)	(6,862)	(7,702)	(7,934)	(6,307)	(5,080)
Net Cash Flows from Investments in Non-Financial Assets	**(3,544)**	**(6,063)**	**(6,845)**	**(7,319)**	**(5,718)**	**(4,543)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	908	3,526	...	...	...	...
Payments	(17)	(20)	(6)	(5)	(3)	(3)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**890**	**3,506**	**(6)**	**(5)**	**(3)**	**(3)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	118	98	220	87	79	97
Payments for Purchases of Investments	(12)	(101)	(175)	(28)	(59)	(65)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**106**	**(3)**	**45**	**59**	**20**	**32**
Net Cash Flows from Investing Activities	**(2,547)**	**(2,559)**	**(6,805)**	**(7,266)**	**(5,701)**	**(4,513)**
Cash Flows from Financing Activities						
Advances Received	360	3,673	3,057	1,878	2,019	1,948
Advances Repaid	(282)	(44)	(302)	(31)	(31)	(31)
Proceeds from Borrowings	3,615	6,777	2,414	4,209	3,356	1,099
Repayments of Borrowings	(3,677)	(7,974)	(130)	(172)	(1,204)	(302)
Dividends Paid	(1,292)	(1,595)	(717)	(678)	(621)	(684)
Deposits Received (net)	46	(49)	(14)	4	5	1
Other Financing (net)	...	...	...	...	...	...
Net Cash Flows from Financing Activities	**(1,230)**	**788**	**4,308**	**5,210**	**3,524**	**2,031**
Net Increase/(Decrease) in Cash Held	**73**	**1,157**	**(401)**	**(292)**	**(248)**	**(363)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	3,850	2,929	2,096	1,765	1,929	2,120
Net Cash Flows from Investments in Non-Financial Assets	(3,544)	(6,063)	(6,845)	(7,319)	(5,718)	(4,543)
Dividends Paid	(1,292)	(1,595)	(717)	(678)	(621)	(684)
Cash Surplus/(Deficit)	**(986)**	**(4,729)**	**(5,466)**	**(6,232)**	**(4,410)**	**(3,107)**

Table A1.13: Derivation of ABS GFS public non-financial corporation sector cash surplus/(deficit)

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Cash Surplus/(Deficit)	**(986)**	**(4,729)**	**(5,466)**	**(6,232)**	**(4,410)**	**(3,107)**
Assets Acquired under Finance Leases	(42)	(247)	(1,570)	(11)	(110)	...
Other Financing Arrangements [(a)]	5	57	(50)	(1)	20	14
ABS GFS Surplus/(Deficit)	**(1,023)**	**(4,918)**	**(7,086)**	**(6,244)**	**(4,499)**	**(3,093)**

(a) Comprises movements in payables and receivables of a capital nature.

Table A1.14: Non-financial public sector operating statement

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Revenue from Transactions						
Taxation	25,288	28,264	28,931	30,415	31,648	33,131
Grants and Subsidies						
- Commonwealth General Purpose	17,065	17,647	17,663	17,679	17,808	18,285
- Commonwealth Specific Purpose Payments	8,119	8,887	9,272	9,780	9,728	10,212
- Commonwealth National Partnership Payments	2,899	2,779	4,682	2,742	1,579	1,546
- Other Grants and Subsidies	812	581	351	421	414	421
Sale of Goods and Services	17,220	15,966	15,831	16,122	16,654	17,761
Interest	664	753	890	812	683	637
Dividend and Income Tax Equivalents from Other Sectors	125	47	79	105	99	103
Other Dividends and Distributions	1,164	324	441	457	477	496
Fines, Regulatory Fees and Other	4,888	4,954	5,045	5,228	5,355	5,532
Total Revenues from Transactions	**78,244**	**80,202**	**83,185**	**83,762**	**84,445**	**88,125**
Expenses from Transactions						
Employee	30,648	32,197	32,732	34,837	36,277	37,719
Superannuation						
- Superannuation Interest Cost	1,768	1,635	1,501	1,581	1,631	1,615
- Other Superannuation	3,191	3,171	3,256	3,143	3,146	3,197
Depreciation and Amortisation	7,462	7,660	7,938	8,344	8,702	9,181
Interest	3,977	3,718	3,683	3,923	4,106	4,387
Other Operating	19,227	20,143	22,262	22,362	22,121	22,823
Grants and Subsidies						
- Current Grants and Subsidies	7,213	8,995	9,686	9,854	8,550	8,928
- Capital Grants	565	772	727	704	618	602
Total Expenses from Transactions	**74,052**	**78,290**	**81,786**	**84,747**	**85,151**	**88,452**
Transactions from Discontinuing Operations [(a)]	11	(178)	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**4,204**	**1,734**	**1,400**	**(985)**	**(706)**	**(327)**

Table A1.14: Non-financial public sector operating statement (cont)

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward estimates $m	2018-19 $m	2019-20 $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Superannuation	10	4	...	...	...	...
Gain/(Loss) from Other Liabilities	(820)	(693)	277	258	92	163
Other Net Gains/(Losses)	658	4,088	490	806	433	126
Share of Earnings from Associates (excluding Dividends)	94	(7)	13	17	22	12
Dividends from Asset Sale Proceeds	(0)	...	...	...	...	...
Other	21	(38)	(37)	(38)	(38)	(39)
Discontinuing Operations - Other Economic Flows	12	(304)	...	...	...	...
Other Economic Flows - included in Operating Result	**(25)**	**3,049**	**743**	**1,043**	**508**	**262**
Operating Result	**4,179**	**4,784**	**2,143**	**58**	**(198)**	**(65)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	(3,075)	(10,727)	9,282	7,696	4,148	4,016
Deferred Tax Direct to Equity	1	(0)	...	...	...	(0)
Revaluations	12,992	11,916	6,483	6,634	7,139	7,499
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	355	1,691	1,859	2,252	2,065	1,368
Net Gain/(Loss) on Financial Instruments at Fair Value	(31)	11	3	2	2	1
Other	(821)	263	(888)	(108)	107	4
Other Economic Flows - Other Comprehensive Income	**9,420**	**3,154**	**16,739**	**16,477**	**13,460**	**12,888**
Comprehensive Result - Total Change in Net Worth [(b)]	**13,599**	**7,938**	**18,882**	**16,535**	**13,262**	**12,824**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**13,599**	**7,938**	**18,882**	**16,535**	**13,262**	**12,824**
Less: Net Other Economic Flows	(9,395)	(6,203)	(17,482)	(17,520)	(13,969)	(13,151)
Equals: Net Operating Balance	**4,204**	**1,734**	**1,400**	**(985)**	**(706)**	**(327)**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	13,260	16,274	20,106	19,879	15,188	12,618
Sales of Non-Financial Assets	(1,046)	(1,663)	(1,520)	(942)	(1,013)	(808)
Less: Depreciation	(7,462)	(7,660)	(7,938)	(8,344)	(8,702)	(9,181)
Plus : Change in Inventories	(270)	(121)	2	343	246	530
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	149	336	1,726	138	3,527	154
- Other	775	569	596	508	649	663
Equals: Total Net Acquisition of Non-Financial Assets	**5,405**	**7,735**	**12,972**	**11,582**	**9,896**	**3,976**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(1,202)**	**(6,001)**	**(11,572)**	**(12,567)**	**(10,602)**	**(4,303)**
OTHER AGGREGATES						
Capital Expenditure [(c)]	13,408	16,610	21,833	20,017	18,715	12,772

(a) Discontinuing operations for 2014-15 includes Macquarie Generation and Delta Electricity. Discontinuing operations for 2015-16 includes TransGrid.

(b) 'Total change in net worth' is before transactions with owners as owners, and before revisions to accounting policies. The actual movement in balance sheet net worth may therefore differ.

(c) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

Table A1.15: Non-financial public sector balance sheet

	June 2015 Actual	June 2016 Revised	June 2017 Budget	June 2018	June 2019 Forward Estimates	June 2020
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	13,837	8,678	3,714	3,413	3,423	2,920
Receivables	6,443	5,126	5,408	5,353	5,249	5,311
Investments, Loans and Placements						
Financial Assets at Fair Value	10,637	10,814	18,715	15,754	14,641	13,186
Other Financial Assets	3,582	14,516	5,344	2,933	1,441	1,479
Advances Paid	496	683	847	915	853	950
Deferred Tax Equivalents Assets	1	1	1	1	1	1
Equity						
Investments in Other Public Sector Entities	(3,802)	(2,111)	(252)	2,000	4,065	5,433
Investments in Associates	3,949	3,935	3,927	3,921	3,918	3,905
Other Equity Investments	535	542	714	737	761	786
Total Financial Assets	**35,678**	**42,183**	**38,418**	**35,027**	**34,352**	**33,971**
Non-Financial Assets						
Inventories	1,076	894	791	1,027	1,177	1,623
Forestry Stock and Other Biological Assets	868	910	909	909	909	909
Assets Classified as Held for Sale	592	273	177	170	141	140
Investment Properties	546	517	530	543	556	570
Property, Plant and Equipment						
Land and Buildings	126,745	133,700	138,640	142,094	145,684	148,887
Plant and Equipment	17,384	17,400	18,771	18,988	19,169	20,071
Infrastructure Systems	148,293	154,498	165,883	179,379	194,240	200,597
Intangibles	4,430	4,050	4,515	4,330	3,989	3,607
Other Non-Financial Assets	2,671	3,379	4,695	5,955	4,499	4,838
Total Non-Financial Assets	**302,605**	**315,622**	**334,911**	**353,395**	**370,363**	**381,241**
Total Assets	**338,283**	**357,805**	**373,329**	**388,422**	**404,715**	**415,212**
Liabilities						
Deposits Held	222	170	146	140	135	141
Payables	7,567	6,906	6,764	6,466	6,577	6,517
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	29	48	573	2,264	2,952	3,115
Borrowings at Amortised Cost	63,841	63,800	68,758	73,474	79,673	81,000
Advances Received	903	871	873	822	710	787
Employee Provisions	17,138	18,053	18,003	17,811	18,027	18,205
Superannuation Provisions (a)	55,155	66,453	58,091	50,728	46,769	42,878
Deferred Tax Equivalent Provisions	6	6	6	6	6	6
Other Provisions	8,907	8,970	9,034	9,122	9,326	9,634
Other Liabilities	3,123	3,147	3,220	3,192	2,999	2,902
Total Liabilities	**156,891**	**168,423**	**165,468**	**164,026**	**167,177**	**165,184**
NET ASSETS	**181,392**	**189,382**	**207,861**	**224,396**	**237,539**	**250,028**
NET WORTH						
Accumulated Funds	61,377	58,274	69,376	77,386	81,679	85,558
Reserves	120,015	131,108	138,485	147,010	155,859	164,471
TOTAL NET WORTH	**181,392**	**189,382**	**207,861**	**224,396**	**237,539**	**250,028**
OTHER FISCAL AGGREGATES						
Net Financial Worth (b)	**(121,213)**	**(126,240)**	**(127,050)**	**(128,999)**	**(132,825)**	**(131,213)**
Net Debt (c)	**36,442**	**30,198**	**41,729**	**53,685**	**63,113**	**66,507**
Net Financial Liabilities (d)	**117,411**	**124,129**	**126,798**	**130,999**	**136,890**	**136,646**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

Table A1.16: Non-financial public sector cash flow statement

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities						
Taxes Received	25,491	28,331	29,001	30,489	31,736	33,223
Receipts from Sales of Goods and Services	18,455	18,133	17,207	17,713	18,017	18,521
Grants and Subsidies Received	28,739	29,988	32,010	30,786	29,716	30,674
Interest Receipts	639	739	847	782	681	601
Dividends and Income Tax Equivalents	103	105	48	80	113	100
Other Receipts	10,579	9,350	9,224	9,079	9,117	9,202
Total Operating Receipts	**84,006**	**86,646**	**88,337**	**88,928**	**89,381**	**92,321**
Cash Payments from Operating Activities						
Payments for Employees	(30,326)	(32,247)	(32,541)	(34,988)	(36,045)	(37,438)
Payments for Superannuation	(3,739)	(4,235)	(3,838)	(4,391)	(4,587)	(4,687)
Payments for Goods and Services	(21,087)	(22,293)	(25,407)	(25,497)	(25,032)	(24,910)
Grants and Subsidies Paid	(6,076)	(7,294)	(8,059)	(8,007)	(6,753)	(7,023)
Interest Paid	(3,455)	(3,321)	(3,166)	(3,361)	(3,459)	(3,712)
Other Payments	(5,847)	(5,646)	(5,822)	(5,563)	(5,633)	(5,523)
Total Operating Payments	**(70,530)**	**(75,036)**	**(78,834)**	**(81,806)**	**(81,508)**	**(83,293)**
Net Cash Flows from Operating Activities	**13,477**	**11,610**	**9,503**	**7,122**	**7,873**	**9,028**
Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	1,036	1,677	1,520	942	1,013	808
Purchases of Non-Financial Assets	(13,292)	(16,420)	(19,934)	(20,060)	(14,937)	(13,057)
Net Cash Flows from Investments in Non-Financial Assets	**(12,255)**	**(14,743)**	**(18,413)**	**(19,118)**	**(13,925)**	**(12,249)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	1,706	9,913	159	194	258	225
Payments	(1,145)	(1,817)	(1,349)	(430)	(288)	(225)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**560**	**8,096**	**(1,190)**	**(236)**	**(29)**	**(0)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	12,506	13,536	10,772	8,213	4,617	3,642
Payments for Purchases of Investments	(11,802)	(23,941)	(9,265)	(2,466)	(1,775)	(1,813)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**704**	**(10,405)**	**1,507**	**5,747**	**2,842**	**1,829**
Net Cash Flows from Investing Activities	**(10,991)**	**(17,051)**	**(18,097)**	**(13,607)**	**(11,111)**	**(10,420)**
Cash Flows from Financing Activities						
Advances Received	357	1,976	995	114	245	40
Advances Repaid	(62)	(113)	(57)	(71)	(111)	(112)
Proceeds from Borrowings	4,824	6,921	3,733	6,946	5,148	1,917
Repayments of Borrowings	(4,831)	(8,412)	(635)	(805)	(1,919)	(739)
Deposits Received (net)	54	(53)	(25)	(7)	(6)	5
Other Financing (net)	(11)	(0)	...	...	(120)	(143)
Net Cash Flows from Financing Activities	**331**	**318**	**4,011**	**6,177**	**3,237**	**968**
Net Increase/(Decrease) in Cash Held	**2,816**	**(5,123)**	**(4,583)**	**(309)**	**(1)**	**(425)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	13,477	11,610	9,503	7,122	7,873	9,028
Net Cash Flows from Investments in Non-Financial Assets	(12,255)	(14,743)	(18,413)	(19,118)	(13,925)	(12,249)
Cash Surplus/(Deficit)	**1,221**	**(3,133)**	**(8,910)**	**(11,996)**	**(6,052)**	**(3,222)**

Table A1.17: Derivation of ABS GFS non-financial public sector cash surplus/(deficit)

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Cash Surplus/(Deficit)	**1,221**	**(3,133)**	**(8,910)**	**(11,996)**	**(6,052)**	**(3,222)**
Assets Acquired under Finance Leases	(149)	(336)	(1,726)	(138)	(3,527)	(154)
Other Financing Arrangements [(a)]	42	132	(173)	181	(250)	439
ABS GFS Surplus/(Deficit)	**1,115**	**(3,336)**	**(10,809)**	**(11,953)**	**(9,829)**	**(2,937)**

(a) Comprises movements in payables and receivables of a capital nature.

Loan Council Allocation

The Australian, State and Territory governments nominate a Loan Council Allocation (LCA) each year. The LCA measures each jurisdiction's net call on financial markets in a given financial year to meet its budget objectives. The NSW LCA for 2016-17 was approved during out of session meetings of the Council on Federal Financial Relations. These meetings were held during April and May 2016.

The 2016-17 LCA allocation was based on the 2015-16 Half-Yearly Review, with the revised LCA Estimate based on the 2016-17 Budget estimates. The revised estimates take into account fiscal and economic developments, the application of new governance arrangements and proposed new policy measures.

The 2016-17 estimated LCA is a deficit of $13.9 billion compared with the original deficit allocation of $10.3 billion. The variance of $3.6 billion is greater than the Loan Council's tolerance limit of $1.8 billion (calculated as 2 per cent of cash receipts from operating activities for the non-financial public sector).

There are a number of contributors to this increased allocation.

- The $3.5 billion deficit in the general government sector is driven by a $3.4 billion increase to infrastructure investment since the 2015-16 Half-Yearly Review was published. The major areas where this expenditure has occurred are within the Transport ($1.5 billion, mainly for the Sydney Metro City and Southwest projects), and Justice ($0.9 billion mainly for correctional service facilities) portfolios. There has also been an increase in the funding provided for Health related capital programs.
- There has been a $0.7 billion improvement in the deficit reported in the public non-financial sector. This improvement is mainly due to increased funding being provided from the general government sector to support rail transport capital expenditure and the WestConnex motorway project.
- The increase in the deficit attributable to memorandum items ($0.4 billion) is largely due to changes in the long term investment return assumptions for the State Super Schemes.

Table A1.18: Loan Council Allocation estimates

		2016-17 Loan Council Allocation $m	2016-17 Budget-time Estimate $m
	General Government Sector Cash Deficit/(Surplus)	(23)	3,444
	Public Non-Financial Corporations Sector Cash Deficit/(Surplus)	6,120	5,466
	Non-Financial Public Sector Cash Deficit/(Surplus) [(a)]	**6,098**	**8,910**
	Acquisitions Under Finance Leases and Similar Arrangements [(b)]	1,565	1,899
Equals:	**ABS GFS Cash Deficit/(Surplus)**	**7,663**	**10,809**
Minus:	Net Cash Flows From Investments in Financial Assets For Policy Purposes [(c)]	(1,117)	(1,190)
Plus:	Memorandum Items [(d)]	1,564	1,930
	Loan Council Allocation	**10,344**	**13,929**

(a) May not directly equate to the sum of the general government and PNFC cash deficits due to inter-sector transfers which are netted out.
(b) Finance leases and similar arrangements are shown separately as they are deducted from the AASB 1049 cash surplus to derive the ABS GFS cash surplus.
(c) This item is the negative of net advances paid under a cash accounting framework.
(d) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases that have many characteristics of public sector borrowings but are not formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions, that the Loan Council has agreed should not be included in LCAs - for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as universities.

Public Private Partnerships

As approved at the 1997 Loan Council Meeting, States are to report their full contingent exposure to Public Private Partnerships (PPPs) for new contracts entered into, that have not previously been reported. Exposure is to be measured by the Government's termination liabilities in a case of private sector default, and disclosed as a footnote to, rather than a component of, Loan Council Allocations.

Information on social infrastructure PPPs and other capital expenditure which is generally on the State's balance sheet is reported within the Loan Council Allocation.

Therefore, only new toll road PPP's, which are generally outside of key balance sheet metrics, are reported below as Memo items.

Contracts entered or expected to be entered in 2015-16

WESTCONNEX Stage 2 - New M5 (Beverly Hills to St Peters)

Stage 2 of WestConnex is being progressed by NSW Government together with the Sydney Motorway Corporation Pty Ltd and its subsidiaries. Stage 2 runs from the existing M5 East corridor at Beverly Hills via tunnel to St Peters, providing improved access to the airport, South Sydney and Port Botany precincts with completion scheduled for 2019. This stage has been accelerated following a funding agreement signed by the Australian and New South Wales Governments in May 2014.

Expected Government Contingent Liability	Nil

Contracts expected to be entered in 2016-17

WESTCONNEX Stage 1 - M4 East (Homebush to Haberfield)

The design and construction contract for WestConnex Stage 1 M4 East was awarded in 2015. Work began on Stage 1 in March 2015 and is expected to be completed in 2019. This project is being progressed by the NSW Government together with the Sydney Motorway Corporation and its subsidiaries. It will include widening the M4 from Church Street, Parramatta to Homebush Bay Drive and the M4 East (Homebush Bay Drive to Parramatta Road and City West Link, Haberfield).

Expected Government Contingent Liability	Nil

A2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements

The budget papers present the Estimated Financial Statements of the general government sector including revised estimates for the current year ending 30 June 2016, estimates for the budget year ending 30 June 2017 and the three forward years ending 30 June 2018, 2019 and 2020.

These comprise the general government sector operating statement, general government sector balance sheet, general government sector cash flow statement and derivation of ABS GFS general government sector cash surplus / (deficit). These are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions.

Collectively the statements and the Statement of Significant Accounting Policies and Forecast Assumptions are referred to as the 'Estimated Financial Statements'.

The Estimated Financial Statements are prepared for the NSW general government sector, which 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 2005 (cat. No. 5514)* (ABS GFS Manual) as amended from time to time.

The general government sector 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 services to general government agencies.

The scope of the general government sector is outlined in Appendix A3 of this *Budget Statement*.

Basis of preparation

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

They have been prepared to reflect existing operations and the impact of new policy decisions taken by the NSW Government (where their financial effect can be reliably measured). The 2015-16 Budget is derived from the 2015-16 Budget papers. The revised estimates for 2015-16 are based on actual results at 30 April 2016, and updated year end projections provided by agencies. They have also been prepared to take into account other economic and financial data available to Treasury up to 15 June 2016, including Australian Government funding decisions announced in the 2016-17 Australian Government budget.

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

Any estimates or assumptions made in measuring revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time, professional judgments derived from experience and other factors considered to be reasonable under the circumstances. Actual results may differ from such estimates. Assumptions are detailed below, under the headings *Material economic and other assumptions* and *Summary of other key assumptions*.

Accounting policies

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

The Estimated Financial Statements do not include the impact of transactions until they are finalised. The financial impact of future planned discontinuing operations or restructuring transactions are not recognised due to the commercial-in-confidence nature of the transactions.

The Estimated Financial Statements adopt the accounting policies expected to be used in preparing general purpose financial statements for 2015-16. The policies are not materially different from those applied in the *Total State Sector Accounts 2014-15*. Note 1 of the *Total State Sector Accounts 2014-15* sets out the significant accounting policies, including the principles of consolidation, significant accounting judgements and estimates, and the recognition and measurement policies for revenues, expenses, other economic flows, assets and liabilities.

Change in accounting policies

There are no significant changes to Australian Accounting Standards or accounting policies adopted in 2015-16 that would significantly impact on the State's financial estimates.

Presentation of the Estimated Financial Statements

The Estimated Financial Statements follow the presentation requirements for general government sector reporting contained in AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting*.

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. Australian accounting standards) with Government Finance Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics. This occurs by requiring that:

- 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 (i.e. the budget result) is the net result of harmonised GFS-GAAP transactions for the general government sector.

In the operating statement:

- the *net operating balance* (i.e. the budget result) is the net result of income and expense *transactions*. It excludes *other economic flows*, which represent 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* is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

Further, AASB 1049 requires:

- the financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS
- where options do not exist in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

Due to the prospective nature of the statements, detailed notes to the financial statements, including disclosure of contingent assets and liabilities, are not required to be presented within the meaning of Australian Accounting Standards as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

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 to the nearest million dollars.

Presentation changes

There have been no presentation changes since the release of the 2015-16 Budget papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to Budget Paper No 1.

Material economic and other assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table A2.1.

Table A2.1: Key economic performance assumptions [(a)]

	2014-15 Outcomes	2015-16 Forecasts	2016-17 Forecasts	2017-18 Forecasts	2018-19 Projections	2019-20 Projections
New South Wales population (persons)	7,580,000	7,690,000	7,790,000	7,900,000	8,010,000	8,120,000
Nominal gross state product ($million)	513,300	535,600	561,700	587,700	617,700	649,100
Real state final demand (per cent)	3.3	3¼	3½	3	-	-
Real gross state product (per cent)	2.4	2¾	3	2¾	2½	2½
Employment (per cent)	1.2	3½	1¾	1½	1¼	1¼
Unemployment rate [(b)] (per cent)	5.9	5½	5¼	5	-	-
Sydney consumer price index [(c)] (per cent)	2.0	1½	1¾	2¼	2½	2½
- through the year to June quarter [(c)] (per cent)	2.2	1	2	2¼	-	-
Wage price index (per cent)	2.3	2¼	2½	2¾	3½	3½
Nominal gross state product (per cent)	3.6	4¼	4¾	4¾	-	-

(a) Per cent change, year average, unless otherwise indicated

(b) Year average, per cent

(c) 2014-15 includes ¾ percentage point detraction from the abolition of the carbon tax. 2014-15 to 2017-18 include ¼ percentage point contribution from tobacco excise increases.

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 Estimated Financial Statements. The summary takes into account materiality in relation to the general government sector’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.

Revenues from transactions

Taxation

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. For example for payroll tax, this involves an assessment of the outlook for employment and wages. Forecasts of government guarantee fees take into account an assessment of the level of debt of public non-financial corporations 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 revenue

Forecast grants from the Australian Government are based on the latest available information from the Australian Government and projections of timing of payments at the time of preparation of the Budget. This takes into account the conditions, payment timetable and escalation factors relevant to each type of grant.

The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Australian Government. For 2016-17, the GST forecast is based on the assessed relativity for New South Wales in 2016-17 and the Australian Government's population projections. The assessed relativity is the average of the past three years annual per capita relativities (2012-13, 2013-14 and 2014-15) as published by the Commonwealth Grants Commission.

After 2016-17, the State's share of GST is based on assessed relativities in a particular year and the Australian Government's population and GST pool projections. The forecast per capita annual relativities are based on the projected relative fiscal capacity of New South Wales compared to other States and Territories.

Sales of goods and services

Revenue from the sale of goods and services is forecast taking into account factors including estimates of changes in demand for services provided or 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 revenues are estimated by public financial and non-financial corporations based on expected profitability and the agreed dividend policy at the time of the Budget.

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, regulatory fees, contributions and royalty revenue for which estimates are 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

Employee expenses

Employee expenses are forecast based on expected staffing profiles, current salaries, conditions and on-costs. Employee expenses are adjusted over the forecast period for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government's wages policy at a net cost of 2.5 per cent per annum inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new approved initiatives and required efficiency savings.

Superannuation expenses (and liabilities)

Superannuation expenses comprise:

- for the defined contribution plan, the forecast accrued contribution for the period, and
- 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 excluding the gross interest income) 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 Commonwealth Government Bond 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 Commonwealth Government bond yield as at 30 June. Gross liability estimates are based on a number of demographic and financial assumptions. The major financial assumptions used for the budget and forward estimates period are outlined in the table below.

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 A2.2: Superannuation Assumptions – Pooled Fund / State Super Schemes

	2015-16	2016-17	2017-18	2018-19	2019-20
	%	%	%	%	%
Liability discount rate	2.26	2.77	3.28	3.53	3.79
Expected return on investments	2.86	7.8	7.8	7.8	7.8
Expected salary increases(a)					
- SSS and SASS Members (b)	2.50	2.50	2.50	2.50	3.50
- PSS Members (b)	2.50	2.50	2.50	2.50	3.50
Expected rate of CPI	1.50	1.75	2.25	2.50	2.50

(a) Taking the increased Superannuation Guarantee Contribution into account, total remuneration will increase by 2.5 per cent.

(b) SSS – State Superannuation Scheme, SASS – State Authorities Superannuation Scheme, PSS – Police Superannuation Scheme.

Depreciation and amortisation

Property, plant and equipment is depreciated (net of its residual value) over its useful life. Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on the basis of known asset carrying valuations, the expected economic life of assets, assumed new asset investment and asset sales programs. The 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, carrying value, residual value or valuation methodology.

Certain heritage assets, including original artworks and collections and heritage buildings, may not have a limited useful life 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 under the straight line method. Intangible assets with an indefinite life are not amortised, but tested for impairment annually.

Interest expense

The forecasts for the interest expenses are based on:

- payments required on the current general government sector debt
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for NSW Treasury Corporation bonds and
- 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, including planned changes in the method of service delivery and the application of government policy. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expense

Grant and subsidy expenses generally comprise cash contributions to local government authorities and non-government organisations. For the general government sector they include grants and subsidies paid to the public non-financial corporation and public financial corporations sectors. The forecast grant payments are determined taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

Revaluations

The estimates are based on an examination and extrapolation of historical trends in the valuation of non-financial physical assets. The forward estimates include the estimated impact of revaluations of non-financial physical assets.

Superannuation actuarial gains / losses

The forecast gain or loss on defined benefit superannuation is based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain on equity investments in other sector entities

The gain or loss on equity investments in other sector entities is based on estimates of the public financial corporation and public non-financial corporation 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 owners are based on the Treasury *Commercial Policy Framework*.

Assets

Land and buildings, plant and equipment, and infrastructure

The estimates of non-financial physical assets over the forecast period are at fair value and take into account planned acquisitions, disposals, and the impact of depreciation and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period. The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates are based on an examination of expected cost trends.

The Estimated Financial Statements also include provisions for future capital expenditure. These include agency estimates of approved projects and future new works held within agencies, as well as a central estimate for future new works still to be approved at the agency level. The central estimate for future new works is based upon historical trends.

Liabilities

Borrowings

Estimates for borrowings are based on current debt levels, 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 expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government's wages policy at a net cost of 2.5 per cent per annum inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

Superannuation provisions

Refer to superannuation expense (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 claim 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.

A3. CLASSIFICATION OF AGENCIES

The financial activities of all governments are measured using the government finance statistics (GFS) framework.[1] All entities controlled by governments are classified into sectors according to the nature of their activities and funding arrangements.

For financial reporting and policy framework purposes, NSW Treasury classifies each NSW Government entity under one of three sectors:

- general government sector
- public non-financial corporations
- public financial corporations.

Together, these sectors make up the total state sector. This is not a GFS term, but it is used to describe the scope of all government activities representing the total state.

The nature of each sector as it relates to NSW Government entities is as follows.

General government sector	The general government sector represents the scope of the Budget. Agencies in this sector generally operate under the Financial Management Framework and carry out policy, regulatory and service delivery functions. This sector includes agencies such as the Ministry of Health, Department of Education, NSW Police Force, Rental Bond Board and Independent Pricing and Regulatory Tribunal. 'General government sector' is defined under GFS as the institutional sector comprising all government units and non-profit institutions controlled by the Government
Public non-financial corporations sector	Agencies in this sector are either commercial or non-commercial. Commercial enterprises generally operate under the Commercial Policy Framework, which aims to replicate disciplines and incentives that drive the efficient commercial practices of private sector businesses. They deliver services to a customer base from which they receive their income. They generally pay dividends and tax-equivalent payments to the general government sector. These agencies include State-owned Corporations such as energy distribution corporations and the Sydney Water and Hunter Water Corporations. Non-commercial enterprises address important social objectives and levy charges for services to client groups on a subsidised basis. This includes the New South Wales Land and Housing Corporation, which receive substantial grants from the general government sector to provide these services. 'Public non-financial corporation sector' is defined under GFS as resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services.
Public financial corporations sector	These agencies are involved in financial services and generally operate under the Commercial Policy Framework. They include the New South Wales Treasury Corporation and Insurance and Care NSW. 'Public financial corporations sector' is defined under GFS as resident government controlled operations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services.

[1] Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods,* Cat No. 5514.0, ABS, Canberra, 2005.

The following table lists all entities considered material for the whole-of-government purposes which are controlled by the NSW Government and the GFS sectors under which they are classified[2]. In addition, balance sheet estimates shown in Budget Paper No. 1 include an estimate of the impact of small entities controlled by the NSW Government and not considered material for the whole-of-government purposes.

Table A3.1: Classification of agencies by sector

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Aboriginal Housing Office	•		
Art Gallery of New South Wales	•		
Audit Office of New South Wales	•		
Ausgrid		•	
Australian Museum	•		
Barangaroo Delivery Authority	•		
Board of Studies, Teaching and Educational Standards	•		
Building Insurers' Guarantee Corporation	•		
Centennial Park and Moore Park Trust	•		
Cobbora Holding Company Pty Ltd		•	
Crown Finance Entity	•		
Crown Solicitor's Office	•		
Delta Electricity		•	
Department of Education	•		
Department of Family and Community Services	•		
Department of Finance, Services and Innovation	•		
Department of Industry, Skills and Regional Development	•		
Department of Justice	•		
Department of Planning and Environment	•		
Department of Premier and Cabinet	•		
Destination NSW	•		
Electricity Assets Ministerial Holding Corporation	•		
Electricity Transmission Ministerial Holding Corporation *(established 16 December 2015)*	•		
Endeavour Energy		•	
Environment Protection Authority	•		
Environmental Trust	•		
Essential Energy		•	
Fair Trading Administration Corporation			•
Fire and Rescue NSW	•		
First Australian Mortgage Acceptance Corporation (FANMAC) Trusts			•
Forestry Corporation of New South Wales		•	
Government Property NSW	•		
Health Care Complaints Commission	•		
Historic Houses Trust of New South Wales	•		
Home Care Service of New South Wales *(disposed of as at 20 February 2016)*	•		
Home Purchase Assistance Fund	•		
Hunter Development Corporation	•		
Hunter Water Corporation		•	
Independent Commission Against Corruption	•		
Independent Liquor and Gaming Authority	•		
Independent Pricing and Regulatory Tribunal	•		
Independent Transport Safety Regulator	•		

[2] This reflects the structure of the NSW Public Sector to take effect from 1 July 2016 consistent with recent Administrative Arrangements orders. For more information on any machinery of government changes see 'About this Budget Paper' in Budget Paper No. 3.

Table A3.1: Classification of agencies by sector (cont)

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Information and Privacy Commission	•		
Infrastructure NSW	•		
Insurance and Care NSW *(established 1 September 2015)*			•
Judicial Commission of New South Wales	•		
Landcom (trading as UrbanGrowth NSW)		•	
Legal Aid Commission of New South Wales	•		
Liability Management Ministerial Corporation	•		
Lifetime Care and Support Authority of New South Wales			•
Local Land Services	•		
Long Service Corporation	•		
Luna Park Reserve Trust	•		
Mental Health Commission of New South Wales	•		
Minister Administering the Environmental Planning and Assessment Act	•		
Ministry of Health	•		
Motor Accidents Authority of New South Wales *(transferred 1 September 2015 to State Insurance and Regulatory Authority)*	•		
Multicultural NSW *(previously known as Community Relations Commission of New South Wales)*	•		
Museum of Applied Arts and Sciences	•		
Natural Resources Commission	•		
New South Wales Crime Commission	•		
New South Wales Electoral Commission	•		
New South Wales Government Telecommunications Authority	•		
New South Wales Land and Housing Corporation		•	
New South Wales Rural Assistance Authority	•		
New South Wales Treasury Corporation			•
Newcastle Port Corporation		•	
NSW Food Authority	•		
NSW Police Force	•		
NSW Self Insurance Corporation	•		
NSW Trains		•	
NSW Trustee and Guardian	•		
Office of Environment and Heritage	•		
Office of Local Government	•		
Office of Sport	•		
Office of the Children's Guardian	•		
Office of the Director of Public Prosecutions	•		
Office of the NSW Rural Fire Service	•		
Office of the NSW State Emergency Service	•		
Office of Transport Safety Investigations	•		
Ombudsman's Office	•		
Parliamentary Counsel's Office	•		
Police Integrity Commission	•		
Ports Assets Ministerial Holding Corporation	•		
Public Service Commission	•		
Rail Corporation New South Wales (*began transformation into the Transport Asset Holding Entity from 1 July 2015)*		•	
Rental Bond Board	•		
Roads and Maritime Services	•		
Royal Botanic Gardens and Domain Trust	•		
Service NSW	•		
State Insurance Regulatory Authority *(established 1 September 2015)*	•		

Table A3.1: Classification of agencies by sector (cont)

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
State Library of New South Wales	•		
State Records Authority of New South Wales	•		
State Sporting Venues Authority		•	
State Transit Authority of New South Wales		•	
Superannuation Administration Corporation - trading as Pillar (*approval on 19 May 2016 for abolition and transfer to the private sector)*			•
Sydney Cricket and Sports Ground Trust		•	
Sydney Ferries		•	
Sydney Harbour Foreshore Authority		•	
Sydney Motorway Corporation		•	
Sydney Olympic Park Authority	•		
Sydney Opera House Trust		•	
Sydney Trains		•	
Sydney Water Corporation		•	
TAFE Commission	•		
Teacher Housing Authority of New South Wales		•	
The Legislature	•		
The Treasury	•		
TransGrid *(renamed the Electricity Transmission Ministerial Holding Corporation on the 16 December 2015 following the sale and long-term lease of TransGrid Assets)*		•	
Transport for NSW	•		
UrbanGrowth NSW Development Corporation	•		
Venues NSW		•	
Waste Assets Management Corporation		•	
Water Administration Ministerial Corporation	•		
WCX M4 Corporation Pty Ltd		•	
WCX M5 Corporation Pty Ltd *(established 15 October 2015)*		•	
Western Sydney Parklands Trust	•		
Water NSW		•	
WorkCover Authority *(part transferred to Insurance and Care NSW and part transferred to State Insurance and Regulatory Authority)*	•		
Workers' Compensation (Dust Diseases) Authority *(previously known as Workers' Compensation (Dust Diseases) Board)*	•		
Zoological Parks Board of New South Wales		•	

A4. SUPPLEMENTARY REVENUE AND EXPENSE ANALYSIS

Revenue

Revenue in 2015-16 is expected to be considerably stronger than estimated in the 2015-16 Budget. Revenues are estimated to increase by 6.0 per cent in 2015-16, compared to 4.3 per cent forecast in the 2015-16 Budget.

General government sector revenues are forecast to increase by 4.4 per cent in 2016-17 to $77.0 billion. Revenue growth is forecast to average 2.3 per cent per annum over the four years to 2019-20.

The lower revenue growth over the four years to 2019-20 relative to 2015-16 reflects a number of factors, including:

- very subdued growth in GST revenues flowing both from the impact on own-source revenues of the strong performance of the NSW economy and a reduction in mining revenue in Western Australia
- a slowing in the rate of growth of transfer duty as the housing market stabilises
- abolition from 1 July 2016 of the remaining Intergovernmental Agreement taxes (transfer duty on non-real business assets, stamp duty on business mortgages and duty on unlisted marketable securities) as previously committed by the Government at a cost of $1.8 billion over the next four years
- the payment profile of National Partnerships payments for infrastructure, the expiry of several National Partnership agreements and the cessation of the National Disability Agreement in 2018-19.

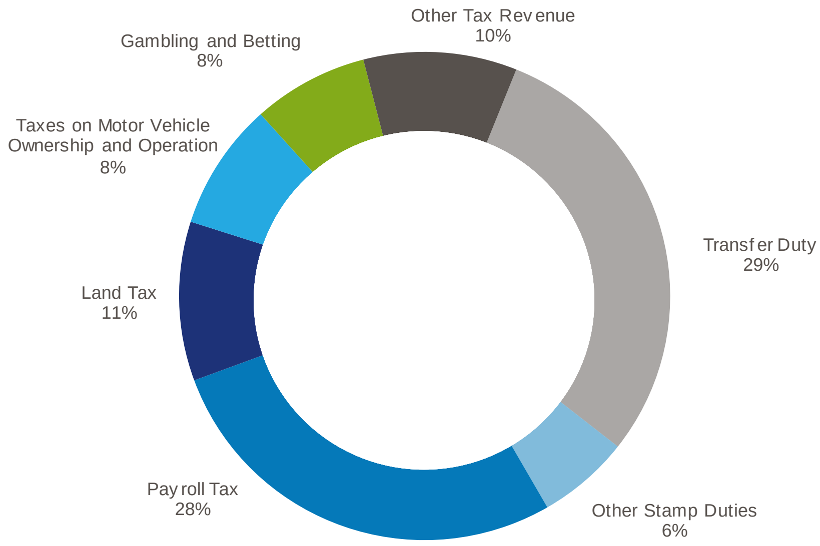
Royalties in the four years to 2018-19 are now expected to be around $1.7 billion less than in the 2015-16 Budget, largely due to lower US dollar coal prices and a reduction in coal exports.

Taxation revenue is forecast to grow by 2.5 per cent in 2016-17, below the 11.4 per cent growth projected for 2015-16. Taxation revenue was higher than expected in 2015-16 in part due to one-off higher stamp duties associated with State Government business asset transactions. Taxation revenue growth is forecast to average 4.0 per cent per annum over the four years to 2019-20.

Taxation revenue

Major sources of taxation revenue are stamp duties, payroll tax, land tax, motor vehicle taxes and gambling and betting taxes. The composition of tax revenue for 2016-17 is set out in Chart A4.1.

Chart A4.1: Composition of tax revenue, 2016-17



Transfer duty

Transfer duty is a tax on the value of property transfers.

Transfer duty revenue is expected to increase by an average of 2.4 per cent over the four years to 2019-20. The residential transfer duty component is expected to grow at an annual rate of 4.7 per cent over this period. Historically low interest rates and new revenue measures relating to foreign investors are expected to support transfer duty growth in 2016-17 albeit at lower rates than in recent years. Excluding the new measures, residential transfer duty revenue in 2016-17 is expected to grow by 5.5 per cent compared to 13.6 per cent in the previous year. The softer growth in residential transfer duty is expected to continue over the period of the forward estimates at an annual average growth rate of 4.4 per cent, excluding the new measures.

From 21 June 2016, a flat transfer duty surcharge of 4.0 per cent will apply to all acquisitions of NSW residential real estate by foreign persons, including foreign individuals, corporations, trusts and governments. The surcharge will be additional to normal duty payments on these transactions. The ability to delay payment of duty for up to one year for off-the-plan purchases will no longer be available to foreign persons. These measures are forecast to generate additional revenue of $835.0 million over the four years to 2019-20.

Growth in revenue is reduced by the abolition of non-real business transfer duty from 1 July 2016 at a cost of $537.3 million over the four years to 2019-20.

Other stamp duties

Other stamp duties include general and life insurance, the transfer of new and used motor vehicles, business mortgages and the transfer of unlisted marketable securities.

Stamp duty on insurance is expected to grow at an annual average rate of 2.8 per cent over the four years to 2019-20. In 2017-18, insurance duty revenue is expected to decline by 3.4 per cent mainly due to the impact of the abolition of the Emergency Services Levy.

Duty on motor vehicle transfers is expected to grow by 6.0 per cent per annum over the four years to 2019-20. This reflects growth in the number of motor vehicle sales and expected vehicle price growth in line with forecast inflation.

Growth in other stamp duties is reduced by the abolition of mortgage duty and unquoted marketable securities duty from 1 July 2016 at a cost of $1.3 billion over the four years to 2019-20.

Payroll tax

Payroll tax is forecast to grow at an annual average rate of 5.3 per cent over the four years to 2019-20.

The 2016-17 estimates are expected to be $396.4 million higher than 2015-16. This reflects wage and employment growth, with average compensation per employee expected to grow by 2.7 per cent and employment expected to grow by 1¾ per cent.

Land tax

Land tax is payable on the value of a landowner's total land holding, excluding the value of a landowner's principal place of residence and farming land.

Commencing from the 2017 land tax year, a land tax surcharge of 0.75 per cent will apply to all NSW residential land holdings of foreign persons. There will be no tax-free threshold and no principal place of residence exemption for the tax surcharge. The surcharge will be additional to normal land tax, for which arrangements will remain unchanged. This measure is forecast to raise $166.0 million over the four years to 2019-20.

The tax-free primary threshold for the 2016 land tax year is $482,000, with the premium threshold set at $2,947,000. Land tax is forecast to increase in 2016-17 by $377.4 million, or 13.7 per cent, and to grow at an annual average rate of 8.1 per cent in the four years to 2019-20, reflecting growth in land values and the foreign owned residential land tax surcharge.

Taxes on motor vehicle ownership and operation

Annual taxes on motor vehicles include weight tax and a fee for vehicle registration. Forecast growth in revenue reflects estimates of vehicle fleet growth and CPI indexation of the tax rates. Revenue is expected to grow at 4.9 per cent per annum on average over the four years to 2019-20.

Gambling taxes

Gambling tax revenue is forecast to grow on average by 4.2 per cent per annum over the four years to 2019-20.

Revenue from racing is expected to decrease by 10.4 per cent per annum over the four years to 2019-20 following the Government's decision to bring wagering tax rates in line with those in Victoria. The changes commenced on 1 July 2015 and the reductions will be phased-in over five years with parity to be reached in 2020-21.

Commonwealth general purpose payments

GST revenues comprise nearly all general purpose payments to New South Wales.

GST revenues for each state depend on its share of the Australian population, the amount of GST collected (pool size) and the GST relativity calculated by the Commonwealth Grants Commission.

In 2016-17, New South Wales will receive GST revenues that are $1.8 billion less than its population share. Victoria and Western Australia will also receive less than their population share, while the other states will receive GST revenues exceeding their population shares.

Table A4.1 shows revisions since the 2015-16 Budget to NSW GST revenues for the four years to 2018-19.

Table A4.1: GST revenues to New South Wales – reconciliation statement

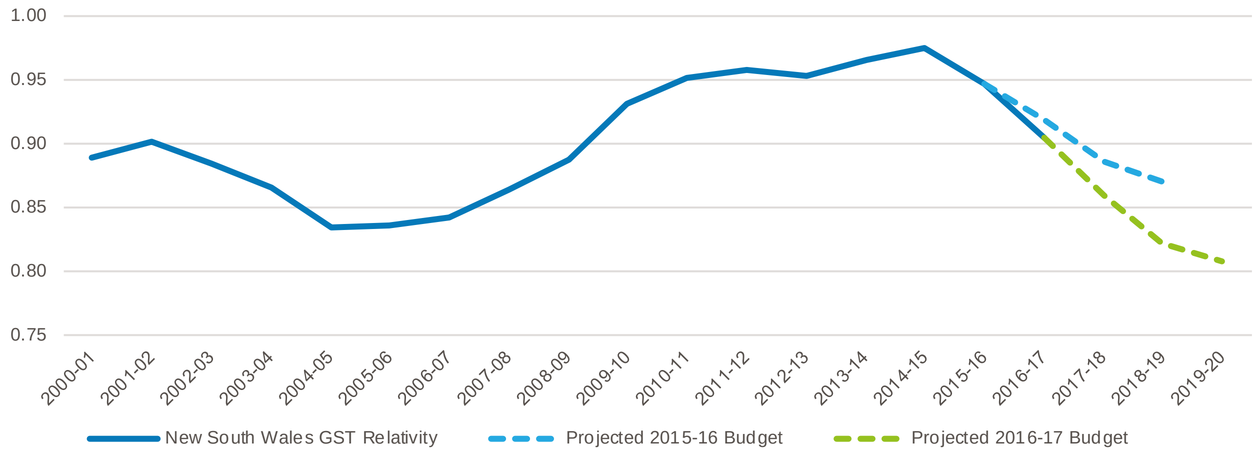
	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	2019-20 $m	Total: 4 years to 2018-19
2015-16 Budget	**17,020**	**17,295**	**17,842**	**18,173**	**18,790**		**72,101**
Change due to:							
2014-15 adjustment		123					123
Change in population		...	...	...	...		...
Change in pool		...	...	...	...		...
Change in relativities		...	(75)	(263)	(389)		(727)
2015-16 Half-Yearly Review	**17,020**	**17,418**	**17,767**	**17,910**	**18,401**		**71,497**
Change due to:							
Change in population		79	131	193	262		665
Change in pool		122	(85)	(157)	(233)		(353)
Change in relativities		...	(179)	(302)	(662)		(1,143)
2016-17 Budget	**17,020**	**17,619**	**17,634**	**17,644**	**17,768**	**18,243**	**70,665**
Change since 2015-16 Budget		**324**	**(208)**	**(529)**	**(1,023)**	**na**	**(1,436)**

GST payments to New South Wales in the four years to 2018-19 are estimated to be $1.4 billion lower than was expected in the 2015-16 Budget. The lower forecasts for GST revenues reflect the net effect of:

- upward revisions to NSW population share
- downward revisions to the size of the total GST pool in the Australian Government's 2016-17 budget
- downward revisions to NSW GST relativity following the Commonwealth Grants Commission's latest report.

NSW GST relativity was lower than expected in 2015-16 and is forecast to decline over the forward estimates (see Chart A4.2).

Chart A4.2: New South Wales per capita relativity [(a)]



(a) The relativities prior to 2010-11 were calculated based on a five year moving average of annual assessments. In the 2010 Review, the Commonwealth Grants Commission decided to calculate the relativities based on a three year moving average of annual assessments. Prior to 2009-10, the pool was a combined pool of GST revenue and health care grants. This chart is derived on the basis of a pool comprising GST revenue only as calculated by the Commonwealth Grants Commission.

NSW transfer duty revenue has grown more quickly than the national average in recent years. Given the time lags in the Commonwealth Grants Commission's calculation of GST relativities, strong NSW transfer duty revenue growth in 2015-16 will affect the State's GST relativity until 2020-21.

Weaker mining royalties collected by Western Australia and Queensland increase their GST relativities and lower the relativity of New South Wales. On current indications, Western Australia's mining revenue peaked in 2013-14 and is expected to trough in 2016-17.

The lower relativity caused by strong economic growth in New South Wales more than offsets the impact of the upward revisions to the NSW population share over the period of the forward estimates.

Other grants and subsidies

The largest components of other grants and subsidies include contributions by state electricity distributors to the Climate Change Fund and own-source revenues raised by schools.

Other grants and subsidies are expected to fall from $937.7 million in 2015-16 to $726.7 million in 2016-17, primarily due to the transfer of the Home Care Service of NSW to Australian Unity in 2016. Other grants and subsidies revenue are forecast to decline by 3.4 per cent on an annual average basis over the four years to 2019-20 mainly due to the reduction in Home and Community Care grants.

Sales of goods and services

Revenue from the sales of goods and services is forecast to rise by 1.7 per cent on an average annual basis over the four years to 2019-20 (see Table A4.2).

Table A4.2: Sales of goods and services

	2014-15 Actual	2015-16 Budget	2015-16 Revised	2016-17 Budget	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m	$m	$m
Rents and leases	213	221	220	224	235	228	235
Fees for service	1,192	3,094	2,933	2,998	2,849	2,916	2,971
Entry fees	47	42	49	45	46	47	48
Patient fees and hospital charges	1,199	1,253	1,263	1,369	1,443	1,521	1,603
Department of Veterans' Affairs	346	363	363	337	355	375	395
Court fees	113	115	119	121	123	127	130
Road tolls	150	150	151	155	160	165	168
Other sales of goods and services	2,996	2,974	3,130	3,047	3,064	3,161	3,254
Sales of goods and services	**6,255**	**8,212**	**8,229**	**8,296**	**8,276**	**8,540**	**8,804**

Interest income

Interest income includes returns on managed bond investments (including investments with NSW Treasury Corporation) and interest on bank deposits.

In 2015-16, interest income is expected to be higher than budget by $249.3 million, in part due to the proceeds from the long-term lease of TransGrid.

Interest income is expected to decrease by 2.2 per cent per annum on average in the four years to 2019-20 as investment fund levels normalise.

Table A4.3: Interest income

	2014-15 Actual	2015-16 Budget	2015-16 Revised	2016-17 Budget	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m	$m	$m
Interest income	**658**	**508**	**758**	**914**	**835**	**726**	**694**

Dividends and income tax equivalents

Dividend and tax equivalent payments for 2015-16 are forecast to be $1.2 billion and total $4.3 billion over the period from 2016-17 to 2019-20. For further detail refer to Chapter 7 of this *Budget Statement.*

Other dividends and distributions

Other dividends and distributions are expected to decrease by $99.8 million in 2015-16. Over the four years to 2019-20, revenue is expected to increase by 11.3 per cent.

Table A4.4: Other dividends and distributions

	2014-15 Actual	2015-16 Budget	2015-16 Revised	2016-17 Budget	2017-18 Forward Estimates	2018-19	2019-20
	$m	$m	$m	$m	$m	$m	$m
Other dividends and distributions	**1,164**	**424**	**324**	**441**	**457**	**477**	**496**

Royalties

Royalties in the four years to 2018-19 are now expected to be around $1.7 billion less than forecast in the 2015-16 Budget, reflecting a fall in coal prices and a reduction in coal export growth which have been partially offset by a lower Australian-US dollar exchange rate.

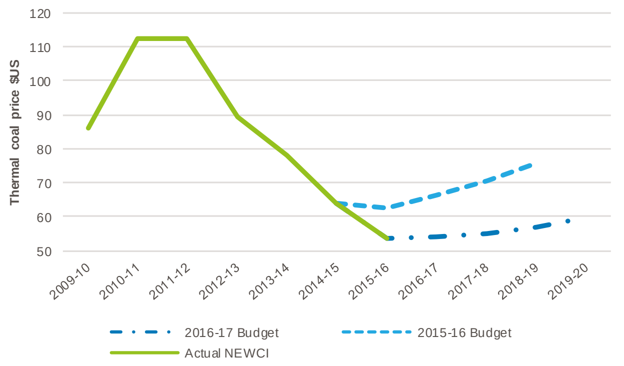
Table A4.5: Royalties revenue

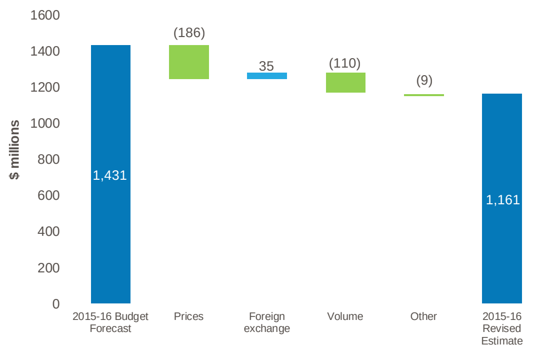
	2014-15 Actual	2015-16 Budget	2015-16 Revised	2016-17 Budget	2017-18 Forward Estimates	2018-19	2019-20
	$m	$m	$m	$m	$m	$m	$m
Royalties	**1,254**	**1,431**	**1,161**	**1,257**	**1,339**	**1,407**	**1,475**

Key factors underpinning the 2016-17 Budget forecast include continuing weak US dollar coal prices, slower growth in coal export volumes and a lower Australian dollar against the US dollar over the forward estimates.

A breakdown of the differences from budget expectations for royalties in 2015-16 and changes in the thermal coal price is shown in Charts A4.3.

Chart A4.3: Royalty revenue influences





Fines, regulatory fees and other revenues

Total revenue in this category is expected to remain relatively flat over the four years to 2019-20, with annual average growth of only 1.7 per cent over the four years to 2019-20.

Table A4.6: Fines, regulatory fees and other revenues

	2014-15 Actual	2015-16 Budget	2015-16 Revised	2016-17 Budget	2017-18 Forward Estimates	2018-19	2019-20
	$m	$m	$m	$m	$m	$m	$m
Fines	502	553	553	563	586	598	607
Regulatory fees	215	180	250	256	255	183	193
Licences	114	172	201	204	227	254	286
Other revenues	1,824	1,566	1,837	1,797	1,870	1,921	1,952
Fines, regulatory fees and other revenues	**2,655**	**2,470**	**2,841**	**2,821**	**2,937**	**2,956**	**3,038**

Table A4.7: Major National Partnerships signed by New South Wales [(a)]

Agreement Name	2015-16 Revised $m	2016-17 Budget $m	Purpose of the agreement
Roads and rail			
Interstate Road Transport	33	33	Provides funding that is equal to total revenue received from registrations made under the Federal Interstate Registrations Scheme for interstate roads.
National Land Transport	1,675	2,819	Supports a safe, sustainable national transport system that enhances the interconnectivity of corridors (networks) of significant economic opportunity across Australia. The increase in 2016-17 is mainly due to higher payments for the Pacific Highway and the Western Sydney Infrastructure Plan.
Asset Recycling Initiative	…	994	This new agreement provides increased investment in productivity enhancing infrastructure by encouraging the sale of state-owned assets to unlock funds and recycle the capital into additional infrastructure. The first payment under the agreement is in 2016-17.
Education and skills			
Early Childhood Education	79	87	Supports the delivery of universal access to quality early childhood education in the year before schooling, including for Indigenous and disadvantaged children.
Increased Local Decision Making in NSW Public Schools	6.5	6.5	Supports increased autonomy in government schools, through greater engagement of local communities and parents.
National School Chaplaincy Programme	11	11	The National School Chaplaincy Programme supports the emotional wellbeing of Australian school students.
National Quality Agenda for Early Childhood Education and Care	7.5	7.4	Supports implementation of the National Quality Agenda for early childhood education and care, which incorporates the National Quality Standard, Early Years Learning Framework, rating system and associated regulatory system.
TAFE Fee Waivers for Childcare Qualifications	1.1	…	This agreement assists people, including existing child care educators, gain a vocational education and training qualification in early childhood education.
Skills Reform	121	166	Supports reform of the vocational education and training system to help deliver a productive and highly skilled workforce which contributes to Australia's economic future, and enable all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market.
Schools Security Programme	0.6	0.6	Provides funding for school security infrastructure, such as closed-circuit television systems, lighting and fences.

(a) This table excludes National Partnership Agreements worth less than $1 million combined over the two years 2015-16 to 2016-17.

Table A4.7: Major National Partnerships signed by New South Wales (cont)

Agreement Name	2015-16 Revised $m	2016-17 Budget $m	Purpose of the agreement
Trade Training Centres in Schools	5.7	...	This agreement provides students access to high quality, industry-standard trade training facilities. This will encourage students to complete school studies, and create opportunities for further education and training and future employment.
Nation building for the future	...	16	This agreement is to fund health infrastructure and payments will cease after 2016-17.
Health			
Essential Vaccines	59	44	This agreement supports the cost effective delivery of immunisation programs, reducing the incidence of vaccine preventable diseases in the population.
Health and Hospital Infrastructure – Regional Priority Rounds Projects	0.9	1.7	Supports the redevelopment of selected regional hospitals in New South Wales. Project examples include the partial redevelopment of the Dubbo Base Hospital and the redevelopment of the Wagga Wagga Base Hospital to increase capacity.
Aged Care Assessments	39	41	This agreement is for providing equitable and timely access to aged care assessments.
Health Services	5.6	7.8	This agreement is for improving public hospital services.
Housing			
Homelessness	30	30	Sustains the commitment to reducing homelessness in New South Wales.
Remote Indigenous Housing	48	...	Facilitates significant reform in the provision of housing for Indigenous people in remote communities and to address overcrowding, homelessness, poor housing conditions and severe housing shortages.
Environment			
Implementing Water Reform in the Murray Darling Basin	30	22	Ensures that the Murray-Darling Basin water reforms are implemented in the national interest of a healthy working river system, strong communities and sustainable production.
Water for the Future	52	88	Promotes more efficient water use and helps prepare communities for climate change. The increase in funding in 2016-17 is mainly due to State Priority projects.
Great Artesian Basin Sustainability	2.0	3.7	Provides funding support to repair uncontrolled bores that threaten the long-term sustainability of the Great Artesian Basin.
Augmentation of Chaffey Dam	2.9	...	This agreement is to increase the storage capacity of Chaffey Dam.
Other			
Transitioning Responsibilities for Aged Care and Disability Services	296	149	Provides cross billing arrangements between the Commonwealth and NSW for disability and aged care services. The 2015-16 Commonwealth contribution includes a payment of $144 million for services in 2015-16 as well as adjustments relating to prior years.
Legal Assistance Services	75	77	Supports a national system of legal assistance that is integrated, efficient and cost effective, and focused on providing services for disadvantaged individuals in accordance with access to justice principles of accessibility, appropriateness, equity, efficiency and effectiveness.
Natural Disaster Relief and Recovery	106	8.1	This agreement assists with the relief and recovery assistance following eligible natural disasters. The large variation in funding between years is due to the contingent nature of these payments.
Pay Equity for Social and Community Services sector	17	26	Assists eligible Service Providers to meet increased wages under the Pay Equity Orders.
Natural Disaster Resilience	3.4	13.6	Assists communities in building resilience and self-reliance to natural disasters.
Provision of Fire Services	4.3	4.4	This agreement provides the states with payment arrangements for the fire protection of Australian Government-owned buildings.
Bushfire Mitigation	1.5	1.5	Supports the delivery of a programme of bushfire mitigation activities to implement long term bushfire mitigation strategies and better fuel reduction.
National Outcome Standards for Perpetrator Interventions	0.8	0.3	This agreement is part of establishing the National Outcome Standards for Perpetrator Interventions relating to domestic, family and sexual violence.

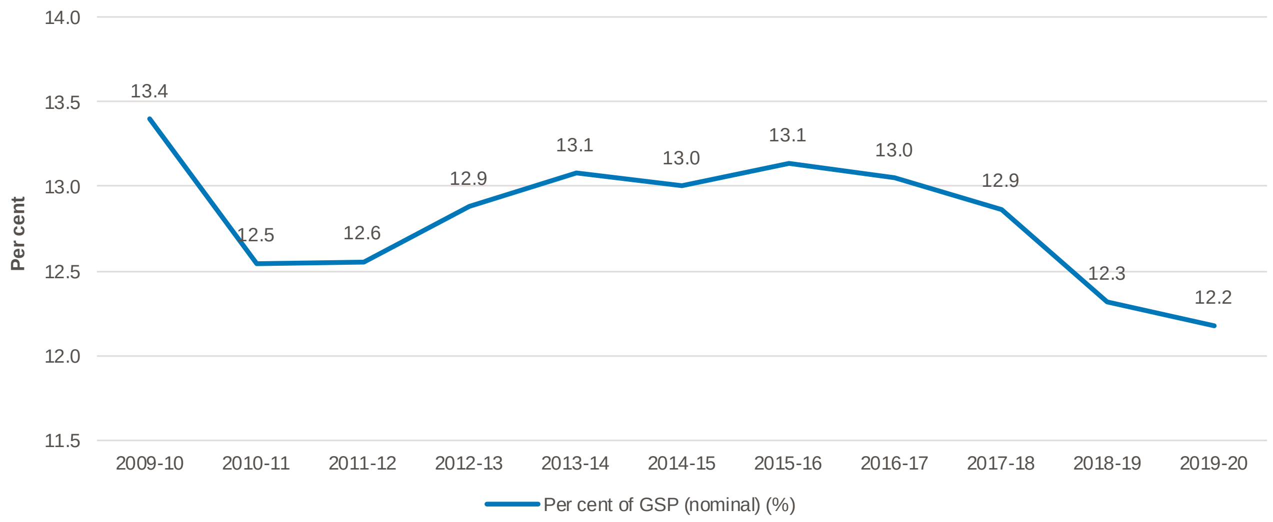
General government expenses

This section provides further detail on general government expenses.

Expenses trends and outlook

Chart A4.4 shows the ratio of total expenses to gross state product (GSP) is expected to fall from 13.1 in 2015-16 to an estimated 12.2 in 2019-20. This reflects the Government's commitment to deliver critical services by investing in key health, education and other community services at the same time as demonstrating prudent expense management. The decrease from 2015-16 also reflects a pick-up in nominal GDP growth over the forward estimates.

Chart A4.4: Total expenses as a percentage of GSP, 2009-10 to 2019-20 [(a)]



(a) Based on nominal GSP at current prices

Chart A4.5 shows the composition of expenses in 2016-17 by operating statement category. Employee-related expenses account for almost half of total expenses (47.0 per cent). This is followed by other operating (26.0 per cent); current grants and subsidies (17.0 per cent); depreciation and amortisation (6.0 per cent); interest expenses (3.0 per cent); and capital grants (1.0 per cent).

Chart A4.5: Composition of 2016-17 expenses

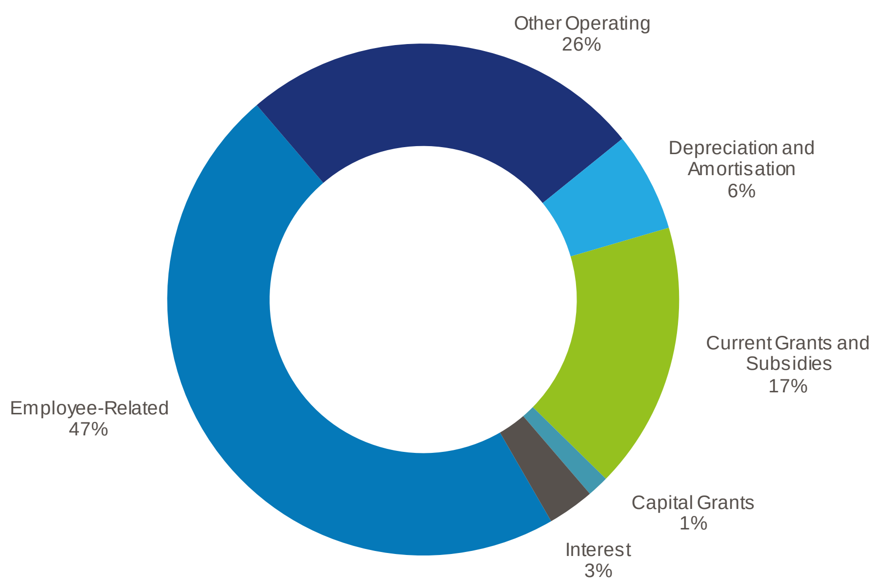


Table A4.8 shows the outlook of general government expenses by major operating statement categories.

Table A4.8: General government sector expense

	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m	% Average Growth 2015-16 to 2019-20
Employee-Related	33,982	34,495	36,414	38,095	39,585	3.9
Other Operating	17,188	18,656	18,506	18,432	19,218	2.8
Depreciation and Amortisation	4,453	4,608	4,899	5,068	5,245	4.2
Current Grants and Subsidies	11,629	12,367	12,567	11,272	11,615	0.0
Capital Grants	889	1,000	1,039	953	798	-2.7
Interest	2,221	2,165	2,198	2,276	2,581	3.8
Total Expenses	**70,363**	**73,292**	**75,622**	**76,097**	**79,043**	3.0

Employee-related expenses

Employee expenses are comprised largely of wages, salaries and superannuation expenses. Given employee expenses is the largest category of expenditure, managing growth in employee costs while meeting standards of service delivery is a critical element of the Government's fiscal strategy.

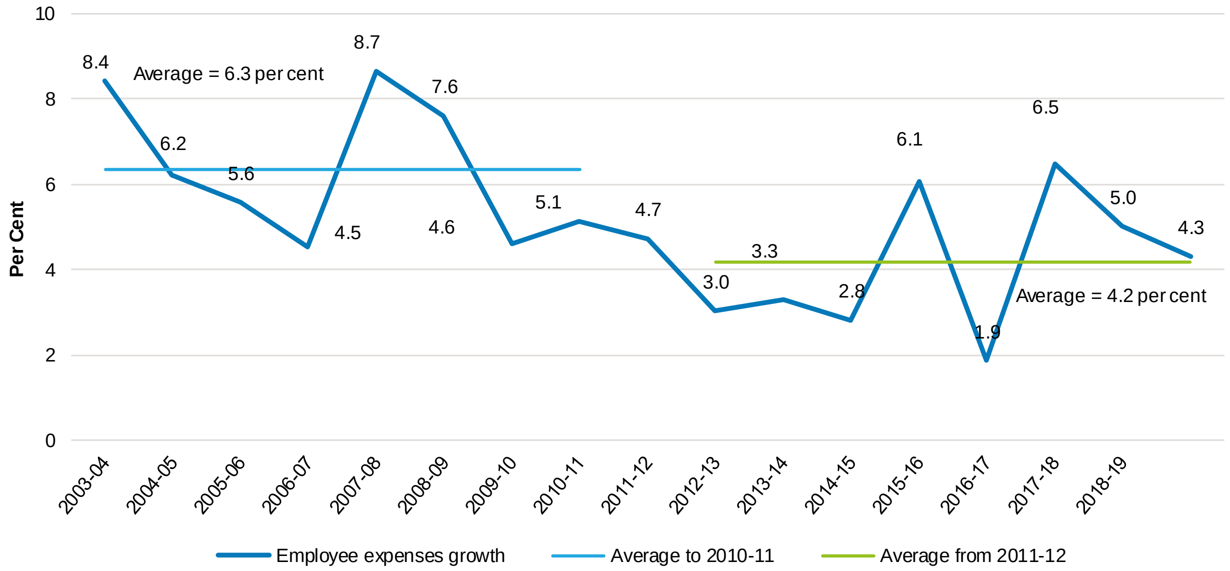
Table A4.9: Growth in employee expenses (ex-Superannuation)

	2014-15 Actual	2015-16 Revised	2016-17 Budget	2017-18 Forward Estimates	2018-19	2019-20
Employee expenses (ex. Super) ($m)	27,818	29,510	30,058	32,008	33,613	35,061
Annual growth (%)	2.8	6.1	1.9	6.5	5.0	4.3
4-year average growth (%)	3.5	3.8	3.5	4.3	4.8	4.4

Table A4.9 shows that non-superannuation employee expenses increase over the budget and forward estimates. In 2016-17, expenses are expected to increase by 1.9 per cent compared with 2015-16. This increase in employee expenses is primarily driven by increased staffing costs for the delivery of key services in education, health and other community services.

Despite the volatility in annual growth in employee expenses, the four year average growth in employee expenses over the budget and forward estimates remains relatively consistent with the average growth from 2011.

Chart A4.6: Employee expenses growth 2003-04 to 2018-19



The combination of government initiatives, spanning 2011 to the present, including the NSW Public Sector Wages Policy, the Labour Expense Cap, and the revised Managing Excess Employees Policy, have driven employee expenses growth to historic lows.

Average growth in employee expenses for the eight years before 2011-12 was 6.3 per cent while the eight years from 2011-12 growth is expected to be 4.2 per cent, a fall of 2.1 per cent driven by the current Government's initiatives. This has allowed the Government to maintain sustainable expense growth whilst providing funding for increases in front line staff, with the number of full-time equivalent nurses, teachers and police officers increasing collectively by 6,793 from 2011 to 2015.

Other operating expenses

Other operating expenses represent the second largest component of general government expenditure and are the non-labour costs of providing public services, for example repairs and maintenance, consultants, contractors, electricity and communications. Other operating expenses are expected to grow by 2.8 per cent over the budget and forward estimates.

In 2016-17, increases in operating expenses are being driven by health related program expenditure reflecting higher demand for health services, including expenses being incurred for the new Hepatitis C drug. The growth is also being driven by stronger growth for education and other key community services, as well as industry assistance for the reform of the point-to-point taxi and transportation market.

Current grants and subsidies

Current grants include subsidies for non-government schools, community organisations and local governments, as well as operating subsidies for transport. Many of the larger grant expenses reflect Commonwealth Specific Purpose Payments. Total general government expenditure on current grants and subsidies is expected to remain steady over the budget and forward estimates.

Expenditure on current grants and subsidies is expected to increase from 2015-16 to 2017-18, due to grants related to the creation of stronger councils through local government reform; and grant payments related to service level increases from rail timetable changes.

Current grants and subsidies are expected to then decrease in 2018-19, reflecting the transition to the NDIS scheme before increasing again in 2019-20. This pick-up in current grants and subsidies is impacted by grant payments related to the anticipated growth for OOHC services.

Capital grants

Capital grants include transfers to PTEs and other non-government entities for capital purposes. They cover both cash and non-cash grants (such as the donation of land and infrastructure assets) and vary from year-to-year depending on the level of infrastructure activity.

Capital grants are expected to decrease by 2.7 per cent on average over the budget and forward estimates. This is primarily being driven by a reduction in capital grants from 2017-18 as a result of completed capital works related to ferries and a reduction in grants from the Crown Finance Entity.

Depreciation and amortisation

Depreciation and amortisation expense reflects the consumption of government assets through normal usage, wear and tear and obsolescence. Depreciation and amortisation expense is expected to grow at an annual average of 4.2 per cent over the budget and forward estimates.

This primarily reflects ongoing investment into critical infrastructure and the commissioning of new assets, including the delivery of key transport related information technology projects and road infrastructure.

Interest

Interest expenses include interest paid on borrowings to acquire capital assets and infrastructure. Interest expenses are expected to increase by an annual average of 3.8 per cent as the Government looks to use low cost borrowing to contribute toward the delivery of its infrastructure program. This includes interest costs related to the delivery of rail infrastructure including Sydney Metro Northwest.

A5. 2015-16 BUDGET – OUTCOME AND SUMMARY OF VARIATIONS

Budget outcome for 2015-16

The Budget result for 2015-16 is estimated to be a surplus of $3.4 billion compared with an original budget surplus of $2.5 billion.

Total revenue is estimated to be $73.8 billion which is $1.6 billion or 2.3 per cent higher than the original budget estimate of $72.1 billion.

Total expenses are estimated to be $70.4 billion which is $0.7 billion or 1.1 per cent higher than the original budget estimate of $69.6 billion.

A detailed explanation of revenue and expense variances by line item is set out in the attached table.

Table A5.1: Summary of variations

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
REVENUE FROM TRANSACTIONS				
Taxation				
Transfer Duty	7,841	8,887	1,046	Continued strength of the property market supported by historically low interest rates, strong population growth, and one-off revenue from the long-term lease of TransGrid assets.
Land Tax	2,660	2,758	98	Growth in land values supported by the three year averages utilised for land valuation assessments.
Motor Vehicle Duty and Taxes	3,126	3,191	65	Small variances in motor vehicle registrations and weight tax due to higher activity.
Gambling and Betting	2,245	2,217	(28)	Aggregated net minor variances.
Other Duties and Taxes	11,982	11,980	(3)	Aggregated net minor variances.
Total Taxation	**27,855**	**29,034**	**1,179**	
Commonwealth Grants				
General Purpose Grants				
GST Revenue Grants	17,295	17,619	324	Upward revision to the GST pool and NSW population estimates resulting in higher GST revenue in 2015-16.
Other General Purpose Grants	51	28	(23)	Variance to the Snowy Hydro Limited tax compensation.
Total General Purpose Grants	**17,346**	**17,647**	**301**	
National Agreements				
Health	5,243	5,510	267	National Health Reform Agreement (NHRA) revenue from the Australian Government has been updated to reflect the most recent activity levels and retrospective adjustments from prior years.
Other National Agreements	3,376	3,334	(41)	Aggregated net minor variances.
Total National Agreements	**8,619**	**8,844**	**225**	
National Partnership Payments				
Transport for NSW	1,853	1,707	(145)	Re-profiling of Australian Government transport contributions from 2015-16 over the forward estimates.
Department of Industry, Skills and Regional Development	273	210	(63)	A decrease in payments from the Australian Government for the Water for the Future Program.
Department of Family and Community Services	136	391	255	Increase in payments from the Australian Government for the NPP on Transitioning Responsibilities for Aged Care and Disability Services and the NPP on Remote Indigenous Housing.
Other National Partnership Payments	451	470	19	Aggregated net minor variances.
Total National Partnership Payments	**2,712**	**2,779**	**67**	
Other Grants and Subsidies				
Department of Education	445	369	(76)	Reclassification of revenue relating to donations and contributions to other revenue, plus other minor variances.
Home Care Services of New South Wales	117	67	(50)	Sale of Home Care Services in February 2016 to Australian Unity.
Transport for NSW	87	61	(26)	Re-classification of the City of Sydney contribution to the CBD and South East Light Rail project as a liability as the contribution relates to City of Sydney assets.
Other Grants and Subsidies	449	440	(9)	Aggregated net minor variances.
Total Other Grants and Subsidies	**1,098**	**938**	**(160)**	
Total Grants and Subsidies	**29,775**	**30,208**	**433**	

Table A5.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
Sales of Goods and Services				
Health	2,388	2,487	99	Higher revenue for the Hepatitis C drugs received from the Australian Government.
Transport for NSW	2,607	2,549	(58)	Decrease in fee for service revenues due to changes in the rail capital works program managed by Transport.
TAFE Commission	486	429	(56)	Lower revenue due to lower than expected enrolments in 2015-16.
Other	2,731	2,763	32	Aggregated net minor variances.
Total Sales of Goods and Services	**8,212**	**8,229**	**17**	
Interest Income				
Crown Finance Entity	307	480	172	Increase in the level of cash held within the Treasury Banking System following cash management reforms and the proceeds from TransGrid.
Workers' Compensation (Dust Diseases) Authority	14	28	14	Better investment return experience and asset mix.
Other	187	250	63	Aggregated net minor variances.
Total Interest Income	**508**	**758**	**249**	
Dividends from the PNFC Sector	1,021	717	(303)	Reduced dividends as outlined in Chapter 7.
Dividends from the PFC Sector	85	21	(64)	A temporary lowering of the dividend payout ratio due to an increase in capital financing requirements associated with fund amalgamations.
Income Tax Equivalents from the PNFC Sector	340	453	113	Higher income tax equivalent payments from the water and electricity sectors due to higher than expected profits associated with warmer temperatures and increased water and energy usage.
Income Tax Equivalents from the PFC Sector	22	26	4	Aggregated net minor variances.
Dividend and Income Tax Equivalent Income from Other Sectors	**1,468**	**1,218**	**(250)**	
Other Dividends and Distributions				
NSW Self Insurance Corporation	296	164	(132)	Downward revision to dividend distributions due to market performance in 2015-16.
Long Service Corporation	0	41	41	Distributions from TCorp Hourglass Investments.
Other	127	118	(9)	Aggregated net minor variances.
Total Other Dividends and Distributions	**424**	**324**	**(100)**	
Fines, Regulatory Fees and Other Revenue				
Mining Royalties	1,431	1,161	(270)	Weaker US dollar coal prices and slower growth in exports, partly offset by a lower Australian-US dollar exchange rate.
Department of Justice State Revenue	13	82	68	Additional revenue from the statutory licence of the system that monitors gaming machines to ensure they are operating at standard.
Department of Education	12	77	65	Reclassification of revenue relating to donation and contributions from grant revenue.
Department of Planning and Environment	80	122	42	Higher than forecast revenue from developer contributions.
Roads and Maritime Services	350	389	39	Higher revenues from Australian Government for additional National Heavy Vehicle Regulator activities.
Office of Environment and Heritage	16	51	35	Transfer of Malabar Headland to NSW following its declaration as a National Park.
Roads and Maritime State Revenue	144	173	29	Higher Drivers' and Riders' Licence revenue reflecting the higher uptake of 10 year licences.
Other	1,855	1,947	92	Aggregated net minor variances.
Total Fines, Regulatory Fees and Other Revenue	**3,901**	**4,002**	**100**	
TOTAL REVENUES	**72,143**	**73,772**	**1,628**	

Table A5.1: Summary of variations (cont)

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
EXPENSES FROM TRANSACTIONS				
Employee				
Crown Finance Entity	888	1,149	261	Higher long service leave costs following actuarial assessment and the increase in the Commonwealth Government bond rate, plus an increase in redundancy expenses for State entities.
Transport for NSW	1,426	1,539	113	Ongoing organisational restructures associated with efficiency measures across Transport for NSW.
Department of Education	7,021	7,105	84	Increased school based salary expenses resulting from higher enrolment numbers in 2015-16 over Budget estimates.
Department of Justice	1,200	1,255	55	Ongoing organisational restructures associated with efficiency measures across the Department.
Office of Environment and Heritage	376	397	20	Ongoing organisational restructures across the Office associated with efficiency measures resulting in higher temporary employee costs.
Other	18,025	18,065	40	Aggregated net minor variances.
Total Employee	**28,936**	**29,510**	**574**	
Superannuation				
Crown Finance Entity	1,410	1,495	85	Downward revisions to expected returns on plan assets and higher interest costs due to an increase in the Commonwealth bond rate used to discount the value of defined benefit superannuation liabilities.
Other	67	75	8	Aggregated net minor variances.
Total Superannuation Interest Cost	**1,476**	**1,569**	**93**	
Other Superannuation				
Crown Finance Entity	683	655	(28)	Increase in the Commonwealth Government bond rate used to discount current year service costs.
Other	2,243	2,247	5	Aggregated net minor variances.
Total Other Superannuation	**2,926**	**2,903**	**(23)**	
Depreciation and Amortisation				
Transport for NSW	267	311	44	Higher amortisation of intangibles relating to newly delivered assets.
Other	4,173	4,143	(30)	Aggregated net minor variances.
Total Depreciation and Amortisation	**4,440**	**4,453**	**13**	
Interest				
Workers' Compensation (Dust Diseases) Authority	51	35	(16)	Unwinding of the associated interest discount on provision.
Other	2,193	2,186	(7)	Aggregated net minor variances.
Total Interest	**2,244**	**2,221**	**(23)**	

Table A5.1: Summary of variations (cont)

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Other Operating				
Transport for NSW	3,604	3,392	(212)	Decrease in fee for service expenses due to changes in the rail capital works program managed by Transport.
TAFE Commission	550	361	(189)	Re-profiling of expenditure to support the implementation of the improvement plan and TAFE reforms.
Department of Industry, Skills and Regional Development	877	737	(140)	Lower expenditures relating to uncommitted aboriginal land claims and Commonwealth funded State Priority Plan and Basin Plan projects.
Crown Finance Entity	390	309	(81)	Transfer of Natural Disaster Relief grants to the Department of Justice, and lower anticipated privatisation expenses.
Ministry of Health	5,230	5,318	88	Higher expenses relating to Hepatitis C drugs offset by increased revenue received from the Commonwealth.
Department of Justice	432	515	83	Higher expenses forecast for ICT maintenance and asset management centralisation projects.
Department of Finance, Services and Innovation	218	272	54	Establishment of SafeWork (transferred from the former WorkCover Authority).
Office of Environment and Heritage	191	218	27	Increase in expenses relating to activities recoverable through insurance.
Other	6,075	6,066	(9)	Aggregated net minor variances.
Total Other Operating	**17,567**	**17,188**	**(379)**	
Grants and Transfers				
Current Grants and Transfers				
Office of Local Government	25	383	358	Expenditure relating to the local government reforms.
Department of Family and Community Services	3,632	3,845	213	Expenditure mainly relating to the Transitioning Responsibilities for Aged Care and Disability Services program.
Department of Finance, Services and Innovation	94	287	194	Increased demand for the payroll tax rebate scheme.
Roads and Maritime Services	411	491	80	Additional expenses from Local Government grants for natural disaster road repairs, National Heavy Vehicle Regulator services, M5 Cashback rebate claims.
Transport for NSW	2,059	2,124	66	Aggregation of minor variances.
Department of Industry, Skills and Regional Development	618	453	(164)	Reclassification of the Smart & Skilled program and TAFE operational base funding reclassified to the vocational education and training sector.
Crown Finance Entity	301	215	(86)	Reduction in projected redundancy grants to the PNFC and PFE sectors, and re-profiling of Restart grants paid to Local Government.
Department of Education	1,493	1,410	(83)	Timing adjustments on Commonwealth National Partnerships to better align with service delivery requirements, timing adjustments on pre-school and child care services election commitments, and deferral of the learning and business reform program.
Other	2,460	2,421	(39)	Aggregated net minor variances.
Total Current Grants and Transfers	**11,092**	**11,629**	**537**	

Table A5.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
Capital Grants and Transfers				
Roads and Maritime Services	70	90	21	Increased transfer of roads and land assets to Local Government.
Department of Industry, Skills and Regional Development	117	77	(40)	Lower capital grants for Country Towns Water Supply and Sewerage Scheme and Public Reserves.
Office of the NSW Rural Fire Service	107	85	(22)	Re-profiling of grants to local councils.
Other	648	637	(11)	Aggregated net minor variances.
Total Capital Grants and Transfers	**941**	**889**	**(52)**	
Total Expenses From Transactions	**69,624**	**70,363**	**739**	
BUDGET RESULT - SURPLUS/(DEFICIT)	**2,520**	**3,409**	**889**	
Capital Expenditure				
Transport for NSW	1,037	1,728	690	Re-profiling of capital expenditure on various transport related projects.
Roads and Maritime Services	4,683	4,588	(94)	Re-profiling of capital expenditure on various road related projects.
Department of Education	456	405	(51)	Lower capital expenditure due to delays obtaining local council consent for school construction projects.
TAFE Commission	101	55	(46)	Re-profiling due to change of timing of procurement processes.
NSW Police Force	178	137	(41)	Re-profiling due to change in timing of planning and approval processes across a range of projects.
Department of Justice	233	197	(36)	Re-profiling due to change in timing across various projects.
Ministry of Health	1,282	1,248	(34)	Re-profiling of capital expenditure on various health related projects, offset by increased capital expenditure for Local Health District projects funded from own source revenue.
Treasury	47	18	(29)	Re-profiling of capital expenditure relating to the Financial Management Transformation into future years, overall project timeframes remain unchanged.
Treasurer's Advance	20	0	(20)	The Treasurer's Advance allocation set aside for capital is not planned to be used this year.
NSW Trustee and Guardian	27	7	(19)	Re-profiling of capital expenditure relating to Client Management Systems and Property and Accommodation works due to change in timing.
Western Sydney Parklands Trust	35	18	(17)	Re-profiling of capital expenditure on the Eastern Creek Business Hub, and project savings on the Horsley Drive Business Hub.
WorkCover Authority	15	0	(15)	Lower capital expenditure due to the transfer of projects to Insurance and Care NSW.
Other	1,257	1,160	(97)	Aggregated net minor variances.
Total Capital Expenditure	**9,369**	**9,561**	**192**	

Table A5.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
OTHER KEY FISCAL AGGREGATES				
Sales of Non-Financial Assets				
UrbanGrowth Development Corporation	0	260	260	Sale of the Australian Technology Park in April 2016.
Department of Education	29	65	36	Additional asset sales.
Roads and Maritime Services	26	53	27	Additional asset sales primarily relating to properties around Lane Cove.
Government Property NSW	172	104	(69)	Early sale of the Parramatta Justice Precinct in 2014-15 offset by the proceeds of sale of various buildings and properties across the State.
Barangaroo Delivery Authority	63	23	(40)	Anticipated asset sales have been adjusted to reflect the revised commencement stages for new building developments pending planning approvals.
Department of Finance, Services and Innovation	132	98	(34)	Lower proceeds of sale on StateFleet motor vehicles.
Other	264	260	(4)	Aggregated net minor variances.
Total Sales of Non-Financial Assets	**687**	**864**	**177**	
Depreciation				
Transport for NSW	267	311	44	Higher amortisation of intangibles relating to newly delivered assets.
Other	4,173	4,143	(30)	Aggregated net minor variances.
Total Depreciation	**4,440**	**4,453**	**13**	
Change in Inventories	**1**	**1**	**(0)**	
Transport for NSW	183	89	(94)	Relates to assets acquired for the Sydney Metro Northwest and Opal Card projects.
Assets Acquired Using Finance Leases	**183**	**89**	**(94)**	
Other Movements in Non-Financial Assets				
Other	60	126	67	Aggregated net minor variances.
Total Other Movements in Non-Financial Assets	**60**	**126**	**67**	
NET LENDING	**(1,783)**	**(963)**	**820**	

A6. TAX EXPENDITURE AND CONCESSIONAL CHARGES STATEMENT

Favourable tax treatment or lower fees or service charges may be granted to certain individuals, groups or organisations to support certain policy objectives. This tax expenditure and concessional charges statement recognises that such special treatment is economically equivalent to increasing expenses, and has the same effect on the Budget outcome. Tax expenditures and concessional charges are listed in the following pages and, where possible, an estimate of the costs associated with each of the major items is provided to assist comparison with the budgetary cost of direct outlays.

Tax expenditure estimates measure the additional tax that would have been payable if 'benchmark' (or standard) tax structures had been applied to all taxpayers and economic behaviour had remained unchanged. Tax expenditures arise from deviations from the benchmarks, and include specific tax exemptions, allowances and deductions, reduced tax rates, deferral of tax liabilities and tax credits.

Concessional charges are included for government agencies that provide goods and services to certain users at a lower fee or charge than to the wider community, in pursuit of economic or social policy goals. The provision of these concessions may be supported directly from the Budget, or indirectly through a reduction in agency obligations to make dividend or other payments, or in a reduction in agency retained earnings. These concessions have a budget cost, regardless of whether they are the subject of a specific intra-government transfer.

An element of judgement is required in delineating the 'concessional' and 'structural' features of a particular tax or service delivery scheme. The approach adopted in this Appendix is to treat the general application of a tiered tax schedule or charging regime as a structural element – that is, it forms part of the benchmark rather than a concession to those paying less than the highest marginal rate of tax. Similarly, providing lower public transport fares for children is regarded as part of the benchmark rather than as a concession. However, subsidised travel for eligible school children and senior citizens is treated as a concession.

Caution should be exercised when referencing these estimates. Estimates may not be comparable to estimates in other jurisdictions, which may adopt different definitions of the 'structural' and 'concessional' elements of taxes and charges. Similarly, changes to the benchmark definition may prevent some estimates from being comparable to estimates in earlier budgets. In addition, the estimates do not measure the amount of revenue that could be expected if the relevant concessional treatment were abolished, nor do they provide a reliable indication of the economic costs and benefits. This is because the concessions themselves influence behaviour patterns and levels of activity, which could be quite different in their absence.

Overview of the estimates

In 2015-16, total measured tax expenditures and concessions provided by the NSW Government are expected to amount to $7.4 billion, or 10.0 per cent of total NSW revenue.

Tax expenditures

Table A6.1 provides a summary of the major tax expenditures, that is, those valued at $1 million or greater, for each of the main revenue heads. The estimates are for the financial years 2014-15, 2015-16 and 2016-17, except for land tax, which uses calendar years 2015, 2016 and 2017. The total value of major tax expenditures is estimated at $5.2 billion or 17.5 per cent of tax revenue in 2016-17.

Table A6.1: Major tax expenditures by type

Tax	2014-15		2015-16		2016-17	
	Tax Exp. $m	Tax Exp. as % of tax revenue collected	Tax Exp. $m	Tax Exp. as % of tax revenue collected	Tax Exp. $m	Tax Exp. as % of tax revenue collected
Transfer Duty	321	4.3	329	3.7	323	3.7
General and Life Insurance Duty	899	100.1	935	100.1	969	99.5
Mortgage Duty	224	105.4	273	105.0	...	...
Payroll Tax	1,381	18.5	1,466	18.7	1,532	18.6
Land Tax	689	27.9	771	28.0	874	27.9
Taxes on Motor Vehicles	507	16.9	528	16.5	550	16.4
Gambling and Betting Taxes	817	39.5	874	39.4	897	39.5
Parking Space Levy	65	62.4	64	61.5	66	61.7
Total	**4,903**	**18.8**	**5,240**	**18.0**	**5,211**	**17.5**

Changes to the estimates

The estimates in Table A6.1 include the effects of two major changes since the publication of the 2015-16 Budget, namely the abolition of certain taxes and changes in the treatment of certain provisions of the *Duties Act 1997* (the Duties Act).

Abolition of Intergovernmental Agreement taxes

From 1 July 2016, New South Wales is abolishing the remaining stamp duties listed for abolition under the Intergovernmental Agreement on Federal Financial Relations (IGA): duty on business mortgages; unlisted marketable securities; and non-real business transfers. This means that there are no tax expenditures associated with these items from 2016-17 onwards (apart from residual amounts associated with transactions occurring prior to 1 July 2016).

Treatment of certain provisions under the Duties Act

Conceptually, transfer duty is a tax applied to changes in the ownership of property. The current estimates use a changed treatment of some items characterised as exemptions under the Duties Act, to provide closer alignment with the conceptual basis of the tax.

Under the Duties Act, duty is payable on a transfer of, or an agreement to transfer, dutiable assets between legal entities. The Act contains a number of exemptions designed to exclude the application of duty (apart from a nominal charge) to transactions:

- where duty has already been applied to an associated legal instrument; or
- where the change in legal ownership does not produce a change in beneficial ownership.

The first of these two classes of exemption is designed to avoid ‘double taxation’. An example would be that where duty has been paid on an agreement, it is not levied on the subsequent transfer of the property if the transfer is in accordance with the terms of the agreement. Exemptions provided under the Duties Act to avoid ‘double taxation’ continue to be excluded from the tax expenditure estimates.

Examples of the second of these two classes of exemptions include a change in the trustee of a superannuation fund without any change in fund assets or membership, or the rearranging of assets between legal entities within a corporate group without materially changing the beneficial ownership of the assets (such as in a corporate reconstruction). These types of exemptions under the Act are no longer being treated as tax expenditures as they are designed to support the conceptual structure of the tax, rather than to provide a benefit to a particular group of taxpayers. However, the estimates continue to include concessions from reduced duty on transactions involving a change in ultimate beneficiaries (such as for deceased estates, divorce settlements, or first homebuyer purchases).

To ensure consistency, all figures shown in Table A6.1 are presented on the new basis for all years. The revised figures show a more consistent growth trend over time, as some of the excluded items included only a small number of relatively large transactions.

Concessions

Table A6.2 classifies by function the major concessions provided by the NSW Government. The total value of major concessions, which accrue primarily to pensioners, older Australians and school students, is estimated at $2.2 billion in 2016-17.

Table A6.2: Concessions by function

Function	2014-15 $m	2015-16 $m	2016-17 $m
Public Order and Safety	11	10	10
Education	669	691	715
Health	243	245	252
Housing and Community Amenities	480	516	505
Recreation and Culture	15	15	16
Agriculture, Forestry, Fishing and Hunting	4	4	4
Transport and Communications	648	661	694
Total	**2,070**	**2,142**	**2,196**

Education concessions, the major component of which is the school student transport scheme, account for around a third of the total estimated cost of concessions. Transport and communications concessions, the major component of which is transport concessions to pensioners, seniors and welfare beneficiaries, also account for around a third of the total.

Housing and community amenities concessions account for around one quarter of the total cost of concessions. These concessions mostly relate to concessional charges and rebates to low income households and pensioner concession card holders for utilities and council rates.

Detailed estimates of tax expenditures

Transfer duty (including 'landholder' duty)

The benchmark tax base includes all transfers of dutiable property as defined in Chapter 2 of the Duties Act, including NSW land, business assets, partnership interests, and statutory licences and permissions under NSW law. Indirect acquisition of land under Chapter 4 of the Duties Act (landholder duty) is also included.

The benchmark tax structure comprises a tiered rate scale with marginal tax rates varying from 1.25 to 5.50 per cent over six steps. A premium marginal rate of 7 per cent applies for residential property valued above $3.0 million.

Table A6.3: Transfer duty – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Charitable/non-profit organisations/clubs			
An exemption is granted for transactions of charitable or benevolent organisations, as set out in Section 275 of the *Duties Act 1997*.	46	32	35
Government			
Councils and county councils The transfer of property to a council or county council is exempt under the *Local Government Act 1993*.	6	22	24
Individuals/families			
First Home-New Home Scheme Exemptions and concessions are provided to eligible first home buyers for the construction or purchase of a newly built home up to a value of $650,000 or vacant land for homebuilding up to $450,000.	115	96	88
Transfer of residences between spouses or de facto partners An exemption is granted, subject to the property being their principle place of residence and jointly held after transfer.	26	30	32
Transfers of matrimonial property consequent upon divorce An exemption is provided for transfers of property in the break-up of marriage, de facto or domestic relationships under the *Family Law Act 1975 (Cth)*.	92	104	107
Home Builders Bonus transfer duty concession Until 30 June 2012, an exemption was provided for purchases of dwellings up to a value of $600,000 or vacant land for homebuilding up to $400,000 where construction had not commenced.	1	…	…
Rural			
Intergenerational rural transfers An exemption is granted for transfers of rural land used for primary production between generations, and between siblings, to facilitate younger family members taking over family farms.	31	34	35
Concession for Primary Producers An exemption is provided for acquisition of an interest in a primary producer that is not 'land rich' (Section 163D of the *Duties Act 1997).*	2	9	…
Other			
Other Legislation An exemption is granted in other legislation for certain transfers of dutiable property.	2	2	2

Transfer duty – other major tax expenditures (> $1 million)[1]

- Only nominal duty is charged on transfers of property to a beneficiary entitled to it under the will of a deceased person
- For ‘off the plan’ purchases, duty may be deferred until completion of the sale or 12 months after the contract, whichever occurs first.

Transfer duty – minor tax expenditures (< $1 million)

The following are exempt from transfer duty:

- approved equity release schemes for aged home owners
- certain purchases of manufactured relocatable homes (caravans)
- call option assignments, subject to certain conditions
- transfer of a liquor licence in certain circumstances under the *Liquor Act 2007*
- transfer of property related to a joint government enterprise that has the function of allocating funds for water savings projects
- purchase of a principal place of residence by tenants of Housing NSW, the Community Housing Program administered by Housing NSW and the Aboriginal Housing Office
- transfers where public hospitals are the liable party
- transfers of properties gifted to a special disability trust
- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*, not connected with a trading undertaking
- transfers for the purpose of amalgamation or de-amalgamation of clubs under the *Registered Clubs Act 1976*
- instruments executed by or on behalf of agencies within the meaning of the *Convention on the Privileges and Immunities of the Specialised Agencies* approved by the General Assembly of the United Nations in 1947
- transfers between associations of employees or employers registered under the *Workplace Relations Act 1996 (Cth)* for the purpose of amalgamation
- transfer of property to the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- transfers of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Act 1987.*

Concessional duty is charged in relation to:

- acquisitions in unit trust schemes, private companies or listed companies with land holdings in New South Wales of $2,000,000 or more, where the acquisition is for the purpose of securing financial accommodation
- buy-back arrangements of widely held unit trust schemes for the purpose of re-issuing or re-offering the units for sale, subject to certain criteria
- amalgamations of certain Western Lands leases under the *Western Lands Act 1901* where transfer duty has been paid on the transfer of other such leases in the previous 3 years.

[1] Items listed under the ‘other major tax expenditures’ headings are those where the value of the tax expenditure is estimated to be more than $1 million in at least one year, but there is insufficient data available on which to base a reliable estimate.

General insurance duty

The benchmark tax base for general insurance is all premiums for general insurance policies, except insurance covering property of the Crown in right of New South Wales. The benchmark tax rate is 9 per cent of the premium paid.

Table A6.4: General insurance duty – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
Exemption for WorkCover premiums	243	249	256
Marine and cargo insurance An exemption is provided for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	7	8	8
Individuals/families			
Concessional rates for Types B and C general insurance, as identified in Section 233 of the *Duties Act 1997* A concessional rate of 5 per cent applies to certain categories of general insurance, including motor vehicle (excluding compulsory third party), aviation, disability income, occupational indemnity and hospital and ancillary health benefits (where not covered by private health insurer). Crop and livestock insurance is taxed at a concessional rate of 2.5 per cent.	240	249	260
Compulsory third party motor vehicle insurance An exemption is provided for third party motor vehicle personal injury insurance (green slip), as per the *Motor Accidents Act 1988* and the *Motor Accidents Compensation Act 1999*.	214	223	232

General Insurance Duty – Other Major Tax Expenditures (> $1 million)

An exemption is provided for:

- insurance for non-commercial ventures of local councils
- medical benefits insurance.

General Insurance Duty – Minor Tax Expenditures (< $1 million)

The following are exempt:

- insurance by non-profit organisations with the main aim being a charitable, benevolent, philanthropic, or patriotic purpose
- societies or institutions whose resources are used wholly or predominantly for the relief of poverty, the promotion of education, or any purpose directly or indirectly connected with defence or the amelioration of the condition of past or present members of the naval, military or air forces of the Commonwealth or their dependants or any other patriotic objects
- insurance by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- insurance covering mortgages or pools of mortgages acquired for issuing mortgage backed securities
- separate policies covering loss by fire of tools, implements of work or labour used by any working mechanic, artificer, handcrafter or labourer
- redundancy insurance in respect of a housing loan that does not exceed $124,000
- reinsurance.

Life insurance duty

For temporary or term life insurance policies, life insurance riders, and trauma or disability insurance policies, the benchmark tax base is the first year's premium on the policies and the benchmark rate is 5 per cent. For group term insurance policies, duty of 5 per cent of the premium payable in any succeeding year in respect of any additional life covered by the policy is also charged.

The benchmark tax base for all other life insurance policies is the total sum insured. The benchmark tax rate is $1 on the first $2,000 and 20 cents for every additional $200 or part thereof.

Table A6.5: Life insurance duty – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Individuals/families			
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	172	182	188
Annuities			
An exemption is granted to annuities.	23	24	25

Mortgage duty

Mortgage duty will be abolished in New South Wales from 1 July 2016. The benchmark tax base prior to abolition is the amount secured by all instruments providing a charge over property or the transfer of property, excluding mortgages for owner occupied and investment housing. The benchmark tax rate is $5 plus $4 for every $1,000 or part thereof by which the amount secured exceeds $16,000.

Table A6.6: Mortgage duty – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
Refinanced loans where borrower and security are unchanged			
A mortgage that secures the amount of the balance outstanding for the same borrower and on the same property as under an earlier mortgage is exempt to a limit of $1 million. Any additional amount above the lesser of the previously secured amount or $1 million is liable for duty.	224	273	…

Mortgage duty – other major tax expenditures (> $1 million)

The following were exempt from duty prior to 1 July 2016:

- pooled mortgages used by financial institutions as security for borrowing funds
- debentures issued, trust deeds stamped as a Declaration of a Trust and mortgages executed by "financial corporations" whose sole or principal business is to provide finance to the public
- securities backed by cash flow from loans (secured and unsecured)
- consumer credit contracts up to $35,000
- instruments creating, issuing or marketing mortgage-backed securities.

Mortgage Duty – Minor Tax Expenditures (< $1 million)

The following were exempt from duty prior to 1 July 2016:

- additional loans secured under a mortgage if the additional loans do not exceed $10,000 in any 12 month period, excluding the 12 month period that follows the making of the initial loan
- mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings
- a mortgage of any ship or vessel, or of any part, interest, share or property of or in any ship or vessel
- any mortgage made or given to the WorkCover Authority
- mortgages given by a council or county council under the *Local Government Act 1993*
- mortgages given by institutions for the relief of poverty and promotion of education
- mortgages given by institutions of a charitable or benevolent nature, or for the promotion of the interests of Aborigines
- mortgages given by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- offshore banking units (as defined in the *Income Tax Assessment Act 1936 (Cth)*) where a loan is executed for offshore parties
- mortgages by public hospitals
- mortgages securing an amount advanced by an employer, or related body corporate, to an employee for the purchase by the employee of shares in the employer, or related body corporate, provided the amount advanced and the total of all advances secured by the mortgage does not exceed $16,000
- agencies covered by the *Convention on the Privileges and Immunities of the Specialised Agencies* approved by the General Assembly of the United Nations in 1947
- mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance
- an instrument that becomes a mortgage, or evidences the terms of a mortgage that is executed for the purposes of certain money market trading operations by the person executing the instrument
- a charge over land that is created under an agreement for the sale or transfer of the land if any part of the deposit or balance of the purchase price for the land is paid to the vendor (or as the vendor directs) before completion of the sale or transfer
- an advance to a natural person or a strata corporation for the acquisition of farm machinery or a commercial vehicle that is secured by the mortgage.

Marketable securities duty

Marketable securities duty will be abolished in New South Wales from 1 July 2016. Prior to abolition, the benchmark is the turnover (sale price x quantity traded) of shares, units, derivatives and interests that are not quoted on the Australian Stock Exchange or a recognised stock exchange. The benchmark tax rate is 60 cents per $100 or part thereof, with the purchaser paying the duty.

Marketable securities – minor tax expenditures (< $1 million)

The following transfers were exempt from duty prior to 1 July 2016:

- transfers of units in a unit trust where the purpose is to give effect to a merger or takeover of qualifying unit trusts
- share buy-backs by NSW companies
- mining companies whose operations relate solely to New South Wales if the consideration for the transfer or agreement is above the unencumbered value of the marketable securities

- transfers to parties outside a marriage where the transfer is pursuant to an order of the Family Court of Australia in order to comply with the *Corporations Act 2001* (Cth)
- transfers made to give effect to a scheme that would qualify for rollover under subdivision 124-Q of the *Income Tax Assessment Act 1997* (Cth).

Concessional duty was charged in relation to the following prior to 1 July 2016:

- transfers of unquoted marketable securities in connection with persons changing superannuation funds
- transfers of unquoted marketable securities between the beneficial owner and the trustee or nominee of the beneficial owner, subject to nominal duty only.

Motor Vehicle Stamp Duty

The benchmark tax base is the value of all purchases and transfers of motor vehicles. The benchmark tax rate for passenger vehicles is $3.00 per $100.00, or part thereof, for vehicles valued up to $45,000, and $1,350 plus $5.00 per $100 above $45,000, for higher valued vehicles.

Table A6.7: Motor vehicle stamp duty – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
New demonstrator motor vehicle An exemption is granted to licensed motor dealers and wholesalers under the *Motor Dealers Act 1974.*	74	84	89
Individuals/families			
Caravans and camper trailers An exemption is provided for transfers of registration of caravans and camper trailers.	22	25	26
Transfers on divorce or breakdown of a de facto relationship An exemption is granted for the transfer of registration to one of the parties to a divorce or separation in a de facto relationship.	2	3	3
Transfer of ownership of a deceased registered owner An exemption is granted for the transfer of registration to a nominated legal personal representative or to the person beneficially entitled to the vehicle in the estate.	7	8	8
Government/public amenities			
Local councils An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	9	11	11
Pensioners/concession card holders/disadvantaged			
War veterans and impaired members of the Defence Force An exemption is granted to veterans who are eligible for a totally and permanently incapacitated (TPI), extreme disablement adjustment or intermediate service pension or 70 per cent or more of the general disability pension, and to current or former members of the Defence Force with a disability, assessed as 50 or more impairment points, who have received compensation or a special rate disability pension.	2	2	2

Motor vehicle stamp duty – minor tax expenditures (< $1 million)

The following are exempt:

- applications to register a heavy vehicle trailer, not previously registered under the Commonwealth or another Australian jurisdiction
- applications to register a heavy vehicle trailer, previously registered in the name of the applicant under the Commonwealth or another Australian jurisdiction
- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations
- vehicles specially constructed for ambulance or mine rescue work
- vehicles weighing less than 250kg used for transporting invalids
- vehicles registered by a Livestock Health and Pest Authority (now administered by Local Land Services), established under the *Rural Lands Protection Act 1998*
- vehicles registered by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- motor vehicles registered conditionally under the *Road Transport Act 2013*.

A concessional rate of duty applies to vehicles modified for use by disabled persons.

Payroll Tax

The payroll tax benchmark is aggregate annual gross remuneration in excess of $750,000 paid by a single or group taxpayer. The benchmark tax rate is 5.45 per cent.

Table A6.8: Payroll tax – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
Apprentices A full exemption/rebate applies to wages paid to apprentices or to employees in an approved non-profit group apprenticeship scheme.	55	58	60
Trainees A full exemption/rebate is provided for wages paid to trainees or to employees in an approved non-profit group traineeship scheme.	36	39	40
Maternity Leave An exemption is granted for maternity leave payments for a period of up to 14 weeks, or its equivalent at a reduced rate of pay.	23	24	25
Redundancy payments An exemption is provided for the Commonwealth tax-free part of a genuine redundancy or approved early retirement scheme payment.	7	8	8
Charitable/non-profit organisations/clubs			
Charitable institutions An exemption is granted to non-profit charitable, benevolent, patriotic or philanthropic organisations for wages paid to employees engaged exclusively in the normal work of these institutions.	168	178	186
Not-for-profit private hospitals An exemption is granted to non-profit private hospitals for wages paid to persons engaged exclusively in work of a kind ordinarily performed by a hospital.	15	16	17

Table A6.8: Payroll tax – major tax expenditures (cont)

	2014-15 $m	2015-16 $m	2016-17 $m
Government/public amenities			
Public hospitals, Local Health Districts and Ambulance Service of NSW An exemption is granted for wages paid to persons engaged exclusively in the normal work of these organisations.	620	657	687
Home Care Service An exemption is granted to employees of the Home Care Service.	9	10	10
Local councils An exemption is granted to councils, county councils and their wholly owned subsidiaries, except for wages paid in connection with certain activities, such as the supply of electricity, gas, water or sewerage services, or the conduct of parking stations, hostels or coal mines. A full list of exclusions can be found in the *Payroll Tax Act 2007*.	205	217	226
Schools and colleges An exemption is granted to not-for-profit schools and colleges (other than technical schools, technical colleges or those carried on by or on behalf of the State of NSW) which provide education at or below, but not above, the secondary level of education.	216	231	243
Religious institutions An exemption is granted for wages paid to persons engaged exclusively in work of a kind ordinarily performed by religious bodies.	27	28	30

Payroll tax – minor tax expenditures (< $1 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Forces
- wages paid to persons employed under the Community Development Employment Project administered by Aboriginal and Torres Strait Islander Corporations
- wages paid by the Australian-American Fulbright Commission
- wages paid by the Commonwealth War Graves Commission
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of the Commonwealth of Nations
- wages paid for a joint government enterprise that has the function of allocating funds for water saving projects
- wages paid by the Governor of a State
- wages paid to employees while the employees are providing volunteer assistance to the State Emergency Services or Rural Fire Brigades (but not in respect of wages paid or payable as recreation leave, annual leave, long service leave or sick leave)
- adoption leave payments for a period of up to 14 weeks
- paternity leave payments for a period of up to 14 weeks.

Land Tax

The benchmark tax base is the average of the last three years unimproved land value of all land owned, on 31 December of the previous year, that is above the indexed threshold for that year (as defined in the *Land Tax Management Act 1956*), excluding land used for owner-occupied residences, or by the Australian or NSW Governments.

The benchmark tax rate for the 2016 land tax year is $100.00 plus 1.6 per cent of the land value between the thresholds of $482,000 and $2,947,000, and 2 per cent thereafter.

Table A6.9: Land tax – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
Racing clubs An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse racing, trotting or greyhound racing which is used primarily for the purposes of their meetings.	9	10	12
Employer and employee organisations An exemption is granted for land owned by or held in trust for employer and employee organisations for that part not used for a commercial activity open to members of the public.	3	3	4
Co-operatives An exemption is granted for land owned by a co-operative under the *Co-operatives National Law (NSW)*.	10	12	13
Child care centres and schools An exemption is granted for land used as a residential child care centre licensed under the *Children and Young Persons (Care and Protection) Act 1998* or a school registered under the *Education Act 1990*.	4	5	6
Government/public amenities			
An exemption is provided for land for:			
• Cemeteries and crematoriums	16	18	20
• Public and private hospitals (including nursing homes) and Local Health Districts.	21	23	26
Individuals/families			
Early payment discount A discount of 1.5 per cent is available where the full amount of land tax is paid within 30 days of issue of the notice of assessment.	23	25	29
Pensioners/concession card holders/disadvantaged			
Retirement villages An exemption is granted for land used as retirement villages, and residential parks predominantly occupied by retired persons.	118	132	149
Boarding houses for low-income persons An exemption is granted for land used for boarding houses for which the rent charged is less than the amount prescribed by the guidelines.	6	7	8

Table A6.9: Land tax – major tax expenditures (cont)

	2014-15 $m	2015-16 $m	2016-17 $m
Religious institutions			
Religious societies An exemption is provided for land owned by or in trust for a religious society carried on solely for religious, charitable or educational purposes.	15	16	19
Rural			
Land used for primary production An exemption is granted for land used for primary production. To qualify, land in urban zones must be used for primary production for the purpose of profit on a continuous or repetitive basis.	464	520	588

Land tax – other major tax expenditures (> $1 million)

The following are exempt:

- land owned by or in trust for any club or body of persons which is used primarily for the purpose of a game or sport and not for the pecuniary profit of the members
- buildings (or part thereof) occupied by a society, club or association and not carried on for pecuniary profit of members
- land owned by or in trust for an entity which is used solely for charitable or educational purposes and not for the pecuniary profit of members
- a society registered under the *Friendly Societies (NSW) Code*
- Sydney Light Rail
- public gardens, recreation grounds or reserves
- land owned and used by a local council
- public authorities representing the Crown
- New South Wales State and local Aboriginal Land Councils
- fire brigades, ambulances or mines rescue stations
- religious societies' places of worship and residences of clergy, ministers or orders of the society
- land used to hold agricultural shows, which is owned by, or held in trust for, a society established for the purpose of holding, promoting and funding such shows.

Land tax – minor tax expenditures (< $1 million)

The following are exempt:

- low cost accommodation within 5 km of Sydney GPO
- Primary Products Marketing Boards, Local Land Services and Agricultural Industry Service committees
- temporary absences from a home, including circumstances where a home has been destroyed due to fire, storm, earthquake, accidental or malicious damage
- community land development
- land subject to a conservation agreement in perpetuity under the *National Parks and Wildlife Act 1974* or a trust registered under the *Nature Conservation Trust Act 2001*
- land owned, held in trust or leased by the Nature Conservation Trust of NSW, or land subject to a permanent conservation or trust agreement

- land that is the subject of a biobanking agreement
- land owned by a joint government enterprise that has the function of allocating funds for water saving projects
- land used solely as a police station
- land owned by RSL (NSW Branch), being Anzac House
- principal place of residence of a person with a disability, in a Special Disability Trust.

A concession is provided for unoccupied flood liable land.

Vehicle weight tax

The benchmark tax base is all vehicles (except Commonwealth vehicles) intended for on-road use. The benchmark tax rates, which vary by vehicle type, weight, usage and other factors, are updated annually by Roads and Maritime Services. For example, from 1 January 2016, charges for cars, station wagons and trucks up to 4.5 tonnes Gross Vehicle Mass are based on a 12 step graduated weight scale, ranging from:

- $204 (0 - 975kg) to $1,136 (4,325 - 4,500kgs) for private use vehicles
- $331 (0 - 975kg) to $2,150 (4,325 - 4,500kgs) for business use vehicles.

Table A6.10: Vehicle weight tax – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
General purpose plant Concessions are provided for machines that cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	27	29	30
Government/public amenities			
Roadwork equipment An exemption is granted for any motor vehicle, plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery owned by a local council that is used for the purposes of road repair, maintenance or construction, removal of garbage or night soil, bushfire fighting or civil defence work, or for any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	6	6	6
Federal Government vehicles Any vehicle leased to a Commonwealth Authority is exempt from tax under Section 16, Part 3, (2) (d) of *Commonwealth Vehicles (Registration and Exemption from Taxation) Act 1997* (Cth).	1	1	1
Concessions provided under Part 4, section 16 and 17 of the *Motor Vehicles Taxation Act 1988* including vehicles specially constructed for the work of conveying sick or injured persons or to carry out mine rescue, and agricultural vehicles that do not travel on a road.	2	1	2
Pensioners/concession card holders/disadvantaged			
Selected social security recipients An exemption is granted for any motor vehicle used substantially for non-business purposes owned by holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards or DVA Gold War Widows Cards.	274	277	287

Table A6.10: Vehicle weight tax – major tax expenditures (cont)

	2014-15 $m	2015-16 $m	2016-17 $m
Rural			
Primary producers			
Primary producer concessions include, for motor vehicles not greater than 4.5 tonnes of gross vehicle mass, private rates rather than business rates for cars and station wagons and 55 per cent of business rates for trucks, tractors and trailers.	28	28	29

Vehicle weight tax – minor tax expenditures (< $1 million)

The following are exempt:

- motor vehicles (not government owned) used principally as an ambulance
- motor vehicles (not government owned) used by the State Emergency Service
- motor vehicles on which a trader's plate is being used in accordance with the *Road Transport (Vehicle Registration) Act 1997* or the regulations under that Act
- motor vehicles owned by Aboriginal Land Councils
- motor vehicles of consular employees and trade missions.

Concessions are provided as follows:

- a concessional rate of 55 per cent of business rates (or 30 per cent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle that is used solely or principally as a tow truck with a crane and hook
- a concessional rate of 88 per cent is provided for mobile cranes used for private use
- a concessional rate of tax is applied to any motor vehicle that is owned by a Livestock Health and Pest Authority (now administered by Local Land Services) and is used solely for carrying out the functions of the board
- a concessional rebate of $100 from vehicle registration is given to first and second year apprentices registered with the NSW Department of Education.

Motor vehicle registration fees

The benchmark tax base is all vehicles intended for private on-road use. From 1 July 2015, the standard registration fee for light vehicles (up to 4.5 tonnes Gross Vehicle Mass) is $63 per annum but a range of other charges are levied for temporary or conditional registration, for registration transfer or cancellation, for special permits and on heavy vehicles.

Table A6.11: Motor vehicle registration fees – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Pensioners/concession card holders/disadvantaged			
Selected social security recipients			
An exemption is granted to holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards (subject to income and disability pension rate thresholds) for a single vehicle used substantially for social or domestic purposes.	53	53	56

Motor vehicle registration fees – minor tax expenditures (< $1 million)

- An exemption is provided for Mobile Disability Conveyance.

Gambling and betting taxes

The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels, which vary from 0 per cent to 50 per cent (annual rates from 1 July 2010) depending on the level of annual profits from gaming machines. The benchmark for totalisators is a tax rate of 19.11 per cent of player loss in 2014-15, 16.20 per cent from 1 July 2015, and 13.50 per cent from 1 July 2016.

Table A6.12: Gambling and betting taxes – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Charitable/non-profit organisations/clubs			
Club gaming machines			
Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	817	874	897

Gambling and betting taxes – minor tax expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

Parking space levy

The benchmark is the number of off-street parking spaces in Category 1 areas (City of Sydney, North Sydney and Milsons Point business districts) or Category 2 areas (Chatswood, Parramatta, St Leonards and Bondi Junction business districts).

The benchmark levy is indexed annually to movements in the Sydney CPI, over the year to the previous March quarter. For 2014-15, the levy is $2,260 per space in Category 1 areas and $800 per space in Category 2 areas. For 2015-16, the benchmark levy is $2,310 per space in Category 1 areas and $820 per space in Category 2 areas.

Table A6.13: Parking Space Levy – major tax expenditures

	2014-15 $m	2015-16 $m	2016-17 $m
Business			
General exemptions and concessions for Category 1 and 2 areas			
An exemption is granted for certain parking spaces for bicycles and motor cycles, residents of the same or adjoining premises, use under the mobility parking scheme, loading and unloading of goods or passengers, cranes and other plant, overnight parking of emergency service vehicles, private vehicles parked on land owned by councils, religious organisations or bodies, charities or benevolent institutions, persons providing services on a casual basis, unused casual parking or unleased tenant parking.	54	53	55
Exempt parking spaces in Category 2 areas			
An exemption is granted for spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants, medical centres, car hire and sales, repair and wash establishments and funeral parlours.	11	11	11

Detailed estimates of concessions

Details of concessions by function are shown below. Each concession is classified by type and a distinction is drawn between major concessions ($1 million or more) and minor concessions (less than $1 million).

Table A6.14: Public order and safety – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Pensioners/concession card holders/disadvantaged			
Court interpreting and translation services Multicultural NSW provides translation and interpreting services in NSW courts.	4	4	4
Court fee concessions Court fees may be reduced or waived, subject to guidelines issued by the Attorney General, in circumstances where a person's capacity to pay may otherwise limit his/her access to justice.	4	3	3
Government/public amenities			
Concessions for NSW Hallmark Events The NSW Police Force does not charge for all additional police costs associated with crowd control and traffic management services for designated "NSW State Hallmark Events" such as the Royal Easter Show.	3	3	3

Public order and safety – minor concessions (< $1 million)

- The NSW Police Force does not charge for additional policing services for minor sporting events and agricultural shows in the western region or for some or all of the additional policing services provided for non-commercial events run by charities and not-for-profit organisations meeting appropriate criteria.

Table A6.15: Education – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Students			
School Student Transport Scheme The School Student Transport Scheme provides subsidised travel to and from school for eligible students on government and private bus, rail, and ferry services, long distance coaches and in private vehicles where no public transport services exist.	587	608	631
Pensioners/concession card holders/disadvantaged			
Smart and Skilled – VET concessions and exemptions Fee exemptions are provided under Smart and Skilled to Aboriginal students and students with a disability undertaking their first qualification in a calendar year. The Department will also provide concessional fees for students undertaking Certificate IV and below qualifications who are Commonwealth welfare beneficiaries and students with a disability undertaking a second or further qualification in a calendar year. The 2014-15 estimate includes a similar earlier concession for TAFE fees.	82	71	66
Smart and Skilled Fee-free scholarships Concession-eligible 15-30 year olds are entitled to one fee-free scholarship per year and two fee-free scholarships over four years. In 2016 scholarships were extended to individuals aged 15-17 who are in out-of-home care and individuals aged 18-30 who have previously been in out-of-home care.	…	12	12
Jobs of Tomorrow (STEM) Scholarships Students training in science, technology, engineering or maths-related courses through Smart and Skilled are eligible for a $1000 scholarship.	…	…	6

Table A6.16: Health – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Pensioners/concession card holders/disadvantaged			
Ambulance service for concessional patients Free ambulance transport is provided to holders of Pensioner, Health Care, or Department of Veterans' Affairs concession cards.	220	211	215
Outpatient Pharmaceutical Scheme for concessional patients Pharmaceuticals are provided to concessional patients at a discounted price or free of charge once the safety net threshold is reached.	13	19	21
Life Support and Medical Energy Rebates Scheme The NSW Department of Industry funds a rebate for energy costs for eligible recipients and costs associated with certain life support systems.	4	8	9
Customer Assistance Policy The NSW Department of Industry funds assistance for households that use air conditioning to assist with medically diagnosed inability to manage body temperature.	1	2	2
Spectacles Program The Department of Family and Community Services assists those who are most vulnerable and disadvantaged in the community to acquire spectacles and other vision aids such as contact lenses.	5	5	5

Table A6.17: Transport and communications – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Pensioners/concession card holders/disadvantaged			
Public transport concessions Pensioners, seniors, welfare beneficiaries and students travel for less than full fare on bus, rail, taxi and ferry services (excluding School Student Transport Scheme).	514	536	560
Home and Community Care Program & Community Transport Program Transport for NSW provides community transport services to frail aged and younger people with disabilities, and their carers under the Home and Community Care Transport Sub-program. Transport for NSW also provides subsidised transport for people with special needs due to physical conditions, significant social disadvantages or geographical isolation under the Community Transport Program.	72	75	84
Driver's license fee exemption Roads and Maritime Services provide a driver's license fee exemption to holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards, subject to income and disability rate thresholds, where the vehicle owned by the license holder is used substantially for social and domestic purposes.	62	50	50

Table A6.18: Housing and associated amenities – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Charitable/non-profit organisations/clubs			
Crown land rent concessions NSW Department of Industry provides rent concessions to various Crown land tenure holders in circumstances where individuals or organisations experience difficulty making payments by the due date.	15	19	14
Exempt properties water rate concession NSW Department of Industry funds a partial discount on Sydney Water Corporation and Hunter Water Corporation charges to owners of properties used for non-profit provision of community services and amenities (principally councils, religious bodies and charities):			
• Sydney Water Corporation	21	24	17
• Hunter Water Corporation	2	2	2
Pensioners/concession card holders/disadvantaged			
Low Income Household Rebate Energy bill rebates are available to customers who hold eligible concession cards.	184	193	193
Pensioner water rate concession NSW Department of Industry funds Sydney Water Corporation and Hunter Water Corporation to provide Pensioner Concession Card holders, who are direct customers, with a rebate for their water and sewerage charges.			
• Sydney Water pensioners receive a 100 per cent discount on the fixed water service charge, an 83 per cent discount on the wastewater service charge, and a 50 per cent discount on the stormwater service charge.	141	142	131
• Hunter Water pensioners receive a rebate on the water, sewerage and stormwater service charge. Environmental levy charges are also waived.	12	12	13
Local council rates concession Local council rates are reduced for holders of Pensioner Concession Cards.	79	78	79
Individuals/families			
Energy Accounts Payment Assistance (EAPA) Energy bill rebates are available to assist people experiencing a short term financial crisis or emergency to pay their electricity or gas bill.	12	16	17
Family Energy Rebate Energy bill rebates are available to families who have received the Family Tax Benefit.	8	10	8
Gas Rebate A $90 rebate is provided to eligible households to assist with gas bills.	…	19	30
Backlog sewerage connection fee concession NSW Department of Industry funds Sydney Water Corporation to assist connecting selected un-sewered areas to the sewerage network, based on public health and environmental priorities.	5	…	…
Hardship and Low Income Schemes NSW Department of Industry funds Sydney Water Corporation to provide concessions through hardship and low income schemes for customers in financial hardship.	1	1	1

Housing and Associated Amenities – Minor Concessions (< $1 million)

- The Department of Industry funds Sydney Water Corporation to provide discounted septic pump-out fees to residences in the Blue Mountains that are residential-zoned but not connected to the sewerage network.
- The Department of Industry provides funding to Essential Energy to offset the cost of concessions on water charges given to eligible customers.
- WaterNSW grants exemptions from fixed availability charges to a number of customers, which include pensioners, schools and charities.

Table A6.19: Agriculture, forestry, fishing and hunting – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Pensioners/concession card holders			
Fishing license concession NSW Department of Industry provides recreational fishing licence concessions to various eligible persons.	4	4	4

Agriculture, forestry, fishing and hunting – minor concessions (< $1 million)

- Forestry Corporation of NSW provides discounts to charities seeking permits for non-profit events and provides discounts to pensioners for firewood.

Table A6.20: Recreation and culture – major concessions

	2014-15 $m	2015-16 $m	2016-17 $m
Seniors/children/disadvantaged/special groups			
Entry to national parks Holders of Pensioner Concession Cards, seniors, volunteers and community groups receive free or discounted entry to National Parks.	10	10	11
Recreational vessel registration and boat driving license Roads and Maritime Services provide a 50 per cent concession on recreational vessel registration and recreational boating licenses to holders of Pensioner Concession Cards and Repatriation Health Cards.	3	3	3
Zoo admissions The Taronga Conservation Society Australia provides discounted entry to its zoological parks (including Taronga Zoo in Sydney and the Taronga Western Plains Zoo in Dubbo) for Concession Card holders, tertiary education students and school students.	2	2	2

Recreation and culture – minor concessions (< $1 million)

- The Historic Houses Trust of NSW offers concessional admission charges to unemployed, children, pensioners, seniors and students. Historic Houses Trust provided bus subsidies to regional schools for museum visits and a sleep over program at Hyde Park Barracks to disadvantaged schools.
- The Australian Museum offers free admission to children aged 16 years or under and reduced admission charges to seniors, pensioners and the unemployed.
- The Sydney Opera House provides concessional charges on guided tours for children, pensioners, seniors, students and school group tours. Concession tickets are available to many Sydney Opera House productions for Australian pensioners/seniors, full time students and children.

- The Museum of Applied Arts and Sciences provides concessional admission charges for children, students, seniors and the unemployed. Country residents are entitled to a concession on the Museum's household membership. Concessional rates for venue hire apply to community or charitable groups.
- Roads and Maritime Services offers a concession on private mooring licences to holders of Pensioner Concession Cards and Repatriation Health Cards.

B. FISCAL RISKS AND BUDGET SENSITIVITIES

Revenue risks

State tax revenue

The State collects tax revenue from a range of sources, including payroll tax and transfer duties on residential property transfers. Forecasting State tax revenue collected from these sources requires estimating relationships between economic variables – any change in the variables could result in changes in the actual tax revenue collected by the State. For example, a higher-than-expected level of employment would lead to an increase in the amount of payroll tax collected.

Furthermore, some economic variables are inherently volatile. A change in price or volume of residential property transfers could lead to significant variations in the transfer duty collected by the State. At the current time, the housing market is witnessing historically high house prices and historically low interest rates.

Commonwealth grants and GST revenue

The Australian Government provides grants to New South Wales in the form of GST revenues, National Agreements and National Partnerships.

GST revenues received by New South Wales are dependent on the amount of GST collected (the pool size) and the State's share of this revenue. Changes to the GST pool or the relativities are a risk to State revenue. Strong revenue performance in NSW coupled with weaker performance in other states could put further downward pressure on the NSW relativity and GST distribution.

National Agreement and National Partnership funding can impact revenue and the budget result, as this funding can be volatile. Volatility can arise from new programs and projected capital works, the termination of existing agreements, and re-profiling in the timing of payments to the State.

Federal financial relations and taxation reform

Future reform to the roles and responsibilities for expenditure between the Australian Government and the states, and changes to revenue bases could have significant fiscal implications for New South Wales.

New South Wales will continue to pursue and secure sustainable federal financial arrangements to enable the State to meet its service delivery responsibilities.

Expense risks

General risks

Employee-related expenses represent the State's largest expense. These consist of wages, salaries and superannuation expenses. The size of the workforce, new enterprise bargaining agreements and discount rates are important drivers of employee-related expenses. Any changes in these parameters could have a significant impact on the budget result. Since 2011, risk has been managed through the NSW public sector wages policy.

Furthermore, actual growth in demand for government services may differ from current projections, presenting another expense risk.

Liabilities for superannuation and long service leave are forecast based on a wide range of parameters. These include assumptions around salary growth, inflation, rates of investment returns and discount rates. A change in any of these parameters may affect the actual liabilities of superannuation and long service leave. The long service leave liability is also subject to variations in the rate of employee retention. The State also incurs other operating expenses, which capture the non-labour costs of delivering services to customers in New South Wales. These include repair, maintenance and the depreciation of assets. The cost of maintaining the State's assets would change if there were substantial changes in the size and growth of the State's asset base. Expenses could also be impacted if the assets useful lives or level of depreciation were to materially change.

Specific fiscal risks

Asset recycling

The budget estimates do not include the impact of a business asset transaction until it is finalised, consistent with past practice. Any future asset divestments that meet financial close will impact the budget aggregates. In addition, capital expenditure linked to asset recycling is recognised when the Government makes a commitment to proceed following completion of project assurance processes and business case approval.

Sensitivities

The 2016-17 Budget is predicated on macroeconomic forecasts and assumptions that are subject to variation. This appendix explores the impact of variations in these parameters on key revenue and expense aggregates for the general government sector. Each sensitivity analysis is conducted with the assumption that the economy proceeds as predicted in the Budget, except for the sensitivity in question.

This summary of key sensitivities should be used as a "rule of thumb" resultant impact from a change in a given variable. Unless otherwise specified, the sensitivities assume a 1 per cent change to the relevant factor each year. Throughout this appendix, a positive value improves the budget result, whereas a negative value weakens the budget result.

Revenue sensitivities

Table B.1: Revenue sensitivities – state tax revenues

Revenue source and assumptions ($ millions unless otherwise specified)	2016-17 Budget	2017-18 Forward estimates	2018-19	2019-20	2016-17 Sensitivities
	$m	$m	$m	$m	
State tax revenues					
Assumptions					**+/- 1% movement in factor**
Dwelling sales	67	69	72	75	
Employment	93	97	102	108	
Compensation of employees	92	96	101	107	

The Government collects transfer duty from the sale of property. Higher property prices or an increased volume of property sales will increase transfer duty receipts.

A primary source of Government revenue is receipts from payroll tax. This is sensitive to variations in the level of employment or the level of wages in the economy. If employment increases more than expected, or there is a rise in the level of wages across the State, excluding the public sector, this could result in increased payroll tax revenue each year.

Table B.2: Revenue sensitivities - royalties

Revenue source and assumptions ($ millions unless otherwise specified)	2016-17 Budget $m	2017-18 $m	2018-19 Forward estimates $m	2019-20 $m	2016-17 Sensitivities
Royalties [(a)]					
Factors affecting NSW Royalties					
Change in coal export volumes (Mt)	10	11	12	13	**+ 1% movement in factor**
Change in coal export prices ($US)	11	12	13	13	
Change in Australian-US dollar exchange rate	(10)	(11)	(12)	(13)	

(a) Royalty sensitivities do not include changes to non-coal revenue or to the composition rates of coal production.

A royalty is the amount charged by the Crown for the transfer of the right to extract a mineral resource. Coal royalties are charged as a percentage of the value of production. NSW royalties are affected by three factors:

- Coal export volumes. An increase in coal export volumes increases the quantity of coal on which royalties can be charged and so increases royalty income.
- Coal export prices. An increase in the coal export price increases the pool of funds on which royalties are charged and so increases royalty income.
- Changes in the exchange rate. An appreciation of the Australian-US exchange rate reduces the Australian dollar value of coal exports, putting downward pressure on royalties.

Table B.3: Revenue sensitivities – GST

Revenue source and assumptions ($ millions unless otherwise specified)	2016-17 Budget $m	2017-18 $m	2018-19 Forward estimates $m	2019-20 $m	2016-17 Sensitivities
Good and Services Tax Revenues [(a)]					
Factors affecting NSW GST revenues					
NSW population	125	127	130	135	**+ 1% movement in factor**
GST pool size	176	176	178	182	
NSW relativity	...	176	178	182	

(a) The GST pool is currently estimated at $60.7 billion in 2016-17. The NSW adjusted population share (population multiplied by relativity) is estimated to be 29.1 per cent in 2016-17. State GST relativities for 2016-17 have already been determined by the Commonwealth Treasurer and will not change, so no sensitivity is calculated.

The determination of GST revenue received by New South Wales is discussed in the Revenue Risks section, earlier in this appendix.

GST revenue is sensitive to the population size of NSW, the size of the GST pool and the NSW relativity factor. If the population increases, GST receipts will increase whilst the cost of services also increases as more people place a greater demand on government services. An increase in the total GST pool will increase the GST receipts NSW receives. An increase in the NSW relativity factor will increase the share of GST revenue that NSW receives.

Expense sensitivities

Table B.4: Expense sensitivities

Expense source and assumptions ($ millions unless otherwise specified)	2016-17 Budget	2017-18 Forward estimates	2018-19	2019-20	2016-17 Sensitivities
	$m	$m	$m	$m	
Expense growth					**+/- 1% movement in factor**
Assumptions					
Change in public sector wages and salaries	(301)	(320)	(336)	(351)	
Change in prices of goods and services	(187)	(185)	(184)	(192)	
Government services demand growth					**+/- 0.1% movement in factor**
Assumptions					
Change in health and transport expense funding	(32)	(32)	(32)	(32)	

To facilitate the provision of essential community services, the public sector purchases goods and services. A component of this is public sector wages. Upward pressure on wages would worsen the budget result. This may be the result of a legislated pay increase, a policy decision to increase the size of the workforce, a change in the composition of the workforce biasing higher paid positions or increasing employee power in contract negotiations.

An increase in the prices of goods and services, namely inflation, in New South Wales has a two-fold effect on the budget result. Inflation will directly increase the amount of tax collected and hence increase revenue collected but will also increase the cost of goods and services expenditure. The aggregate impact is predicted to worsen the budget result.

Health and transport make up a large proportion of public sector expenditure. A decrease in Australian Government contributions to health and transport services or an increase in demand for these services will worsen the budget result.

Superannuation liabilities

Table B.5: Superannuation liabilities

Net financial liabilities (NFL) source and assumptions ($ millions unless otherwise specified) (c)	2016-17 Budget	2017-18 Forward estimates	2018-19	2019-20	2016-17 Sensitivities
	$m	$m	$m	$m	
Superannuation liabilities					**+/- 1% movement in factor**
Assumptions					
Change in public sector wages and salaries	(200)	(370)	(520)	(630)	
Change in Sydney CPI	(660)	(1,300)	(1,900)	(2,550)	
Change in investment return (a)	330	680	1,070	1,490	
Change in discount rate (b)	10,400	...	...	...	

(a) A positive effect (e.g. improved investment returns) reduces NFL (improves the financial position), while a negative effect (e.g. higher public sector wages) increases NFL (weakens the financial position).

(b) Effect of a 1 percentage point increase in the indicated factor (discount rate, interest rate or rate of return).

For an explanation of what the unfunded superannuation liability is and what is driving it, refer to Chapter 6 of this *Budget Statement*. An increase in public sector wages or an increase in CPI as described in the previous section, Expense sensitivities, will increase superannuation entitlements of those employees on a defined benefits scheme still in the workforce and increase the superannuation liability of the Government. An increase in the investment return will increase the proportion of the defined benefit that is funded and will hence improve the budget result.

C. HISTORICAL FISCAL INDICATORS

This Appendix reports the key fiscal indicators for the general government and total state sectors from 1996-97. Data are presented in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, consistent with the financial statements presented in Appendix A1 Statement of Finances.

The below tables are contained in this Appendix.

Table C.1	General Government Sector Operating Statement Aggregates
Table C.2	General Government Sector Balance Sheet and Financing Indicators
Table C.3	Total State Sector Operating Statement Aggregates
Table C.4	Total State Sector Balance Sheet and Financing Indicators
Table C.5	New South Wales Credit Metrics

Historical data from 2008-09 are consistent with data published in annual Outcomes Reports and Total State Sector Accounts. As Outcomes Reports and Total State Sector Accounts prior to 2008-09 were prepared in accordance with Government Finance Statistics, historical data prior to 2008-09 reflect data that have been backcast to be consistent with AASB 1049. The historical series have also been adjusted from 2005-06 to incorporate the retrospective application of amended AASB 119 *Employee Benefits* and the recognition of a share of assets and liabilities of Law Courts Limited and Murray-Darling Basin Authority in accordance with AASB 11 *Joint Arrangements*.

Table C.1: General Government Sector Operating Statement Aggregates

	Tax Revenue			Total Revenue			Expenses			Net Operating Balance		Gross Capital Expenditure		Net Lending/ (Borrowing)		GSP [c] (current prices)
	$m	Per cent of GSP	Per cent growth - nominal	$m	Per cent of GSP	Per cent growth - nominal	$m	Per cent of GSP	Per cent growth - nominal	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP	$m
1996-97	11,724	5.8	n.a.	26,089	12.8	n.a.	25,278	12.4	n.a.	811	0.4	2,607	1.3	(581)	(0.3)	203,234
1997-98	12,897	6.0	10.0	27,335	12.7	4.8	26,017	12.1	2.9	1,317	0.6	2,736	1.3	(420)	(0.2)	214,490
1998-99	14,115	6.2	9.4	28,950	12.8	5.9	27,900	12.3	7.2	1,050	0.5	3,002	1.3	(123)	(0.1)	226,228
1999-00	15,185	6.3	7.6	30,556	12.7	5.5	28,530	11.8	2.3	2,026	0.8	2,733	1.1	1,345	0.6	241,457
2000-01	13,337	5.2	(12.2)	32,091	12.6	5.0	30,584	12.0	7.2	1,507	0.6	2,859	1.1	545	0.2	254,923
2001-02	13,210	5.0	(1.0)	33,843	12.8	5.5	32,263	12.2	5.5	1,580	0.6	3,102	1.2	588	0.2	264,349
2002-03	14,146	5.1	7.1	36,070	12.9	6.6	34,315	12.3	6.4	1,755	0.6	3,349	1.2	464	0.2	278,871
2003-04	15,018	5.0	6.2	37,657	12.6	4.4	36,502	12.2	6.4	1,155	0.4	3,332	1.1	44	0.0	299,852
2004-05	15,300	4.8	1.9	39,085	12.4	3.8	38,844	12.3	6.4	241	0.1	3,343	1.1	(660)	(0.2)	315,627
2005-06	15,902	4.8	3.9	42,652	12.8	9.1	41,472	12.5	6.8	1,180	0.4	3,949	1.2	(317)	(0.1)	332,126
2006-07	17,697	5.0	11.3	44,720	12.7	4.8	44,651	12.7	7.7	69	0.0	4,295	1.2	(1,775)	(0.5)	352,753
2007-08	18,554	4.9	4.8	47,449	12.6	6.1	47,298	12.6	5.9	151	0.0	4,689	1.2	(1,798)	(0.5)	376,341
2008-09	17,885	4.5	(3.6)	49,684	12.6	4.7	51,258	13.0	8.4	(1,574)	(0.4)	5,264	1.3	(3,940)	(1.0)	394,308
2009-10	19,129	4.6	7.0	56,344	13.6	13.4	56,453	13.7	10.1	(109)	(0.0)	7,286	1.8	(3,736)	(0.9)	413,137
2010-11	20,395	4.6	6.6	57,168	12.9	1.5	57,015	12.8	1.0	153	0.0	7,046	1.6	(4,097)	(0.9)	444,838
2011-12	20,660	4.4	1.3	59,003	12.7	3.2	59,604	12.8	4.5	(551)	(0.1)	5,881	1.3	(3,255)	(0.7)	465,049
2012-13	21,980	4.6	6.4	60,130	12.5	1.9	61,891	12.9	3.8	(1,731)	(0.4)	7,872	1.6	(4,138)	(0.9)	480,592
2013-14	24,295	4.9	10.5	66,005	13.3	9.8	64,757	13.1	4.6	1,247	0.3	8,546	1.7	(1,236)	(0.2)	495,235
2014-15	26,067	5.1	7.3	69,617	13.6	5.5	66,736	13.0	3.1	2,881	0.6	9,484	1.8	(126)	(0.0)	513,309
2015-16[a]	29,034	5.4	11.4	73,772	13.8	6.0	70,363	13.1	5.4	3,409	0.6	9,561	1.8	(963)	(0.2)	535,600
2016-17[b]	29,759	5.3	2.5	77,005	13.7	4.4	73,292	13.0	4.2	3,713	0.7	12,514	2.2	(3,628)	(0.6)	561,700
2017-18[b]	31,240	5.3	5.0	76,948	13.1	(0.1)	75,622	12.9	3.2	1,326	0.2	12,075	2.1	(5,628)	(1.0)	587,700
2018-19[b]	32,503	5.3	4.0	77,479	12.5	0.7	76,097	12.3	0.6	1,382	0.2	12,322	2.0	(5,599)	(0.9)	617,700
2019-20[b]	34,021	5.2	4.7	80,656	12.4	4.1	79,043	12.2	3.9	1,613	0.2	7,709	1.2	(729)	(0.1)	649,100

(a) Revised
(b) Estimate
(c) Gross State Product

Table C.2: General Government Sector Balance Sheet and Financing Indicators

	Borrowings[c]		Interest expense		Net Debt[d]		Net Financial Liabilities[e]	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	13,604	6.7	1,551	5.9	11,478	5.6	29,860	14.7
1997-98	14,795	6.9	1,490	5.4	10,823	5.0	29,441	13.7
1998-99	17,680	7.8	1,362	4.7	10,392	4.6	28,377	12.5
1999-00	15,857	6.6	1,348	4.4	9,771	4.0	24,590	10.2
2000-01	12,432	4.9	1,021	3.2	6,893	2.7	23,651	9.3
2001-02	11,211	4.2	868	2.6	5,422	2.1	24,502	9.3
2002-03	10,570	3.8	803	2.2	3,638	1.3	25,418	9.1
2003-04	11,189	3.7	789	2.1	2,970	1.0	25,072	8.4
2004-05	11,872	3.8	1,190	3.0	2,826	0.9	31,363	9.9
2005-06	12,404	3.7	1,209	2.8	1,483	0.4	32,066	9.7
2006-07	13,060	3.7	1,289	2.9	3,645	1.0	28,820	8.2
2007-08	13,874	3.7	1,320	2.8	5,663	1.5	34,079	9.1
2008-09	16,662	4.2	1,488	3.0	8,170	2.1	53,212	13.5
2009-10	19,075	4.6	1,674	3.0	9,161	2.2	57,716	14.0
2010-11	22,530	5.1	1,877	3.3	7,960	1.8	55,932	12.6
2011-12	26,885	5.8	2,082	3.5	14,127	3.0	80,497	17.3
2012-13	29,060	6.0	2,220	3.7	11,907	2.5	70,437	14.7
2013-14	31,040	6.3	2,249	3.4	6,869	1.4	70,715	14.3
2014-15	31,511	6.1	2,243	3.2	5,461	1.1	74,371	14.5
2015-16[a]	31,664	5.9	2,221	3.0	663	0.1	83,048	15.5
2016-17[b]	33,073	5.9	2,165	2.8	7,539	1.3	81,940	14.6
2017-18[b]	35,337	6.0	2,198	2.9	15,023	2.6	82,462	14.0
2018-19[b]	39,885	6.5	2,276	2.9	21,856	3.5	86,125	13.9
2019-20[b]	40,492	6.2	2,581	3.2	23,994	3.7	84,572	13.0

(a) Revised
(b) Estimate
(c) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost
(d) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements
(e) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities

Table C.3: Total State Sector[(c)] Operating Statement Aggregates

	Revenue	Expenses	Net Operating Balance		Gross Capital Expenditure		Net Lending/ (Borrowing)	
	$m	$m	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	36,796	35,962	834	0.4	4,263	2.1	(765)	(0.4)
1997-98	37,962	36,079	1,883	0.9	4,441	2.1	(89)	(0.0)
1998-99	36,343	35,062	1,282	0.6	5,149	2.3	(628)	(0.3)
1999-00	38,970	36,315	2,655	1.1	5,467	2.3	669	0.3
2000-01	43,625	41,192	2,434	1.0	5,365	2.1	1,269	0.5
2001-02	42,263	39,872	2,391	0.9	6,088	2.3	56	0.0
2002-03	44,627	42,911	1,715	0.6	6,699	2.4	(689)	(0.2)
2003-04	46,488	45,232	1,255	0.4	6,708	2.2	(991)	(0.3)
2004-05	48,548	48,197	351	0.1	6,986	2.2	(2,163)	(0.7)
2005-06	52,009	50,412	1,597	0.5	8,378	2.5	(2,132)	(0.6)
2006-07	54,819	52,511	2,309	0.7	9,805	2.8	(2,769)	(0.8)
2007-08	58,761	57,588	1,173	0.3	11,216	3.0	(4,776)	(1.3)
2008-09	60,550	61,309	(356)	(0.1)	13,276	3.4	(8,102)	(2.1)
2009-10	65,658	64,132	2,570	0.6	16,347	4.0	(7,256)	(1.8)
2010-11	68,613	69,312	(201)	(0.0)	14,869	3.3	(7,828)	(1.8)
2011-12	69,854	70,140	249	0.1	13,076	2.8	(6,619)	(1.4)
2012-13	70,009	70,358	49	0.0	14,149	2.9	(6,837)	(1.4)
2013-14	76,085	73,301	2,794	0.6	13,877	2.8	(3,099)	(0.6)
2014-15	79,500	74,862	4,646	0.9	13,472	2.6	(816)	(0.2)
2015-16[(a)]	81,685	79,367	2,197	0.4	16,595	3.1	(5,463)	(1.0)
2016-17[(b)]	84,977	83,370	1,606	0.3	21,879	3.9	(11,403)	(2.0)
2017-18[(b)]	85,526	86,142	(616)	(0.1)	20,029	3.4	(12,195)	(2.1)
2018-19[(b)]	86,267	86,606	(339)	(0.1)	18,721	3.0	(10,225)	(1.7)
2019-20[(b)]	90,026	89,910	116	0.0	12,778	2.0	(3,849)	(0.6)

(a) Revised
(b) Estimate
(c) Includes Public Financial Enterprises and therefore differs from the Non-Financial Public Sector estimates shown in Appendix A1 Statement of Finances

Table C.4: Total State Sector[c] Balance Sheet and Financing Indicators

	Borrowings[d]		Interest expense		Net Debt[e]		Net Financial Liabilities[f]	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	24,574	12.1	2,411	6.6	19,547	9.6	42,125	20.7
1997-98	25,859	12.1	2,348	6.2	19,395	9.0	41,705	19.4
1998-99	29,548	13.1	1,965	5.4	19,043	8.4	41,259	18.2
1999-00	26,701	11.1	1,986	5.1	18,228	7.5	36,959	15.3
2000-01	25,789	10.1	1,906	4.4	18,106	7.1	38,474	15.1
2001-02	25,740	9.7	1,567	3.7	16,447	6.2	39,769	15.0
2002-03	26,707	9.6	1,626	3.6	15,497	5.6	42,562	15.3
2003-04	27,466	9.2	1,675	3.6	15,357	5.1	42,891	14.3
2004-05	30,675	9.7	2,143	4.4	16,660	5.3	54,499	17.3
2005-06	29,829	9.0	2,234	4.3	15,518	4.7	55,273	16.6
2006-07	35,748	10.1	2,040	3.7	19,982	5.7	54,007	15.3
2007-08	38,524	10.2	2,863	4.9	21,774	5.8	60,840	16.2
2008-09	50,031	12.7	3,172	5.2	29,437	7.5	85,576	21.7
2009-10	59,278	14.3	3,534	5.4	33,345	8.1	95,143	23.0
2010-11	61,992	13.9	4,200	6.1	32,426	7.3	93,669	21.1
2011-12	72,343	15.6	4,222	6.0	43,740	9.4	125,597	27.0
2012-13	76,601	15.9	3,952	5.6	41,574	8.7	115,981	24.1
2013-14	82,297	16.6	4,062	5.3	40,363	8.2	118,643	24.0
2014-15	81,998	16.0	4,012	5.0	45,184	8.8	121,381	23.6
2015-16[a]	78,348	14.6	3,828	4.7	38,959	7.3	128,252	23.9
2016-17[b]	82,702	14.7	4,123	4.9	49,404	8.8	130,048	23.2
2017-18[b]	86,904	14.8	4,239	5.0	59,131	10.1	132,069	22.5
2018-19[b]	91,881	14.9	4,487	5.2	66,842	10.8	136,092	22.0
2019-20[b]	92,159	14.2	4,765	5.3	69,030	10.6	134,475	20.7

(a) Revised
(b) Estimate
(c) Includes Public Financial Enterprises and therefore differs from the Non-Financial Public Sector estimates shown in Appendix A1 Statement of Finances
(d) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost
(e) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements
(f) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities

Table C.5: New South Wales Credit Metrics

	Gross Debt/ Receipts[c]	Gross Interest Paid/Receipts[d]	Non-Commercial Gross Debt/ Revenues[e]
1996-97	78.3	6.6	81.0
1997-98	73.7	6.3	76.8
1998-99	77.4	5.7	85.5
1999-00	66.1	4.9	71.9
2000-01	59.3	4.1	57.4
2001-02	55.1	3.6	50.1
2002-03	51.9	3.4	48.2
2003-04	51.4	3.3	46.8
2004-05	53.3	3.3	50.6
2005-06	51.5	3.3	39.6
2006-07	58.3	3.3	40.8
2007-08	54.8	3.3	44.5
2008-09	62.4	3.3	56.0
2009-10	62.4	3.5	57.9
2010-11	72.7	3.8	59.0
2011-12	76.1	4.2	66.7
2012-13	80.4	4.3	75.0
2013-14	79.9	4.2	72.8
2014-15	77.4	4.0	68.5
2015-16[a][f]	74.8	3.8	61.0
2016-17[b][f]	78.2	3.7	62.3
2017-18[b][f]	82.1	3.7	65.3
2018-19[b][f]	87.8	3.8	70.6
2019-20[b][f]	86.4	3.9	68.9

(a) Revised
(b) Estimate
(c) Gross debt as ratio to operating receipts in Non-Financial Public Sector
(d) Interest paid as a ratio of operating receipts in Non-Financial Public Sector. Three year average
(e) Total state gross non-commercial debt as ratio to general government revenues
(f) Excludes non-recourse debt associated with WestConnex

D. PERFORMANCE AND REPORTING UNDER THE FISCAL RESPONSIBILITY ACT

The *Fiscal Responsibility Act 2012* (FRA) requires the budget to include a report on performance against the FRA's object, targets and principles and an explanation of any departures with a plan to restore compliance.

These tables report on the object, targets and principles of the FRA.

Table D.1: Performance and reporting under the Fiscal Responsibility Act 2012

Object	Status
The object of the FRA is to maintain the State's triple-A credit rating	New South Wales' triple-A credit ratings were reaffirmed by international credit rating agencies Moody's and Standard and Poor's in 2015.
Targets	**Status**
Hold expense growth below long-run revenue growth	Historical long-term average annual revenue growth was estimated at 5.6 per cent in the *2011-12 Long-Term Fiscal Pressures Report*. This amount is prescribed in regulations under the FRA. The *2016 NSW Intergenerational Report* reported that historical long-run growth in revenue has been 5.7 per cent. Over the four years of the 2016-17 Budget, expense growth is projected to average 3.0 per cent per annum. Expense growth is highest in 2016-17 at 4.2 per cent.
Eliminate the State's unfunded superannuation liabilities by 2030	The most recent triennial actuarial review of superannuation liabilities was completed as at 30 June 2015. The review found that based on the current Crown funding plan, the liabilities were on track to be fully funded by 2030 in line with the target. Further analysis undertaken since the 2015 Review highlight options for the Government to consider to increase the certainty of meeting its full funding commitment by 2030. Options are currently being considered and the Crown funding plan may be revised to reflect current and future State market conditions and outlook, and the Government's risk tolerances. Further discussion on unfunded superannuation liabilities can be found in Chapter 6 of this *Budget Statement*.
Principles	**Status**
Responsible and sustainable spending, taxation and infrastructure investment	The 2016-17 Budget delivers low average expense growth over the budget and forward estimates that is below long-term average revenue growth. These outcomes will deliver significant budget surpluses that can fund the Government's large infrastructure spending program in a sustainable way. Taxation policies remain stable and predictable.

Table D.1: Performance and reporting under the Fiscal Responsibility Act 2012 (cont)

Principles	Status
Effective financial and asset management	Since coming to office a key objective of the Government has been to improve the financial and asset management of the State. A significant program of reform, initially informed by the Commission of Audit reviews of the State's finances and public sector management, has seen the delivery of: • a new Asset and Liability Committee, which draws upon the technical and financial market expertise of New South Wales Treasury Corporation and the private sector by including representatives of these groups as members • the Financial Management Transformation program and Data Analytics Centre, which will facilitate customer focus and quicker decision making by Government • heightened accountability of ministers and agency CEOs in maintaining their expenses to budget • expense growth brought under control • private sector provision of public services and introduction of contestability in the delivery of services • infrastructure priorities being determined on the basis of the best economic and social outcomes through Infrastructure NSW • better use of existing infrastructure • an active and integrated approach to the management of cash, financial investments and debt, via a whole of state approach to balance sheet and financial risk management • divestment of assets that are not core to the delivery of public services and the sale of surplus property assets.
Achieving intergenerational equity	Funding infrastructure by operating surpluses and asset recycling strategies reduces the need for borrowings to be funded by future generations. The effect of government policies on intergenerational equity is also measured by the change in the long term fiscal gap from one budget to the next. As required under the FRA, the five-yearly *2016 Intergenerational Report*[1] (the Report) gives a detailed assessment of prospects 40 years ahead. The Report projects that NSW residents in 2055-56 will have significantly higher average life expectancies and much higher average per capita incomes than today. While projecting a larger fiscal gap (3.4 per cent of GDP, compared to 2.8 per cent of GDP in the previous study), the Report highlights ways to close the gap by strengthening the economy, delivering better services and infrastructure and building a more sustainable revenue base. As is required under the FRA, the Report also constitutes Budget Paper No 5 in this 2016-17 Budget. The measures in this Budget do not materially impact on the estimated fiscal gap in the Report. The next full update of the fiscal gap will be provided in the 2017-18 Budget. The Government's success in maintaining operating surpluses indicates that the current generation is funding the cost of its services.

Against all these measures, performance in 2015-16 and the strategy and measures in this Budget comply with the requirements of the FRA. There are no departures from the object, target and principles in this Budget.

[1] The 2016 Intergenerational Report is included as Budget Paper No.5 in this Budget.

GLOSSARY

ABS Government Finance Statistics GFS Manual (ABS GFS)	The ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods as updated from time to time.
Appropriation	The funds appropriated by Parliament from the consolidated fund to Ministers for the purposes of funding agency activities.
Budget result (net operating balance)	The budget result represents the difference between expenses and revenues from transactions for the general government sector. This measure is equivalent to the net operating balance adopted in accounting standard AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting*.
Capital expenditure	This is expenditure relating to the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements).
Capital grants	Amounts paid or received for capital purposes for which no economic benefits of equal value are receivable or payable in return.
Cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets (less distributions paid for the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors).
Cash surplus/(deficit) (ABS GFS)	As above, less the value of assets acquired under finance leases and similar arrangements.
Comprehensive Result (Change in net worth)	Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.
Consolidated Fund	The fund is established under s39 of the *Constitution Act 1902* to collect public monies collected on behalf of the State.
Current grants	Amounts paid or received for current purposes for which no economic benefits of equal value are receivable or payable in return.
Fiscal aggregates	These are analytical balances that are useful for macroeconomic purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting* prescribes the net operating balance, net lending/borrowing (fiscal balance), change in net worth (comprehensive result), net worth, and cash surplus/(deficit).
Fiscal gap	The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.
Fiscal Responsibility Act 2012 (FRA)	The Act sets out both medium-term and long-term fiscal targets and principles providing a framework for budgeting in New South Wales.
General government sector (GGS)	This is an ABS classification of agencies that provide public services (such as health, education and police), or perform a regulatory function. General government agencies are funded in the main by taxation (directly or indirectly).

Government finance statistics (GFS)	A system of financial reporting developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.
Grants for on-passing	All grants paid to one institutional sector (for example, a state government) to be passed on to another institutional sector (for example, local government or a non-profit institution). For New South Wales, these primarily comprise grants from the Commonwealth Government to be on-passed to specified private schools, and to specified local government authorities.
Gross state product (GSP)	The total market value of final goods and services produced within a state.
Interest expense	Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings. Where discounting is used, the carrying amount of a liability increases in each period to reflect the passage of time. This increase is also recognised as an interest expense.
National Agreement (please also see National Specific Purpose Payments)	National Agreements define the objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services across a particular sector. The sectors include; Health, Education, Skills and Workforce, Disability and Indigenous.
National Partnership Payment (NPP)	An Australian Government grant to States and Territories to support the delivery of specified outputs or projects, to facilitate reforms or to reward the delivery of nationally significant reforms. Each NPP is supported by a National Partnership Agreement which defines mutually agreed objectives, outputs and performance benchmarks.
National Specific Purpose Payments (SPP)	An Australian Government grant made to the States and Territories under the associated National Agreement. These grants must be spent in the key service delivery sector (Health, Education, Skills and Workforce, Disability and Indigenous) for which it is provided. States are free to allocate the funds within that sector to achieve the mutually agreed objectives specified in the associated National Agreement.
Net acquisition of non-financial assets	This is purchases (or acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Purchases and sales (or net acquisitions) of non-financial assets generally include accrued expenses and payables for capital items. Other movement in non-financial assets include non-cash capital grant revenue/expenses such as developer contribution assets.
Net financial assets	See net financial worth.
Net debt	Net debt equals the sum of financial liabilities (deposits held, advances received, loans and other borrowings) less the sum of financial assets (cash and deposits, advances paid and investments, loans and placements).
Net financial liabilities (NFL)	This is the total liabilities less financial assets, other than equity in PNFCs and PFCs. It is a more accurate indicator than net debt of a jurisdiction's fiscal position. This is because it is a broader measure than net debt in that it includes significant liabilities other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth. For the general government sector NFL, excluding the net worth of other sectors results in a purer measure than net financial worth as, in general, the net worth of other sectors of government is backed up by physical assets.
Net financial worth	Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets less liabilities. It is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. It includes all classes of financial assets and liabilities, only some of which are included in net debt.
Net interest on the net defined benefit liability/asset	This is the change during the period to the net defined benefit liability/asset that arises from the passage of time.

Net lending/(borrowing)	This is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
Net operating balance (budget result)	This is calculated as revenue from transactions less expenses from transactions.
Net worth	This is an economic measure of wealth and is equal to total assets less liabilities.
Nominal dollars/prices	This shows the dollars of the relevant period. No adjustment is made each time period for inflation.
Non-financial public sector (NFPS)	This is a sub-sector formed by the consolidation of the general government sector and public non-financial corporations (PNFC) sector.
Operating Result	This is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.
Other economic flows	These are the changes in the volume or value of an asset or liability that do not result from transactions (that is, revaluations and other changes in the volume of assets).
Payables	A liability that includes short and long term trade creditors, and accounts payable.
Public Finance and Audit Act 1983	An Act to make provision with respect to the administration and audit of public finances and for other purposes.
Public Private Partnerships (PPP)	The creation of an infrastructure asset through private sector financing and private ownership for a concession period (usually long term). The Government may contribute to the project by providing land or capital works, through risk sharing, revenue diversion or purchase of the agreed services.
Public financial corporations (PFC)	An ABS classification of agencies that have one, or more, of the following functions: ▪ that of a central bank ▪ the acceptance of demand, time or savings deposits or ▪ the authority to incur liabilities and acquire financial assets in the market on their own account.
Public non-financial corporations (PNFC)	Government controlled agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.
Receivables	An asset that includes short and long term trade debtors, accounts receivable and interest accrued.
Services	These are the 'end products' or direct services that are delivered to clients or recipients, the broader community or another government agency. They are expected to contribute to Government priorities.
Service groups	Services that are grouped together on the basis of the results they contribute to, the client group that they serve, common cost drivers or other service measures. There should be a clear 'line of sight' between the service groups and the services and activities that are costed and managed as part of internal business planning.
Service group statement	Each agency service group statement in Budget Paper No. 3 *Budget Estimates* includes a service description as well as service measures, expense and capital expenditure information.
State-owned corporation (SOC)	Government entities (mostly PNFCs) which have been established with a governance structure mirroring as far as possible that of a publicly listed company. NSW state owned corporations are scheduled under the *State Owned Corporations Act 1989* (Schedule 5).
Superannuation interest cost	This is the net interest on the net defined benefit liability/asset determined by multiplying the net defined benefit liability/asset by the discount rate (government bond rate).

Other superannuation expense	This includes all superannuation expenses from transactions except superannuation interest cost. It generally includes all employer contributions to accumulation schemes and the current service cost, which is the increase in defined benefit entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are disclosed as an other economic flow.
Surplus/deficit (net result)	In Budget Paper No.3 *Budget Estimates* this is the agency accounting result which corresponds to profit or loss in private sector financial reports. It equals the net cost of services adjusted for government contributions. This is not the same as the budget result or the GFS cash surplus/(deficit).
Total Asset Management (TAM)	An agency's TAM plan sets out its asset expenditure priorities and funding projections over a rolling ten year period, to ensure physical asset management plans are aligned with service priorities and performance targets, and are financially sustainable. TAM covers the acquisition, maintenance, operation and disposal of all physical assets, including land, buildings, infrastructure, plant and equipment, and information technology.
Total expenses	The total amount of expenses incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year. It does not include expenditure on the purchase of assets. It also excludes losses, which are classified as other economic flows.
Total revenues	This is the total amount of revenue due by way of taxation, Commonwealth Government grants and from other sources (excluding asset sales) regardless of whether a cash payment is received. It excludes gains, which are classified as other economic flows.
Total state sector	This represents all agencies and corporations owned and controlled by the NSW Government. It comprises the general government, public non-financial corporations and public financial corporations.
Uniform Presentation Framework (UPF)	The uniform presentation framework provides uniformity in presentation of financial information so that users of the information can make valid comparisons between jurisdictions.

To gain a better understanding of the terminology and key aggregates used in these budget papers, a glossary of terms can be found in Note 36 of the Report on State Finances 2014-15.

THE TREASURY STATEMENT IN RELATION TO THE ESTIMATED FINANCIAL STATEMENTS FOR THE 2016-17 BUDGET

Scope

The 2016-17 Budget presents financial statements for the general government sector. These include:

- General Government Sector Operating Statement
- General Government Sector Balance Sheet
- General Government Sector Cash Flow Statement and
- Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit)

The statements have been prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions. Collectively the Statements and Statement of Significant Accounting Policies and Forecast Assumptions are termed the 'Estimated Financial Statements'.

The Estimated Financial Statements cover the revised estimates for the current year ending 30 June 2016, and estimates for the Budget year ending 30 June 2017 and the three forward years ending 30 June 2018, 2019 and 2020.

Best available information

The practicalities associated with preparing Budget papers make it is necessary to rule off at a point in time so that all information is internally consistent. The Estimated Financial Statements have been prepared to reflect existing operations, the impact of new Government policy decisions and year-end projections provided by agencies based on end-April data. They have also been prepared to take into account other economic and financial data available to Treasury up to 15 June 2016, including Commonwealth Government funding decisions announced in the 2016-17 Commonwealth Budget.

Any estimates or assumptions made in measuring revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time. Assumptions are detailed under the headings *Material Economic and Other Assumptions* and *Summary of Other Key Assumptions*.

Professional judgement

The prospective nature of the Estimated Financial Statements means it is necessary to apply professional judgement in their preparation. That judgement includes an informed assessment of the most likely economic and financial outcomes including spending and revenue profiles.

Differences between underlying assumptions and eventual outcomes can reflect the reality of an uncertain operating environment and the impact of many variables over which the Government has little or no control.

In my opinion, the Estimated Financial Statements have been properly prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions and the methodologies used to determine those assumptions are reasonable.

Rob Whitfield
Secretary
The Treasury

16 June 2016

2016-17 BUDGET ESTIMATED FINANCIAL STATEMENTS

The following pages form part of the estimated financial statements subject to assurance review.

General Government Sector Operating Statement

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Revenue from Transactions						
Taxation	26,067	29,034	29,759	31,240	32,503	34,021
Grants and Subsidies						
- Commonwealth General Purpose	17,065	17,647	17,663	17,679	17,808	18,285
- Commonwealth Specific Purpose Payments	8,103	8,844	9,272	9,780	9,728	10,212
- Commonwealth National Partnership Payments	2,899	2,779	4,682	2,742	1,579	1,546
- Other Grants and Subsidies	1,091	938	727	775	803	815
Sale of Goods and Services	6,255	8,229	8,296	8,276	8,540	8,804
Interest	658	758	914	835	726	694
Dividend and Income Tax Equivalents from Other Sectors	2,407	1,218	1,173	889	953	1,270
Other Dividends and Distributions	1,164	324	441	457	477	496
Fines, Regulatory Fees and Other	3,909	4,002	4,078	4,276	4,363	4,513
Total Revenues from Transactions	**69,617**	**73,772**	**77,005**	**76,948**	**77,479**	**80,656**
Expenses from Transactions						
Employee	27,818	29,510	30,058	32,008	33,613	35,061
Superannuation						
- Superannuation Interest Cost	1,683	1,569	1,436	1,514	1,566	1,554
- Other Superannuation	2,846	2,903	3,001	2,892	2,916	2,969
Depreciation and Amortisation	4,172	4,453	4,608	4,899	5,068	5,245
Interest	2,243	2,221	2,165	2,198	2,276	2,581
Other Property	...	...	...	...	...	...
Other Operating	14,809	17,188	18,656	18,506	18,432	19,218
Grants and Subsidies						
- Current Grants and Subsidies	9,895	11,629	12,367	12,567	11,272	11,615
- Capital Grants	3,270	889	1,000	1,039	953	798
Total Expenses from Transactions	**66,736**	**70,363**	**73,292**	**75,622**	**76,097**	**79,043**
Transactions from Discontinuing Operations	...	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**2,881**	**3,409**	**3,713**	**1,326**	**1,382**	**1,613**

General Government Sector Operating Statement (cont)

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(819)	(693)	277	258	92	163
Other Net Gains/(Losses)	382	176	(182)	108	46	145
Share of Earnings from Associates (excluding Dividends)	18	(7)	13	17	22	12
Dividends from Asset Sale Proceeds	177	...	271	...	...	...
Deferred Income Tax from Other Sectors	137	...	...	...	...	...
Other	3	(702)	63	45	51	79
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(102)**	**(1,226)**	**443**	**428**	**210**	**399**
Operating Result	**2,779**	**2,183**	**4,156**	**1,754**	**1,592**	**2,011**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	(3,183)	(9,762)	8,657	7,157	3,846	3,717
Revaluations	6,631	4,710	4,161	4,417	4,214	4,168
Share of Earnings from Associates from Revaluations	894	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	6,590	12,377	4,906	5,116	5,196	4,723
Net Gain/(Loss) on Equity Investments in Other Sectors Discontinued	(220)	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	0	1	...	...	...	...
Other	64	(3,410)	(3,945)	(1,985)	(1,912)	(1,944)
Other Economic Flows - Other Comprehensive Income	**10,775**	**3,917**	**13,778**	**14,705**	**11,344**	**10,664**
Comprehensive Result - Total Change in Net Worth [(a)]	**13,555**	**6,099**	**17,934**	**16,459**	**12,935**	**12,675**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**13,555**	**6,099**	**17,934**	**16,459**	**12,935**	**12,675**
Less: Net Other Economic Flows	(10,674)	(2,691)	(14,221)	(15,133)	(11,553)	(11,062)
Equals: Budget Result - Net Operating Balance	**2,881**	**3,409**	**3,713**	**1,326**	**1,382**	**1,613**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	9,376	9,472	12,358	11,948	8,904	7,555
Sales of Non-Financial Assets	(700)	(864)	(663)	(328)	(423)	(270)
Less: Depreciation	(4,172)	(4,453)	(4,608)	(4,899)	(5,068)	(5,245)
Plus : Change in Inventories	(8)	1	(8)	(4)	(4)	(2)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	107	89	156	128	3,418	154
- Other	(1,596)	126	106	109	155	150
Equals: Total Net Acquisition of Non-Financial Assets	**3,007**	**4,371**	**7,341**	**6,954**	**6,981**	**2,341**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(126)**	**(963)**	**(3,628)**	**(5,628)**	**(5,599)**	**(729)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(b)]	9,484	9,561	12,514	12,075	12,322	7,709

(a) Total change in net worth' is before transactions with owners as owners, and before revisions to equity from changes to accounting policies. Therefore it may not equal the movement in balance sheet net worth.

(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

General Government Sector Balance Sheet

	June 2015	June 2016	June 2017	June 2018	June 2019	June 2020
	Actual	Revised	Budget	Forw ard Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	12,433	6,145	1,582	1,572	1,829	1,689
Receivables	7,355	5,750	5,885	5,691	5,627	5,810
Tax Equivalents Receivable	156	94	98	65	78	197
Investments, Loans and Placements						
Financial Assets at Fair Value	10,487	10,687	18,613	15,672	14,566	13,106
Other Financial Assets	3,231	14,075	5,087	2,706	1,225	1,294
Advances Paid	928	1,081	1,237	1,289	1,212	1,293
Deferred Tax Equivalents Assets	4,659	3,878	3,955	4,029	4,114	4,227
Equity						
Investments in Other Public Sector Entities	91,341	97,474	102,380	107,496	112,692	117,415
Investments in Associates	3,949	3,935	3,927	3,921	3,918	3,905
Other Equity Investments	10	540	562	585	610	634
Total Financial Assets	**134,549**	**143,660**	**143,326**	**143,024**	**145,870**	**149,570**
Non-Financial Assets						
Inventories	239	240	232	228	224	222
Forestry Stock and Other Biological Assets	9	10	10	10	10	10
Assets Classified as Held for Sale	349	119	84	77	49	47
Investment Properties	...	3	3	3	3	3
Property, Plant and Equipment						
Land and Buildings	67,821	69,952	72,032	74,046	75,934	77,222
Plant and Equipment	10,929	11,373	12,530	12,809	13,109	14,002
Infrastructure Systems	79,590	85,027	91,664	100,179	111,204	115,252
Intangibles	2,904	3,103	3,475	3,296	2,987	2,646
Other Non-Financial Assets	2,512	3,195	4,509	5,756	4,285	4,611
Total Non-Financial Assets	**164,353**	**173,021**	**184,539**	**196,403**	**207,806**	**214,014**
Total Assets	**298,902**	**316,682**	**327,865**	**339,428**	**353,676**	**363,584**
Liabilities						
Deposits Held	126	123	113	103	93	98
Payables	5,720	5,107	4,917	4,644	4,895	4,883
Tax Equivalent Payables	10	12	9	12	12	...
Liabilities Directly Associated w ith Assets Held for Sale	...	...	...	...	...	...
Borrow ings and Derivatives at Fair Value	11	8	6	5	3	2
Borrow ings at Amortised Cost	31,500	31,656	33,067	35,332	39,882	40,489
Advances Received	903	865	873	822	710	787
Employee Provisions	15,313	16,518	16,519	16,402	16,638	16,823
Superannuation Provisions (a)	52,498	63,322	55,510	48,630	44,930	41,286
Deferred Tax Equivalent Provisions	406	297	280	275	275	276
Other Provisions	8,234	8,461	8,684	8,843	9,058	9,363
Other Liabilities	2,858	2,866	2,910	2,922	2,808	2,719
Total Liabilities	**117,579**	**129,235**	**122,887**	**117,990**	**119,303**	**116,727**
NET ASSETS	**181,323**	**187,447**	**204,978**	**221,437**	**234,373**	**246,857**
NET WORTH						
Accumulated Funds	19,601	15,131	24,536	31,581	35,225	38,839
Reserves	161,722	172,316	180,443	189,856	199,147	208,017
TOTAL NET WORTH	**181,323**	**187,447**	**204,978**	**221,437**	**234,373**	**246,857**
OTHER FISCAL AGGREGATES						
Net Financial Worth (b)	**16,970**	**14,426**	**20,440**	**25,034**	**26,567**	**32,842**
Net Debt (c)	**5,461**	**663**	**7,539**	**15,023**	**21,856**	**23,994**
Net Financial Liabilities (d)	**74,371**	**83,048**	**81,940**	**82,462**	**86,125**	**84,572**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net financial worth equals total financial assets minus total financial liabilities.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

General Government Sector Cash Flow Statement

	2014-15 Actual $m	2015-16 Revised $m	2016-17 Budget $m	2017-18 Forward Estimates $m	2018-19 $m	2019-20 $m
Cash Receipts from Operating Activities						
Taxes Received	26,288	29,118	29,742	31,253	32,557	34,084
Receipts from Sales of Goods and Services	6,585	8,903	8,776	8,896	9,217	9,255
Grants and Subsidies Received	29,026	30,298	32,317	30,997	29,922	30,867
Interest Receipts	617	722	862	795	703	650
Dividends and Income Tax Equivalents	2,240	2,223	1,178	1,077	918	948
Other Receipts	8,620	7,340	7,535	7,525	7,601	7,632
Total Cash Receipts from Operating Activities	**73,376**	**78,604**	**80,411**	**80,543**	**80,918**	**83,436**
Cash Payments from Operating Activities						
Payments for Employees	(27,423)	(29,627)	(29,834)	(32,085)	(33,362)	(34,772)
Payments for Superannuation	(3,424)	(3,575)	(3,592)	(4,130)	(4,336)	(4,451)
Payments for Goods and Services	(16,031)	(19,308)	(21,716)	(21,298)	(20,985)	(20,755)
Grants and Subsidies Paid	(9,482)	(9,922)	(10,896)	(11,006)	(9,715)	(9,811)
Interest Paid	(1,680)	(1,712)	(1,628)	(1,609)	(1,615)	(1,896)
Other Payments	(4,413)	(4,351)	(4,616)	(4,376)	(4,457)	(4,298)
Total Cash Payments from Operating Activities	**(62,453)**	**(68,494)**	**(72,282)**	**(74,504)**	**(74,469)**	**(75,983)**
Net Cash Flows from Operating Activities	**10,923**	**10,110**	**8,129**	**6,039**	**6,449**	**7,453**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	690	877	663	328	423	270
Purchases of Non-Financial Assets	(9,408)	(9,561)	(12,235)	(12,130)	(8,634)	(7,980)
Net Cash Flows from Investments in Non-Financial Assets	**(8,718)**	**(8,683)**	**(11,572)**	**(11,802)**	**(8,210)**	**(7,710)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	1,095	6,299	461	224	289	256
Payments	(1,281)	(3,604)	(3,453)	(2,225)	(2,096)	(2,165)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(186)**	**2,695**	**(2,992)**	**(2,001)**	**(1,807)**	**(1,909)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	12,422	13,476	10,595	8,168	4,581	3,587
Payments for Purchases of Investments	(11,791)	(23,840)	(9,091)	(2,437)	(1,716)	(1,747)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**632**	**(10,364)**	**1,504**	**5,731**	**2,864**	**1,840**
Net Cash Flows from Investing Activities	**(8,273)**	**(16,352)**	**(13,061)**	**(8,072)**	**(7,153)**	**(7,779)**
Cash Flows from Financing Activities						
Advances Received	150	110	47	37	38	34
Advances Repaid	(62)	(113)	(57)	(71)	(111)	(112)
Proceeds from Borrowings	1,130	446	1,319	2,737	1,793	818
Repayments of Borrowings	(1,188)	(475)	(547)	(675)	(758)	(480)
Deposits Received (net)	8	(4)	(11)	(11)	(11)	4
Other Financing (net)	(12)	...	...	...	...	...
Net Cash Flows from Financing Activities	**26**	**(38)**	**751**	**2,017**	**951**	**265**
Net Increase/(Decrease) in Cash Held	**2,676**	**(6,279)**	**(4,181)**	**(16)**	**247**	**(61)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	10,923	10,110	8,129	6,039	6,449	7,453
Net Cash Flows from Investments in Non-Financial Assets	(8,718)	(8,683)	(11,572)	(11,802)	(8,210)	(7,710)
Cash Surplus/(Deficit)	**2,205**	**1,427**	**(3,444)**	**(5,763)**	**(1,761)**	**(257)**

Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Cash Surplus/(Deficit)	**2,205**	**1,427**	**(3,444)**	**(5,763)**	**(1,761)**	**(257)**
Assets Acquired under Finance Leases	(107)	(89)	(156)	(128)	(3,418)	(154)
Other Financing Arrangements [(a)]	42	75	(123)	182	(270)	425
ABS GFS Surplus/(Deficit)	**2,139**	**1,413**	**(3,722)**	**(5,709)**	**(5,449)**	**14**

(a) Comprises movements in payables and receivables of a capital nature

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements

The budget papers present the Estimated Financial Statements of the general government sector including revised estimates for the current year ending 30 June 2016, estimates for the budget year ending 30 June 2017 and the three forward years ending 30 June 2018, 2019 and 2020.

These comprise the general government sector operating statement, general government sector balance sheet, general government sector cash flow statement and derivation of ABS GFS general government sector cash surplus / (deficit). These are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions.

Collectively the statements and the Statement of Significant Accounting Policies and Forecast Assumptions are referred to as the 'Estimated Financial Statements'.

The Estimated Financial Statements are prepared for the NSW general government sector, which 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 2005 (cat. No. 5514)* (ABS GFS Manual) as amended from time to time.

The general government sector 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 services to general government agencies.

The scope of the general government sector is outlined in Appendix A3 of Budget Paper No. 1.

Basis of preparation

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

They have been prepared to reflect existing operations and the impact of new policy decisions taken by the NSW Government (where their financial effect can be reliably measured). The 2015-16 Budget is derived from the 2015-16 Budget papers. The revised estimates for 2015-16 are based on actual results at 30 April 2016, and updated year end projections provided by agencies. They have also been prepared to take into account other economic and financial data available to Treasury up to 15 June 2016, including Australian Government funding decisions announced in the 2016-17 Australian Government budget.

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

Any estimates or assumptions made in measuring revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time, professional judgments derived from experience and other factors considered to be reasonable under the circumstances. Actual results may differ from such estimates. Assumptions are detailed below, under the headings *Material economic and other assumptions* and *Summary of other key assumptions*.

Accounting policies

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

The Estimated Financial Statements do not include the impact of transactions until they are finalised. The financial impact of future planned discontinuing operations or restructuring transactions are not recognised due to the commercial-in-confidence nature of the transactions.

The Estimated Financial Statements adopt the accounting policies expected to be used in preparing general purpose financial statements for 2015-16. The policies are not materially different from those applied in the *Total State Sector Accounts 2014-15*. Note 1 of the *Total State Sector Accounts 2014-15* sets out the significant accounting policies, including the principles of consolidation, significant accounting judgements and estimates, and the recognition and measurement policies for revenues, expenses, other economic flows, assets and liabilities.

Change in accounting policies

There are no significant changes to Australian Accounting Standards or accounting policies adopted in 2015-16 that would significantly impact on the State's financial estimates.

Presentation of the Estimated Financial Statements

The Estimated Financial Statements follow the presentation requirements for general government sector reporting contained in AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting*.

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. Australian accounting standards) with Government Finance Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics. This occurs by requiring that:

- 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 (i.e. the budget result) is the net result of harmonised GFS-GAAP transactions for the general government sector.

In the operating statement:

- the *net operating balance* (i.e. the budget result) is the net result of income and expense *transactions*. It excludes *other economic flows*, which represent 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* is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

Further, AASB 1049 requires:

- the financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS
- where options do not exist in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

Due to the prospective nature of the statements, detailed notes to the financial statements, including disclosure of contingent assets and liabilities, are not required to be presented within the meaning of Australian Accounting Standards as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

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 to the nearest million dollars.

Presentation changes

There have been no presentation changes since the release of the 2015-16 Budget papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to Budget Paper No 1.

Material economic and other assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table A2.1.

Key economic performance assumptions [(a)]

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outcomes	Forecasts	Forecasts	Forecasts	Projections	Projections
New South Wales population (persons)	7,580,000	7,690,000	7,790,000	7,900,000	8,010,000	8,120,000
Nominal gross state product ($million)	513,300	535,600	561,700	587,700	617,700	649,100
Real state final demand (per cent)	3.3	3¼	3½	3	-	-
Real gross state product (per cent)	2.4	2¾	3	2¾	2½	2½
Employment (per cent)	1.2	3½	1¾	1½	1¼	1¼
Unemployment rate [(b)] (per cent)	5.9	5½	5¼	5	-	-
Sydney consumer price index [(c)] (per cent)	2.0	1½	1¾	2¼	2½	2½
- through the year to June quarter [(c)] (per cent)	2.2	1	2	2¼	-	-
Wage price index (per cent)	2.3	2¼	2½	2¾	3½	3½
Nominal gross state product (per cent)	3.6	4¼	4¾	4¾	-	-

(a) Per cent change, year average, unless otherwise indicated

(b) Year average, per cent

(c) 2014-15 includes ¾ percentage point detraction from the abolition of the carbon tax. 2014-15 to 2017-18 include ¼ percentage point contribution from tobacco excise increases.

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 Estimated Financial Statements. The summary takes into account materiality in relation to the general government sector'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.

Revenues from transactions

Taxation

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. For example for payroll tax, this involves an assessment of the outlook for employment and wages. Forecasts of government guarantee fees take into account an assessment of the level of debt of public non-financial corporations 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 revenue

Forecast grants from the Australian Government are based on the latest available information from the Australian Government and projections of timing of payments at the time of preparation of the Budget. This takes into account the conditions, payment timetable and escalation factors relevant to each type of grant.

The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Australian Government. For 2016-17, the GST forecast is based on the assessed relativity for New South Wales in 2016-17 and the Australian Government's population projections. The assessed relativity is the average of the past three years annual per capita relativities (2012-13, 2013-14 and 2014-15) as published by the Commonwealth Grants Commission.

After 2016-17, the State's share of GST is based on assessed relativities in a particular year and the Australian Government's population and GST pool projections. The forecast per capita annual relativities are based on the projected relative fiscal capacity of New South Wales compared to other States and Territories.

Sales of goods and services

Revenue from the sale of goods and services is forecast taking into account factors including estimates of changes in demand for services provided or 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 revenues are estimated by public financial and non-financial corporations based on expected profitability and the agreed dividend policy at the time of the Budget.

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, regulatory fees, contributions and royalty revenue for which estimates are 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

Employee expenses

Employee expenses are forecast based on expected staffing profiles, current salaries, conditions and on-costs. Employee expenses are adjusted over the forecast period for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government's wages policy at a net cost of 2.5 per cent per annum inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new approved initiatives and required efficiency savings.

Superannuation expenses (and liabilities)

Superannuation expenses comprise:

- for the defined contribution plan, the forecast accrued contribution for the period, and
- 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 excluding the gross interest income) 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 Commonwealth Government Bond 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 Commonwealth Government bond yield as at 30 June. Gross liability estimates are based on a number of demographic and financial assumptions. The major financial assumptions used for the budget and forward estimates period are outlined in the table below.

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.

Superannuation Assumptions – Pooled Fund / State Super Schemes

	2015-16	2016-17	2017-18	2018-19	2019-20
	%	%	%	%	%
Liability discount rate	2.26	2.77	3.28	3.53	3.79
Expected return on investments	2.86	7.8	7.8	7.8	7.8
Expected salary increases[a]					
- SSS and SASS Members [b]	2.50	2.50	2.50	2.50	3.50
- PSS Members [b]	2.50	2.50	2.50	2.50	3.50
Expected rate of CPI	1.50	1.75	2.25	2.50	2.50

(a) Taking the increased Superannuation Guarantee Contribution into account, total remuneration will increase by 2.5 per cent.

(b) SSS – State Superannuation Scheme, SASS – State Authorities Superannuation Scheme, PSS – Police Superannuation Scheme.

Depreciation and amortisation

Property, plant and equipment is depreciated (net of its residual value) over its useful life. Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on the basis of known asset carrying valuations, the expected economic life of assets, assumed new asset investment and asset sales programs. The 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, carrying value, residual value or valuation methodology.

Certain heritage assets, including original artworks and collections and heritage buildings, may not have a limited useful life 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 under the straight line method. Intangible assets with an indefinite life are not amortised, but tested for impairment annually.

Interest expense

The forecasts for the interest expenses are based on:

- payments required on the current general government sector debt
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for NSW Treasury Corporation bonds and
- 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, including planned changes in the method of service delivery and the application of government policy. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expense

Grant and subsidy expenses generally comprise cash contributions to local government authorities and non-government organisations. For the general government sector they include grants and subsidies paid to the public non-financial corporation and public financial corporations sectors. The forecast grant payments are determined taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

Revaluations

The estimates are based on an examination and extrapolation of historical trends in the valuation of non-financial physical assets. The forward estimates include the estimated impact of revaluations of non-financial physical assets.

Superannuation actuarial gains / losses

The forecast gain or loss on defined benefit superannuation is based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain on equity investments in other sector entities

The gain or loss on equity investments in other sector entities is based on estimates of the public financial corporation and public non-financial corporation 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 owners are based on the Treasury *Commercial Policy Framework*.

Assets

Land and buildings, plant and equipment, and infrastructure

The estimates of non-financial physical assets over the forecast period are at fair value and take into account planned acquisitions, disposals, and the impact of depreciation and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period. The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates are based on an examination of expected cost trends.

The Estimated Financial Statements also include provisions for future capital expenditure. These include agency estimates of approved projects and future new works held within agencies, as well as a central estimate for future new works still to be approved at the agency level. The central estimate for future new works is based upon historical trends.

Liabilities

Borrowings

Estimates for borrowings are based on current debt levels, 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 expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government's wages policy at a net cost of 2.5 per cent per annum inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

Superannuation provisions

Refer to superannuation expense (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 claim liabilities, actuarial assumptions have been applied for future claims to be incurred, claim payments, inflation and liability discount rates. Actual liabilities may differ from estimate.

INDEPENDENT ASSURANCE PRACTITIONER'S REPORT

Estimated Financial Statements

To the Members of New South Wales Parliament

I have undertaken a limited assurance review of the reasonableness of estimates and forecasts included in the 2016-17 Budget Papers. My review was conducted in accordance with Australian Auditing and Assurance Standards. My review was conducted pursuant to a request under s27B(3)(c) of the *Public Finance and Audit Act 1983.*

My review covers the revised budget for the year ending 30 June 2016, the budget for the year ending 30 June 2017, and the three forward years ending 30 June 2018, 2019, and 2020 of the NSW General Government Sector (the Estimated Financial Statements). The Estimated Financial Statements comprise the operating statement, balance sheet, cash flow statement, derivation of ABS GFS cash surplus/deficit and a statement of significant accounting policies and forecast assumptions. The subject matter immediately precedes this report. All other 2016-17 Budget Paper content has not been subject to my review.

The Estimated Financial Statements have been prepared by Treasury for the NSW Treasurer for inclusion in the 2016-17 Budget Papers. I disclaim any assumption of responsibility for any reliance on this report, or on the Estimated Financial Statements to which it relates, to any person other than the Secretary, or for any purpose other than that for which it was prepared.

Unqualified Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe:

- the Estimated Financial Statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the Estimated Financial Statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

Actual results for the NSW General Government Sector are likely to be different from those forecast in the Estimated Financial Statements since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, I express no opinion as to whether the forecasts will be achieved.

Secretary's Responsibility for the Estimated Financial Statements

The Secretary is responsible for the preparation and presentation of the Estimated Financial Statements. This responsibility includes preparation on a basis consistent with the stated accounting policies and assumptions as well as the development of reasonable methodologies to determine those assumptions. It also includes such internal control as the Secretary determines is necessary to enable preparation of the Estimated Financial Statements that are free from material misstatement, whether due to fraud or error.

Assurance Practitioner's Responsibility

My responsibility is to express a conclusion on the Estimated Financial Statements based on my review. I conducted my review in accordance with Australian Auditing and Assurance Standards applicable to the review of prospective financial information. Those standards require I comply with relevant ethical requirements relating to such engagements, and conduct the review in order to state whether anything has come to my attention that causes me to believe:

- the Estimated Financial Statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the Estimated Financial Statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

A review is limited primarily to making inquiries of relevant personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, an audit opinion is not expressed.

Forecasts relate to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions upon which forecasts are based, such evidence is generally future oriented and therefore less certain in nature. Given the nature of the evidence available in assessing the reasonableness of the assumptions, I cannot obtain the level of assurance necessary to express a reasonable assurance conclusion on those assumptions. The conclusion expressed in this report has been formed on the above basis. Accordingly, I provide a lesser level of assurance on the reasonableness of the assumptions. No opinion is expressed on whether the forecasts will be achieved.

Electronic Publication of the Reviewed Financial Statements

This review report relates to the Estimated Financial Statements for the years ending 30 June 2016, 2017, 2018, 2019 and 2020 of the NSW General Government Sector included in the 2016-17 Budget Papers and NSW Budget website. The Secretary of Treasury is responsible for the integrity of the website. I have not been engaged to report on the integrity of that website. The review report refers only to the subject matter described above. It does not provide a conclusion on any other information that may have been hyperlinked to/or from these statements. If users of the historical and Estimated Financial Statements are concerned with the inherent risks arising from publication on a website, they are advised to refer to a hard copy of the 2016-17 Budget Papers to confirm the information contained in the website version of those statements.

Independence

In conducting my review, I have complied with the independence requirements of the Australian Auditing and Assurance Standards and relevant ethical pronouncements. The *Public Finance and Audit Act 1983* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit related services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.

Margaret Crawford
Auditor-General of NSW

16 June 2016
SYDNEY

Images courtesy of:
Department of Education, Hazelbrook Primary School
Destination NSW
Destination NSW, photographer: James Horan
NSW Health
NSW Police Force
Transport for NSW, Roads and Traffic Authority (NSW)
Transport for NSW, Transdev, photographer: Scott Riley