NSW
BUDGET 2016–17

NSW GOVERNMENT

HALF-YEARLY REVIEW

NSW Budget

2016-17 Half-Yearly Review

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

This statement is released in compliance with section 8 of the *Public Finance and Audit Act 1983*. This section requires the Treasurer by 31 December in each year, to publicly release a statement (the Half-Yearly Review) containing:

- revised projections for the current financial year and an explanation of any significant variation in those revised projections from the original budget time projections
- revised forward estimates, for major aggregates, over 3 years
- the latest economic projections for the current financial year and an explanation of any significant variation from the budget time projections contained in the Budget Papers.

Section 8 also requires the Half-Yearly Review to be based on actual results as at the end of the previous October.

Also published with this statement are Uniform Presentation Framework (UPF) tables to meet Australian Loan Council reporting obligations.

Budget Paper No. 1 *Budget Statement* contains the full details of the 2016-17 Budget, as well as budget scope and other explanatory information. All financial statements presented are prepared in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Notes to using this report

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 sums of components reflect rounding. Percentage changes are based on unrounded estimates.

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1. OVERVIEW

The 2016-17 Half-Yearly Review provides an update on the fiscal and economic position of NSW since the 2016-17 Budget was delivered on 21 June 2016.

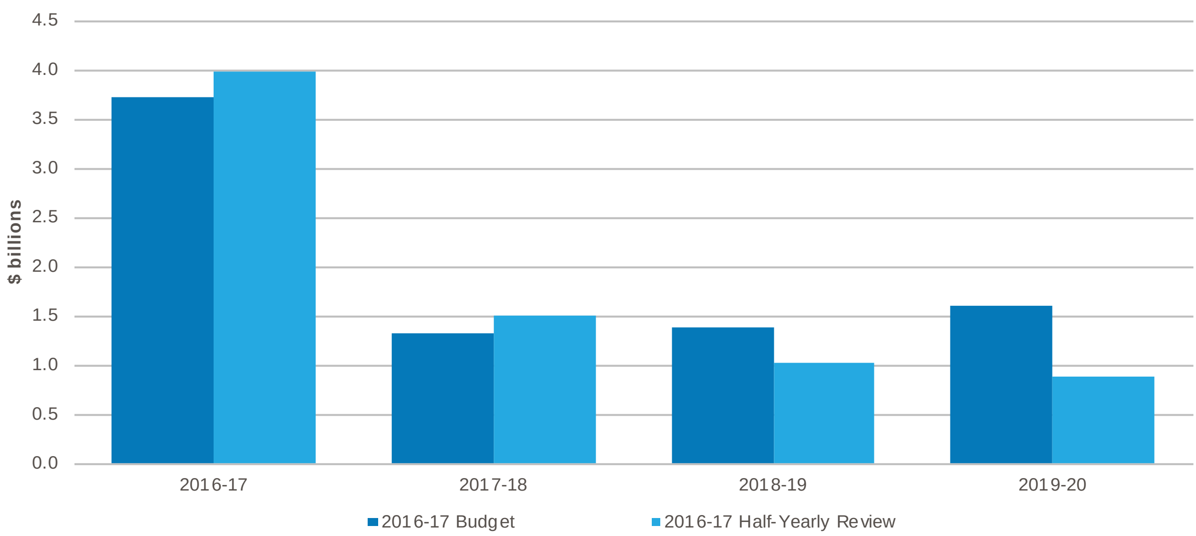
The State's fiscal position remains strong, with budget surpluses projected over the next four years (see Chart 1.1). The NSW Government ended the year to 30 June 2016 with a cash-positive position for net debt, the first time on record. The net debt position remains at near historic lows and is by far the best among all mainland states.

The Government's sound approach to financial management, in line with its responsibilities under the *Fiscal Responsibility Act 2012* (FRA), has maintained the State's triple-A credit rating from both Moody's and Standard and Poor's.

This Half-Yearly Review includes a record infrastructure investment of $73.2 billion. The State accounts for over 40 per cent of estimated infrastructure spending by all states and territories in 2016-17. The Government's successful asset recycling strategy, including the recent outstanding result for the partial long-term lease of Ausgrid that unlocks $16.2 billion in gross proceeds, will further boost this record infrastructure investment as part of the Government's $20 billion Rebuilding NSW plan. A further $1.5 billion has been included in the Budget for Rebuilding NSW projects across the State since the 2016-17 Budget. In total, the 2016-17 Half-Yearly Review reflects new capital expenditure decisions of $2.7 billion over four years.

NSW led the nation in economic growth in 2015-16, and is expected to continue to outperform the national economy in 2016-17. Above-trend economic growth is forecast in 2016-17 and 2017-18, supported by a record pipeline of public infrastructure projects, a lower exchange rate and low interest rates. NSW has created more than half of the jobs added in Australia since April 2015, with 46,100 jobs created over the past year. NSW also leads the nation in increased housing supply, with a historically high 74,600 new homes approved over the past year. A record 1,300 new homes are currently being completed every week.

Chart 1.1: Change in budget result since the 2016-17 Budget



The State's strong operating surpluses and asset recycling strategy have significantly boosted the State's net worth, which is forecast to be $203.4 billion by June 2017. The State's net worth is estimated to rise to $248.4 billion by June 2020, growing faster than any other mainland state (see Box 1.1).

1.1 Fiscal outlook

The NSW Government is maintaining a disciplined approach to controlling expenditure growth and prudently managing the State Budget, enabling continued record investment in infrastructure and services.

The Government forecasts a $4.0 billion surplus for 2016-17, supporting expenditure of $73.5 billion and ensuring the sustainable delivery of quality services for the people of New South Wales (see Table 1.1).

In 2016-17, revenues are projected to be higher than forecast in the Budget, with declining GST revenue more than offset by higher transfer duties as a result of the $488.9 million duties received from the partial long-term lease of Ausgrid.

Expenses have increased slightly across the forward estimates since the 2016-17 Budget, largely due to policy decisions and reforms such as reparations for the survivors of the Stolen Generations (see Chapter 3.3).

Relative to the 2016-17 Budget, smaller surpluses are expected in 2018-19 and 2019-20, primarily as a result of revenue growth softening as New South Wales' share of GST declines (see Chart 3.1).

The Government remains committed to controlling expenditure growth, while continuing to deliver a sustainable program of savings, driving efficiencies and delivering high quality services.

Table 1.1 sets out the key budget aggregates for the general government sector (GGS).

Table 1.1: General government operating statement aggregates

	2015-16 Actual	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m	$m
Revenue	74,334	77,005	77,499	77,900	77,654	80,320
Expenses	69,675	73,292	73,526	76,398	76,633	79,427
Budget result	4,659	3,713	3,973	1,502	1,021	893

For the first time since records began in 1996-97, the NSW Government ended the year to 30 June 2016 with a cash-positive net debt position. The State's net debt at 30 June 2017 is expected to be $7.1 billion lower than forecast at the time of the 2016-17 Budget, due to continued prudent fiscal management and the State's asset recycling strategy. This represents the lowest net debt among all mainland states.

The Government will utilise its stronger balance sheet, boosted by the asset recycling strategy, to continue the delivery of major infrastructure commitments over the forward estimates. The recent successful partial long-term lease of Ausgrid, unlocking $16.2 billion in gross proceeds, further strengthens the Government's ability to deliver infrastructure, making New South Wales an even more productive and liveable state.

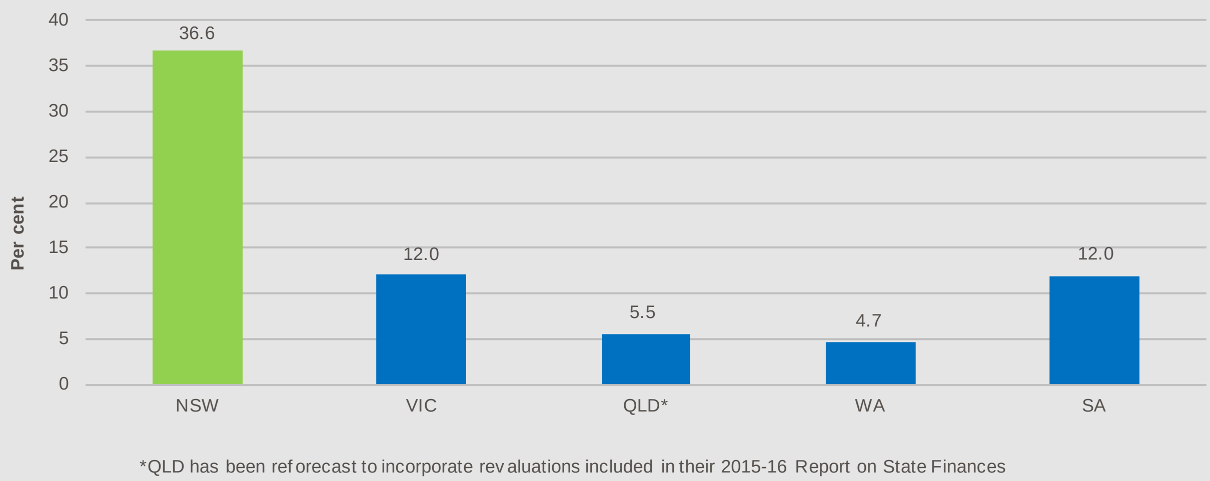
The Half-Yearly Review includes a further $1.5 billion in funding for new infrastructure as part of Rebuilding NSW, including $393.0 million for Pinch Points and Clearways to address road congestion, $380.0 million for M4 Smart Motorways to improve traffic flow and $196.5 million for Regional Multipurpose Services health facilities. This builds upon $9.3 billion in infrastructure investments committed from the Restart NSW Fund as part of the 2016-17 Budget (including $7 billion for Sydney Metro).

In total, the Government is delivering the largest infrastructure investment program of any state or territory in the history of Australia.

Box 1.1: Record net worth – NSW Government's strong balance sheet

The NSW Government continues to grow the State's net worth to record levels, estimated at $203.4 billion by 30 June 2017. New South Wales' net worth is projected to grow by 36.6 per cent over the next four years, faster than all other mainland states (see Chart 1.2).

Chart 1.2: Net worth growth comparison – June 2016 to June 2020



Source: State Budget Papers 2016-17

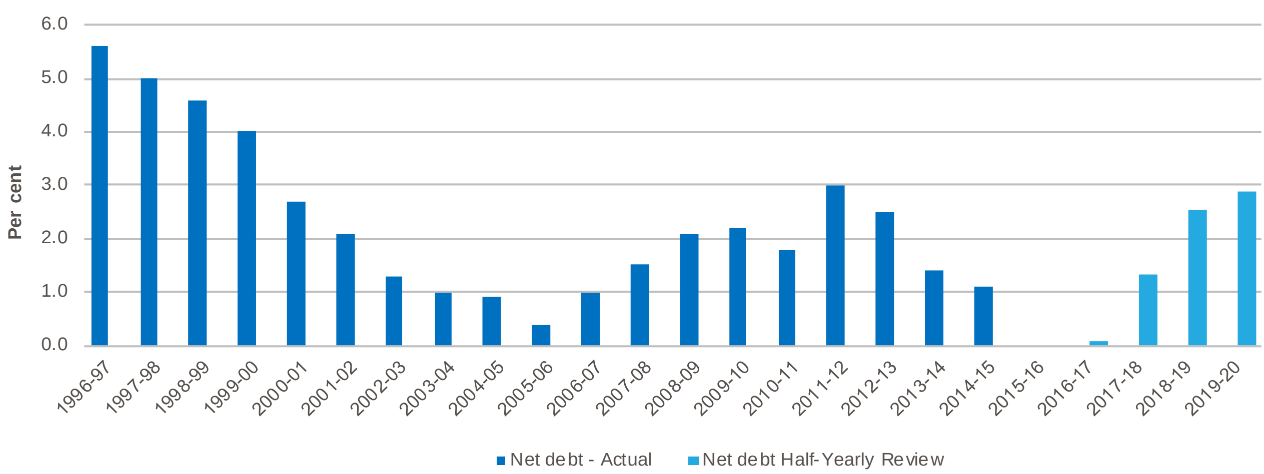
Box 1.2: Ausgrid partial lease proceeds fuel infrastructure investment and reduce net debt

On 20 October 2016, the Government entered into a binding agreement with an Australian consortium of IFM Investors and Australian Super for the long-term lease of 50.4 per cent of Ausgrid. This has delivered gross proceeds of $16.2 billion, which will fund infrastructure and the transaction will place downward pressure on electricity prices.

The completion of the lease has led to higher holdings of cash and financial assets, which have strengthened the net debt position in 2016-17 (see Chart 1.3). The Half-Yearly Review also reflects the Australian Government incentive payments under the Asset Recycling Initiative following the completion of milestones.

The NSW Government will retain 49.6 per cent of Ausgrid and will receive distributions due to its ongoing role as an investor. In addition, the State will continue its roles as licensor and safety and reliability regulator of Ausgrid. Ausgrid will also continue to be regulated by the Australian Energy Regulator.

Chart 1.3: Net debt in the general government sector as a percentage of GSP



1.2 Economic outlook

The NSW economy grew by 3.5 per cent in 2015-16, an outcome not seen since the Olympics boom 16 years ago and a very strong result at a time when the rest of Australia grew at 2.4 per cent. This is also the first time that New South Wales has had the fastest growth among the states since Australian Bureau of Statistics records began in 1989-90.

The strong growth in New South Wales was driven by local demand. NSW state final demand increased by 4.2 per cent, which accounted for almost all domestic demand growth nationally. The NSW labour market also outperformed the nation, with employment growing by 3.8 per cent in 2015-16 and New South Wales accounting for more than half of the increase in jobs nationally.

In 2015-16 these strong labour market outcomes, low interest rates and robust house price growth fuelled above-trend growth in household consumption and dwelling investment. The lower Australian dollar led to a surge in overseas service exports such as tourism, education and financial services. Business investment was higher than expected in 2015-16, with signs that the long-awaited recovery in non-mining investment is gathering momentum. The State's strategy for infrastructure investment, funded by asset recycling, has become a key driver of economic growth, as it propels construction activity in New South Wales to record levels.

The unprecedented $73.2 billion infrastructure investment planned over the forward estimates will continue to drive economic growth. Low interest rates, a lower exchange rate and solid population growth are also expected to see New South Wales continue to outperform the national economy over the next year. Economic growth is expected to remain above-trend in both 2016-17 and 2017-18, at 3 per cent and 2¾ per cent respectively.

Forward indicators of the pipeline of dwelling investment, public infrastructure and commercial construction have strengthened and conditions in the NSW housing market have improved since mid year. While these developments have lifted dwelling investment, public demand and business investment forecasts for 2016-17, recent weakness in household consumption and the labour market are expected to offset these improvements in the near term.

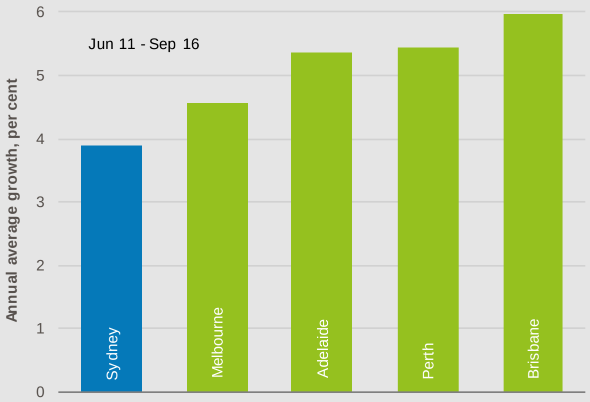
Labour market conditions have softened since the Budget, with annual employment growth slowing to 1.2 per cent and wages growth moderating to 2.1 per cent. Nevertheless, the labour market outlook remains positive, with the unemployment rate expected to remain around its current low level of 4.9 per cent, the lowest in the nation.

Box 1.3: Easing cost of living pressures in New South Wales

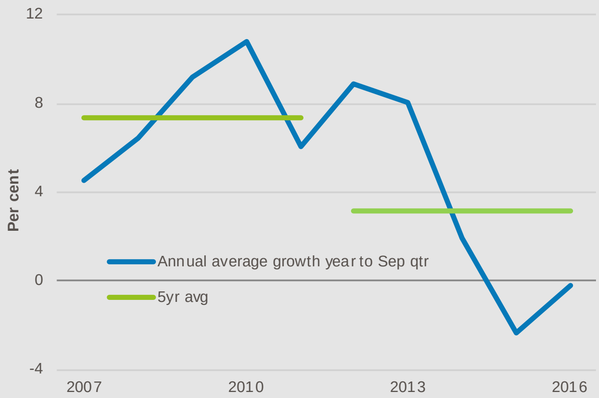
The NSW Government is committed to doing everything it can to ease cost of living pressures for the people of New South Wales.

Since June 2011, State Government-influenced price growth in Sydney – comprising public transport, electricity, water, and selected vehicle charges – has been the lowest of the mainland capital cities (see Chart 1.4).

Chart 1.4: State Government-influenced prices [(a)]



Source: ABS 6401.0, NSW Treasury



Source: ABS 6401.0, NSW Treasury

(a) State Government-influenced prices includes items for which prices are regulated or heavily influenced by the State Government. This comprises electricity, water & sewerage, public transport and selected motor vehicle charges.

As a result, an average Sydney household is around $100 a year better off than it was two years ago. This has been driven by declines in electricity prices, which have fallen by 7.5 per cent over this period largely due to a more disciplined capital program, a strong focus on achieving efficiencies and the lifting of the carbon tax.

Average Sydney water price growth over the past five years has fallen sharply to an average of 1.9 per cent a year, down from 9.3 per cent over the previous five years. The reduction in water price growth has been made possible in large part due to efficiencies made by Sydney Water and WaterNSW.

Sydney has also experienced one of the lowest increases in transport fares compared to other capital cities, with an average annual increase over the past five years of 1.6 per cent, well below the average of the previous five years (3 per cent).

Growth in selected vehicle costs has eased from an annual average of 3.6 per cent over the five years to September 2011 and is now down to 2.9 per cent over the past five years. At the same time, Service NSW has made registering a vehicle faster and simpler.

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2. ECONOMIC OUTLOOK

2.1 New South Wales economic outlook[1]

New South Wales was the fastest growing economy and had the strongest labour market in the nation in 2015-16, with the economy growing at rates not seen since the pre-Sydney 2000 Olympics boom (see Chart 2.1).

The NSW economy grew by 3.5 per cent in 2015-16, well above its trend rate of 2½ per cent, employment expanded by a robust 3.8 per cent, workforce participation reached a record high and the unemployment rate fell significantly.

Low interest rates and strong population growth have lifted property values and supported above average growth in household consumption and dwelling investment. A lower exchange rate and increased demand from Asia have driven a surge in overseas exports of services, including tourism, education and financial services. Businesses responded to stronger demand by becoming more confident in the economic outlook and increasing hiring and investment.

Public investment has also become an important driver of economic growth, helping lift construction activity in the State to record levels. Reflecting this investment boom, construction, financial services and rental, hiring and real estate services accounted for over 40 per cent of economic growth in 2015-16.

Strong domestic demand continues to be the driving force of the NSW economy as the national transition away from mining investment remains a drag on interstate exports and below-trend global growth weighs on overseas exports of goods, particularly coal volumes.

With growing momentum in 2015-16, the outlook for the NSW economy has firmed since the Budget, with above-trend economic growth in New South Wales expected to continue over the next two years. Low interest rates, a record housing construction pipeline, solid population growth and a record infrastructure program will drive growth in the near term. Further into the future, more support for growth is expected from a lower exchange rate, non-mining business investment, interstate exports and household consumption.

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

	2015-16	2016-17		2017-18		2018-19 and 2019-20	
	Outcome	Budget Forecast	Revised Forecast	Budget Forecast	Revised Forecast	Budget Projection	Revised Projection
Real state final demand	4.2	3½	3½	3	3		
Real gross state product	3.5	3	3	2¾	2¾	2½	2½
Employment	3.8	1¾	1¼	1½	1½	1¼	1¼
Unemployment rate [(b)]	5.4	5¼	5	5	5		
Sydney Consumer Price Index [(c)]	1.5	1¾	2	2¼	2¼	2½	2½
- through the year to June quarter [(c)]	0.9	2	2	2¼	2¼		
Wage price index	2.1	2½	2¼	2¾	2½	3½	3½
Nominal gross state product	4.9	4¾	6¼	4¾	4¼		

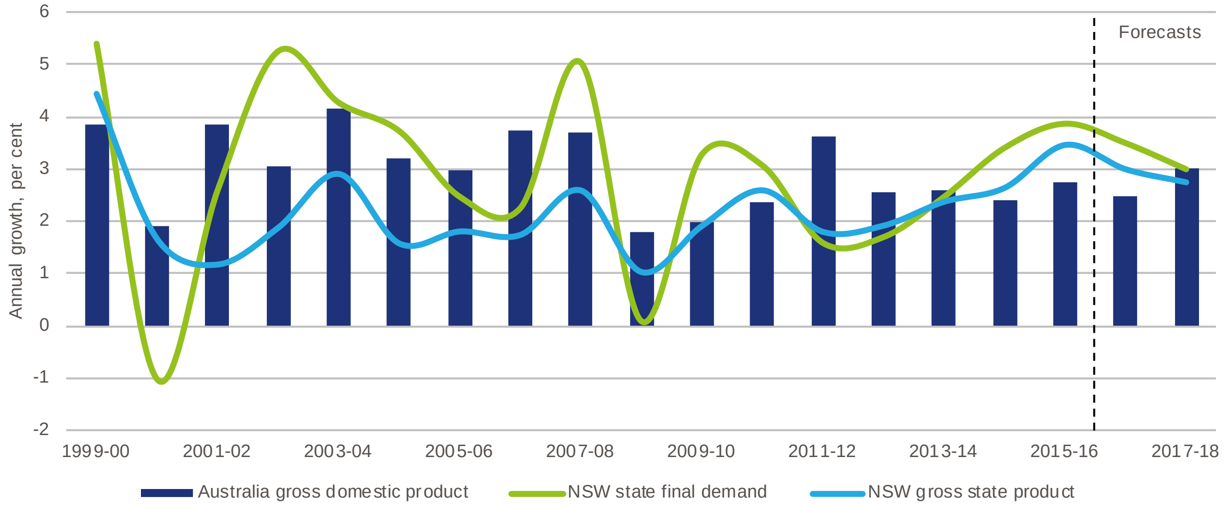
(a) Per cent change, year average, unless otherwise indicated.
(b) Year average, per cent.
(c) 2015-16 to 2017-18 include ¼ percentage point contribution from tobacco excise increases.

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

[1] Economic forecasts are based on data available at the time they were prepared, which includes results to June 2016 for gross state product, to the September quarter 2016 for state final demand, consumer price index and wage price index, to the March quarter 2016 for population and to October 2016 for the labour force.

Since mid year, forward indicators of the pipeline of construction activity have firmed and conditions in the NSW housing market have improved. However, this has occurred alongside a slowdown in household consumption growth and a moderation in labour market conditions. Reflective of these largely offsetting developments, economic growth forecasts remain unchanged at 3 per cent in 2016-17 and 2¾ per cent in 2017-18 (see Table 2.1).

Chart 2.1: New South Wales and national economic performance



Source: ABS 5220.0 and NSW Treasury

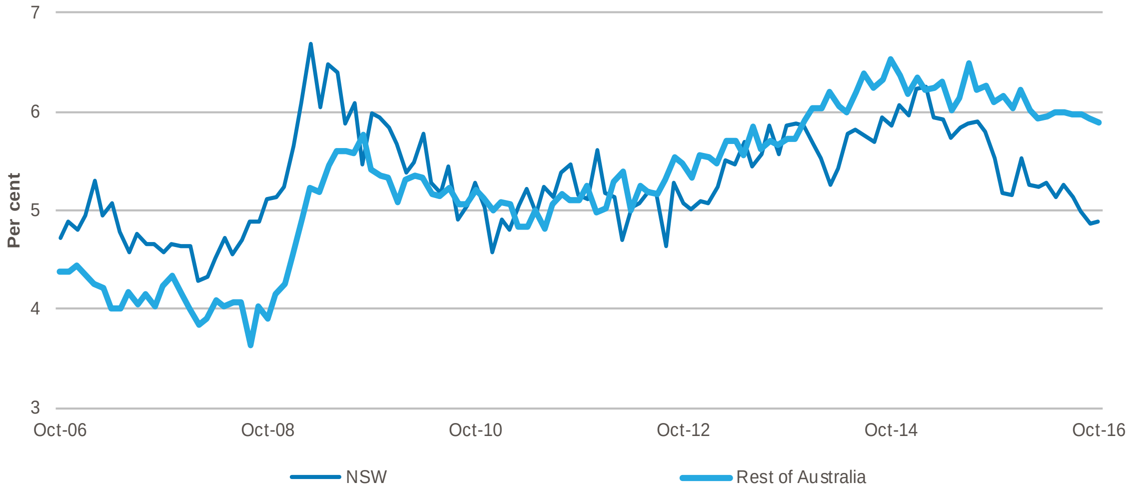
The recent easing in household consumption growth is consistent with national trends, including slower asset price growth, a weaker labour market and subdued wages growth. Stronger consumption growth would have required the savings rate to fall further, which consumers have shown little appetite for with recent global political and economic uncertainties. Nevertheless, the slowdown is expected to be temporary with growth expected to pick up over the remainder of 2016-17, supported by demand for furnishings for new dwellings, stronger household balance sheets and a strengthening labour market.

Strong dwelling approvals over recent months and further additions to the record NSW Government infrastructure program have lifted expectations for housing construction and public investment – with both now forecast to grow in 2017-18. Nevertheless, this growth is expected to be more moderate than the very strong forecasts for 2016-17.

The outlook for the labour market remains positive. The unemployment rate has fallen by more than expected at the Budget and the recent slowdown in employment growth is expected to be temporary given anticipated above-trend economic growth and forward indicators of job vacancies and hiring intentions. Low inflation and continuing spare capacity in the labour market are expected to constrain wages growth.

Slower recent employment growth may reflect a degree of over-hiring in 2015-16, with firms turning their focus to improving productivity until growth in demand picks up. Reflecting this temporary slowdown, the employment growth forecast for 2016-17 has been revised down to 1¼ per cent (from 1¾ per cent at the Budget). For 2017-18, forecast employment growth remains unchanged from the Budget at 1½ per cent. The unemployment rate is expected to remain around its current low level of 5 per cent over the next two years, well below the national average (see Chart 2.2).

Chart 2.2: NSW unemployment rate vs the rest of Australia unemployment rate



Source: ABS 6202.0 and NSW Treasury

NSW population growth is expected to continue at an above-trend rate of 1½ per cent over the next two years, as the relative strength of the economy continues to draw labour into the State. There is a risk that high relative Sydney property prices, driven by low interest rates and lower levels of supply between 2006 and 2012, could lead to stronger than expected interstate migration outflows and slow population growth in the near term. However, expected record housing completions over coming years should support affordability over time.

The NSW terms of trade have been revised higher compared to the Budget due to higher commodity prices. In particular, coal prices have risen significantly in response to temporary disruptions to global supply and cuts in Chinese production. These cuts have recently been reversed, and commodity prices are expected to moderate over the remainder of 2016-17 and 2017-18, but remain at higher levels than in 2015-16. As a result, the forecast for nominal economic growth has been revised up for 2016-17. This stronger income growth is not expected to have a material impact on real economic activity as mining firms are not expected to substantially increase production, investment or employment in response to these mostly temporary price movements.

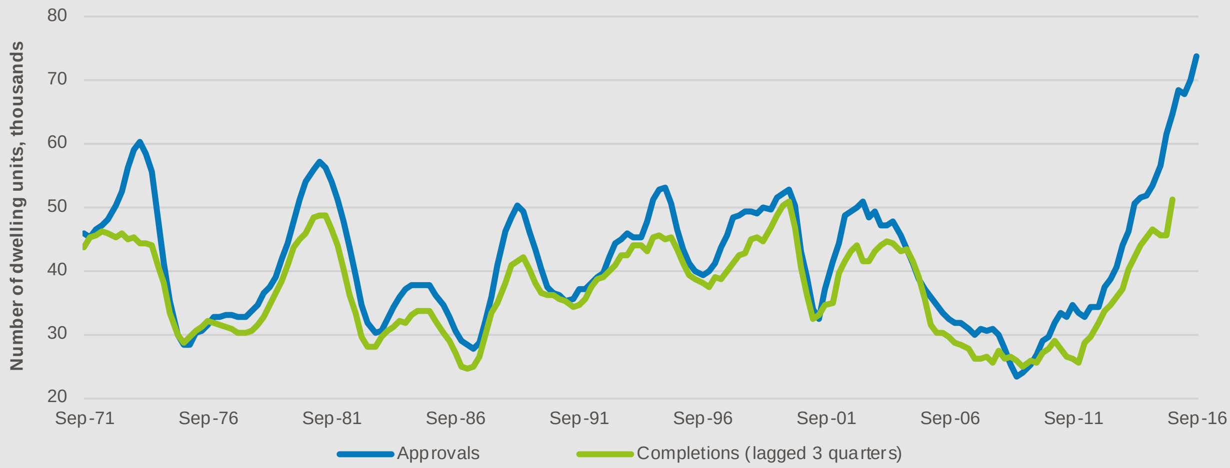
Inflation pressures have been held in check by strong retail competition, spare capacity in the labour market, restrained wage growth and the soft global inflationary environment. However, the Sydney year average inflation forecast has been revised up by ¼ percentage point to 2 per cent for 2016-17. This is due to the recovery in commodity prices since early 2016 (particularly oil prices) and a stronger than expected September quarter outcome, which was primarily driven by temporary factors. The 2017-18 inflation forecast is in line with the Budget at 2¼ per cent, reflecting an unchanged outlook for underlying inflation pressures.

Recent softness in the labour market and low wage price index (WPI) growth means that, compared to the Budget, wage pressures are expected to be further contained. The forecast for growth in the NSW WPI has therefore been lowered to 2¼ per cent for 2016-17 and 2½ per cent for 2017-18, both ¼ percentage point lower than Budget.

Box 2.1: Sydney housing supply set to continue to grow

Housing affordability remains a major focus of the NSW Government. Boosting supply is the most effective way for governments to make houses more affordable, and the latest signs from the housing market are encouraging. NSW annual dwelling approvals have more than doubled in the past five years, to a historically high 74,600, up from 34,600 in 2011. Moreover, approvals have been sustained at historically high levels for over a year (see Chart 2.3).

Chart 2.3: NSW annual private sector residential approvals and completions



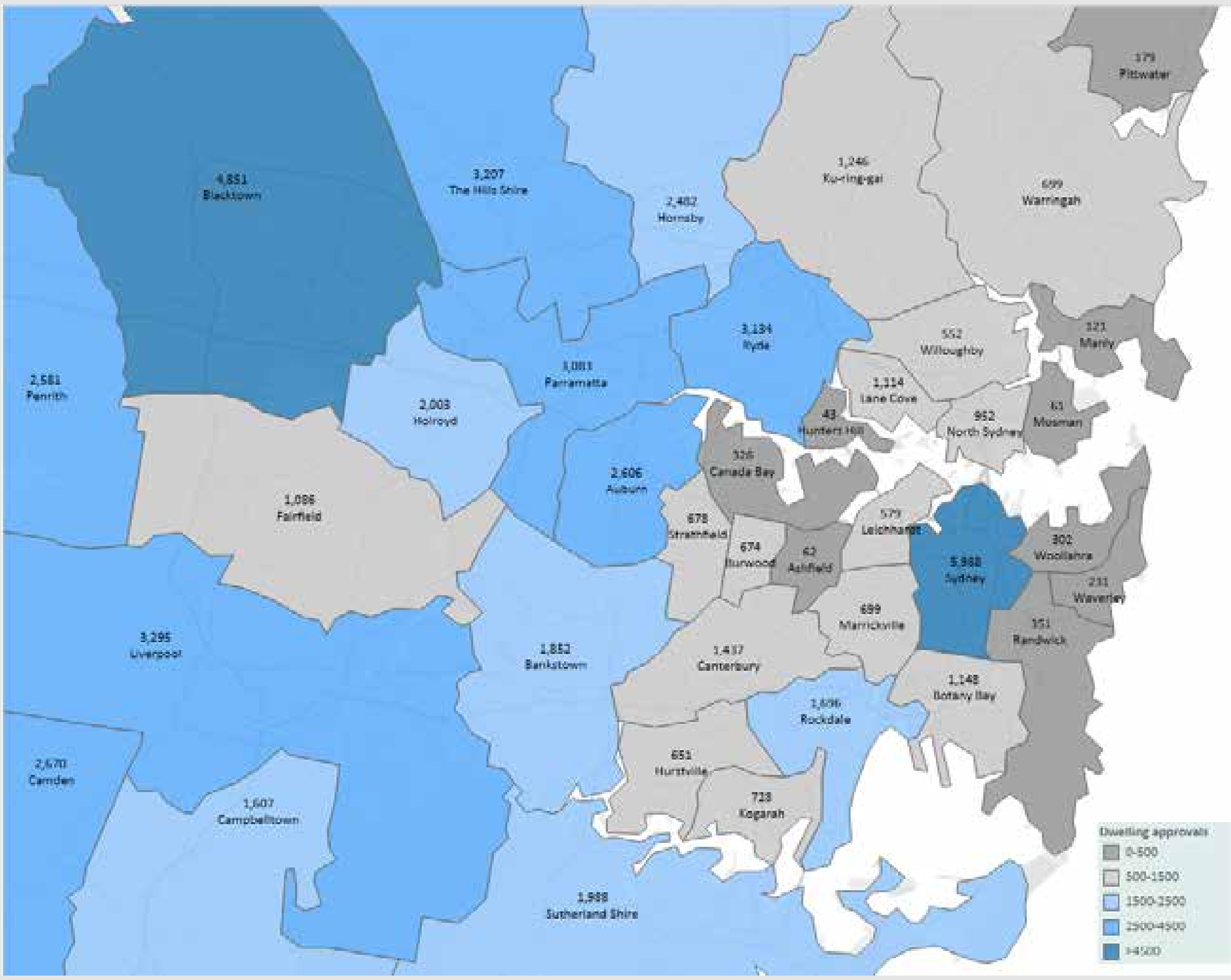
Source: ABS 8731.0, 8752.0 and NSW Treasury (four-quarter sum)

Over the seven years to 2013, dwelling completions averaged under 30,100 a year. From 2013, annual completions have increased rapidly, almost doubling to 52,800 over the past year.

Historically high approvals and commencements have resulted in a large pipeline of work that will see completions outstrip recent record highs over the next two years. This will help alleviate the current housing undersupply in New South Wales (estimated at 100,000 in the *NSW Intergenerational Report 2016*), ease pressure on housing prices and support continuing solid population growth. While the additional housing supply for Melbourne and Brisbane is more concentrated in their CBDs, Sydney's unprecedented boost in housing stock is more geographically dispersed (see Chart 2.4). This additional supply will provide more choice for homeowners and will put downward pressure on housing costs. Over time this will ease cost of living pressures for NSW residents.

The 2016-17 Budget committed $262.0 million to support housing in Southwest and Western Sydney as part of the total $966.5 million Housing Acceleration Fund. The Greater Sydney Commission's detailed district plans for improvements in housing and infrastructure across Sydney can also be expected to underpin continued housing supply growth.

Chart 2.4: Sydney dwelling approvals over the 12 months to October 2016



Source: ABS 8731.0 and NSW Treasury

2.2 National economic outlook

The national economy grew by 2.7 per cent in 2015-16, stronger than the 2½ per cent expected at the Budget. Looking forward, Australian gross domestic product (GDP) is expected to grow by a below trend rate of 2½ per cent in 2016-17, before accelerating to 3 per cent in 2017-18. These forecasts are unchanged compared to the Budget.

The expected slowdown in GDP growth in 2016-17 reflects the recent weakness in household consumption growth and more modest, albeit still robust, growth in non-rural commodity exports. Mining investment is still expected to contract considerably and drag on economic growth in 2016-17, although less than in 2015-16.

In 2017-18, GDP growth is forecast to pick up to an above-trend rate of 3 per cent as household consumption growth improves, non-mining business investment recovers and the mining investment drag eases. These are expected to more than offset a cooling national housing market and a slowdown in public investment growth.

Liquefied natural gas (LNG) exports are expected to be a key driver of national GDP growth over the next two years, adding a little over ½ percentage point to economic growth. LNG exports are, however, expected to have relatively limited income and employment effects given the high capital intensity and foreign ownership in the sector.

2.3 Global economic outlook

The International Monetary Fund in October 2016 forecast global growth to be 3.1 per cent in 2016 and 3.4 per cent in 2017. These forecasts represent downgrades to its May forecasts, which underpinned the NSW Budget. The global growth forecast largely reflects a more subdued outlook for advanced economies following Brexit and weaker than expected growth in the United States. The prospects for emerging and developing economies have improved due to reduced concerns about China's near-term prospects and some recovery in commodity prices.

Australia's major trading partners are expected to grow by around 3¾ per cent over the next two years, below their long run average of 4¼ per cent.

2.4 Risks to the economic outlook

Since the Budget some of the key downside risks have eased. Stronger iron ore prices and an improved outlook for Chinese, United Kingdom and United States growth have reduced the risk that external demand will drag on the NSW economy.

Greater than expected weakness in employment growth or a significant slowdown in the national property market would create risks to expected household consumption growth. Given that household consumption makes up 60 per cent of economic activity in New South Wales, any ongoing weakness would pose significant downside risks to economic growth.

While stronger conditions in the NSW housing market present an upside risk in the near term, a disorderly slowdown in the medium-term may lead to weaker than expected economic growth. Sydney, however, with its geographically dispersed apartment boom, does not face the same near-term risk of an apartment over-supply that is emerging in inner-city Melbourne and Brisbane. Further, with capacity pressures in dwelling construction remaining relatively subdued for the current stage of the NSW housing cycle there is an upside risk of stronger than expected dwelling investment.

A key upside risk is an increase in public investment, particularly in 2017-18, as further infrastructure investment linked to recent asset transactions is approved.

3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal position and outlook

The State's strong fiscal position is reflected in the 2016-17 Half-Yearly Review. The budget result for 2016-17 is forecast to be in surplus by $4.0 billion, $259.9 million higher than forecast at the time of the 2016-17 Budget. Surpluses are also expected over the forward estimates, although lower than forecast at the time of the Budget in 2018-19 and 2019-20, as the Government funds important initiatives such as reparations for survivors of the Stolen Generations and as GST revenue pressures emerge.

This chapter updates the fiscal position and outlook of the New South Wales GGS and the broader public sector since the 2016-17 Budget. Estimates take account of policy decisions of the NSW Government, revisions to Australian Government funding and other information affecting the State's financial statements since the 2016-17 Budget up to 6 December 2016.

The budget estimates do not include the impact of any announced but not yet completed asset sales or lease transactions. Consistent with past practice, such impacts are only recognised when a transaction is finalised.

Table 3.1 sets out the key budget aggregates for the GGS.

Table 3.1: General government budget aggregates

	2015-16 Actual	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
Revenue ($m)	74,334	77,005	77,499	77,900	77,654	80,320
Revenue growth (%)	6.8	4.4	4.3	0.5	(0.3)	3.4
Expenses ($m)	69,675	73,292	73,526	76,398	76,633	79,427
Expenses growth (%)	4.4	4.2	5.5	3.9	0.3	3.6
Budget result ($m)	4,659	3,713	3,973	1,502	1,021	893
Per cent of GSP	0.9	0.7	0.7	0.3	0.2	0.1
Net capital expenditure ($m)	4,258	7,341	7,261	7,574	7,604	2,980
Per cent of GSP	0.8	1.3	1.3	1.3	1.2	0.5
Gross capital expenditure ($m)	9,336	12,514	12,775	12,713	12,959	8,366
Per cent of GSP	1.7	2.2	2.2	2.1	2.1	1.3
Net lending/(borrowing) result ($m)	401	(3,628)	(3,288)	(6,072)	(6,583)	(2,087)
Per cent of GSP	0.1	(0.6)	(0.6)	(1.0)	(1.1)	(0.3)
Net debt ($m)	(57)	7,539	443	7,916	15,979	19,026
Per cent of GSP	(0.0)	1.3	0.1	1.3	2.6	2.9
Net worth ($m)	181,799	204,978	203,399	219,671	234,821	248,374
Per cent of GSP	33.8	36.5	35.5	36.8	37.5	37.8

Since the 2016-17 Budget, Government decisions and other variations have increased the budget result in 2016-17 by $259.9 million. This increase is driven primarily by $488.9 million in transfer duty on the partial lease of Ausgrid, offset by revisions to GST and funding for new initiatives including the National Rugby League (NRL) Centres of Excellence Program.

The projected budget result for 2017-18 of $1.5 billion represents an increase of $175.9 million from the estimate at the 2016-17 Budget. This primarily reflects Asset Recycling Initiative payments expected from the Australian Government following the completion of milestones, offset by funding for new initiatives, including Restart NSW grants to local government and businesses. Across the rest of the forward estimates the budget result is expected to decrease by $361.5 million in 2018-19 and $719.6 million in 2019-20 relative to estimates at the Budget, driven mainly by the weaker outlook for GST revenue.

Fiscal strategy

The NSW fiscal strategy is guided by the FRA, the key objective of which is to maintain the State's triple-A credit rating. The FRA also requires adherence to three principles of sound financial management:

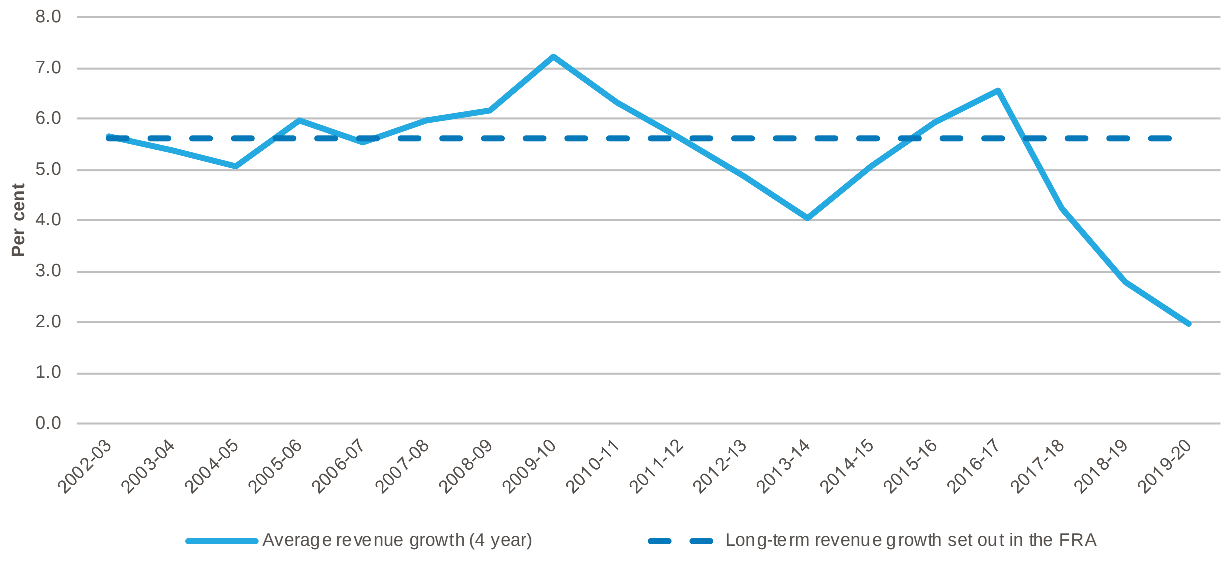
- responsible and sustainable spending, taxation and investment
- effective financial and asset management
- achieving intergenerational equity.

Fiscal strategy – revenue and expense growth management

The Government continues to deliver on its fiscal strategy and adhere to the principles of sound financial management set out in the FRA. To help achieve responsible and sustainable spending, a key area of focus is managing general government expense growth within revenue growth.

Growth in total revenues was firm in 2015-16. However, Chart 3.1 shows revenue growth is forecast to decline over the forward estimates, as the NSW share of GST revenue declines, transfer duty growth slows relative to recent years and other revenue from the Australian Government falls.

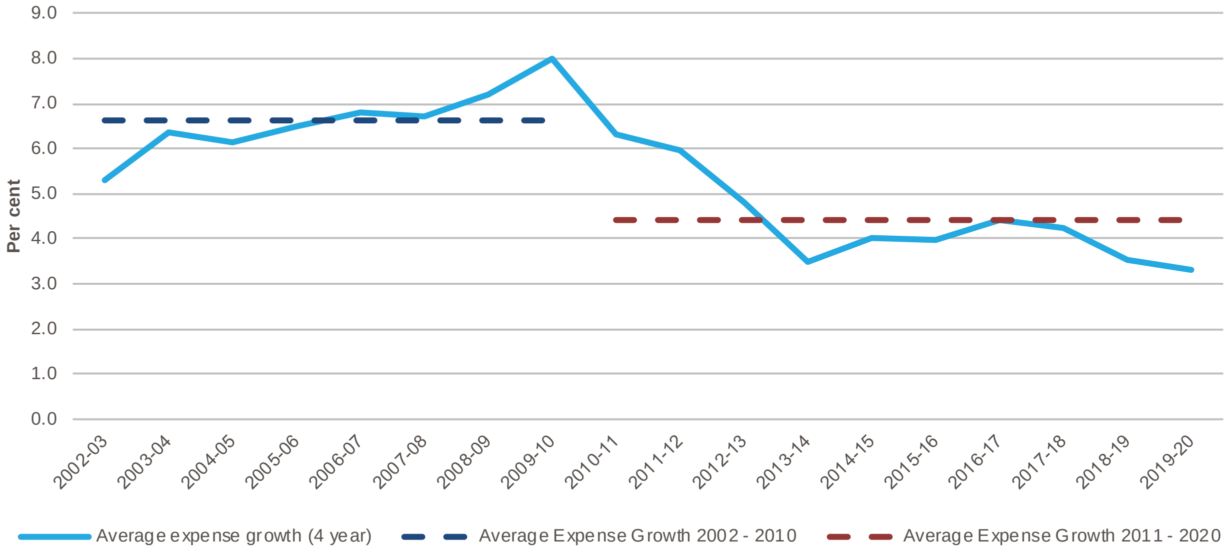
Chart 3.1: Four-year average revenue growth



As seen in Table 3.1, annual expenditure growth is estimated to be 5.5 per cent for 2016-17. The Government remains committed to controlling expenditure growth while continuing to deliver high quality services.

Looking at broader trends in expenses growth, Chart 3.2 shows a decline in the rolling four-year average expenditure growth over the forward estimates. The NSW Government is maintaining a disciplined approach to controlling expenditure growth and managing the State's budget in line with softening revenue growth. Since 2011-12, the Government has been able to significantly reduce expenditure growth while delivering significant investment in services and infrastructure.

Chart 3.2: Four-year average expense growth



Fiscal strategy – asset recycling and the balance sheet

The 2016-17 Half-Yearly Review includes the impact of the recently completed partial lease of Ausgrid as well as the divestment of Pillar. The process to lease 50.4 per cent of Endeavour Energy is also underway and will be reflected in the Budget at financial close, along with any other completed asset transactions.

The State's successful asset recycling strategy is helping fund the Government's record infrastructure investment of $73.2 billion across the budget and forward estimates.

With the partial lease of Ausgrid, holdings of cash have increased and net debt has fallen significantly. Net debt is now estimated to be $443.5 million at 30 June 2017, a reduction of $7.1 billion compared to the 2016-17 Budget. Net debt is expected to rise as the proceeds of transactions are reinvested in infrastructure.

The State's rising net worth is forecast to grow over the budget and forward estimates and is being driven by asset recycling, financial management reforms and active financial liability management. Net worth rises from $137.5 billion in 2011-12 to an estimated $203.4 billion at June 2017 and $248.4 billion at June 2020.

3.2 Revenue outlook

Forecast revenue in 2016-17 is higher than at the 2016-17 Budget, primarily reflecting a one-off transfer duty payment associated with the partial lease of Ausgrid.

Revenue is generally higher over the forward estimates compared with the Budget, principally due to higher revenue from Commonwealth National Partnership payments and other dividends and distributions. Revenue is lower in 2019-20 than at the Budget due to a lower projected GST relativity for New South Wales reducing GST receipts and lower interest revenue.

Overall, revenue growth over the four years to 2019-20 of 2.0 per cent is slightly lower than the 2.3 per cent expected at the time of the 2016-17 Budget. Table 3.2 provides a reconciliation of revenue changes since the 2016-17 Budget.

Table 3.2: Revenue reconciliation – 2016-17 Budget to Half-Yearly Review

	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m
Revenue - 2016-17 Budget	**77,005**	**76,948**	**77,479**	**80,656**
Revenue changes since Budget				
New policy measures	15	1,161	443	319
Total Policy	15	1,161	443	319
Parameter and other budget variations				
- Transfer duty	373	...	...	...
- Other taxes	(11)	(146)	(176)	(188)
- Royalties	108	49	16	33
- GST	(221)	(38)	(151)	(404)
Other	231	(74)	44	(96)
Total parameter and other budget variations	479	(209)	(267)	(655)
Total revenue variations since 2016-17 Budget	494	952	175	(336)
Revenue - 2016-17 Half-Yearly Review	**77,499**	**77,900**	**77,654**	**80,320**

Policy decisions since the 2016-17 Budget increase revenue by $1.9 billion over the four years to 2019-20. Of most significance are additional fees for service from the awarding of the New Intercity Fleet contract (which have a fully offsetting expenditure) of $740.0 million over three years and revenue from the Australian Government through asset recycling incentive payments.

General government total revenue in 2016-17 is forecast to be $494.3 million higher than expected at the Budget, due to upward revisions to transfer duty, land tax and mining royalties. State taxation revenue in 2016-17 is expected to be $361.5 million higher than at the Budget. Key changes to revenue in 2016-17 include the following:

- Transfer duty revenue in 2016-17 is forecast to be $372.6 million higher than at the Budget primarily due to a one-off $488.9 million transfer duty payment from the successful partial lease of Ausgrid. Residential transfer duty revenue is expected to grow by 4.8 per cent in 2016-17 (this compares to growth in residential transfer duty revenue of 13.4 per cent in 2015-16 and 19.1 per cent in 2014-15).
- Excluding the $488.9 million from Ausgrid, transfer duty revenue is expected to be $116.3 million lower in 2016-17 compared to the Budget. This primarily reflects lower than expected residential sales in July. Several new tax administration requirements, introduced by the Australian and State governments, took effect in July which may have caused some purchases to be deferred.
- Conditions in the NSW housing market have eased relative to a year ago, although there have been some signs that conditions have strengthened in recent months. This reinforces the view of a moderation in NSW housing market activity.

- Increased auction clearance rates through October, the highest in more than a year, albeit on a much lower number of sales, and record building approvals and completions, support a pick-up in transfer duty over the remainder of the year as projected in the Budget. Overall, property market conditions are broadly unchanged since the 2016-17 Budget.
- Land tax revenue in 2016-17 is expected to be $104.0 million higher than at the Budget, reflecting land value growth in 2015-16 (of 10.8 per cent for residential land) exceeding expectations.
- In the 2016-17 Budget, the Government introduced foreign investor surcharges for transfer duty and land tax on NSW residential property. Foreign purchasers are required to remit stamp duty within three months of entering a contract, and therefore no surcharge revenue was expected in the first quarter of 2016-17. The land tax surcharge is not payable until the first quarter of 2017.
- Payroll tax revenue is unchanged from the Budget. While there is some evidence of a softer labour market, payroll tax collections in 2016-17 have been in line with the Budget following stronger than expected revenue in 2015-16.
- GST revenue is projected to be $221.4 million lower in 2016-17. GST collections in 2015-16 were below the Australian Government's 2016-17 Budget forecast, implying a lower national GST pool in 2016-17.
- Revenue from sales of goods and services is forecast to be $93.6 million higher than at the Budget. This reflects higher than expected revenue from a number of sources, including $66.8 million from the Transport Asset Holding Entity (TAHE) fee for service revenues, primarily for the carry forward of unspent funds for capital works associated with Sydney Metro Northwest.
- Interest income is expected to be $183.1 million lower than at the Budget due to changed investment practices of the Government, with funds deposited in higher return investments resulting in classification of the returns as distributions revenue rather than interest.
- Mining royalty revenue in 2016-17 has been revised up by $108.0 million compared to the Budget. Higher forecast revenue reflects higher coal prices, partially offset by lower growth in coal export volumes and a higher exchange rate.

Total revenue over the forward estimates is estimated to be higher than at the 2016-17 Budget. While taxation, GST and interest revenue have been revised down, this is more than offset by temporarily stronger Commonwealth National Partnership payments as well as other dividends and distributions and mining royalties. Total revenue is lower in 2019-20 compared to the Budget due primarily to lower GST revenue. Key changes impacting on the forward estimates since the 2016-17 Budget include the following:

- GST revenues are forecast to fall by $593.2 million over 2017-18 to 2019-20 compared to the 2016-17 Budget. New South Wales' share of the GST pool has been revised down. This reflects updated economic data and forecasts for the states which include a relatively stronger property market in New South Wales and a weaker mining sector in Western Australia. Weakness in national household consumption in 2016-17 presents a downside risk for the GST pool and consequently NSW GST revenue. Box 3.1 provides further information.
- Land tax revenue is expected to be $450.0 million higher in the three years to 2019-20 compared to Budget estimates. Land values in 2015-16 increased by more than projected in the Budget, which feed into a higher land tax base. As land tax is applied to a three-year average land value, additional land tax revenue is projected to increase in each of the forward years.
- Residential transfer duty revenue over the forward estimates remains unchanged compared to the Budget at $21.7 billion. Over the four-years to 2019-20 residential transfer duty is forecast to grow by an average of 4.8 per cent per annum. This is compared to growth of 40 per cent in 2013-14 at the peak of the current cycle. Transfer duty accounts for 11.8 per cent of total revenue in 2016-17.
- Payroll tax revenue is expected to be slightly lower than Budget estimates in the three years to 2019-20, due to slightly softer wage and employment growth outlook.
- Mining royalty revenue is $98.0 million higher over the forward estimates compared to Budget. This reflects current market expectations for future coal prices.

- Commonwealth National Partnership payments have been revised up by $739.7 million over the forward estimates compared to Budget. This is in large part due to additional payments in 2017-18 related to the expected completion of milestones under the National Partnership on Asset Recycling under which the Australian Government provides 15 per cent of the value of proceeds from transactions to fund productive infrastructure.
- Sales of goods and services revenue has been revised up by $403.4 million over the forward estimates period, principally reflecting the fee for service arrangement from delivering the New Intercity Fleet under TAHE.
- Dividend and tax equivalent payments have been revised down by $408.8 million (see section 3.8).
- Revenue from other dividends and distributions are $1.6 billion higher over the forward estimates period reflecting increased distributions from New South Wales Treasury Corporation managed funds and higher revenue from private sector investments.

Box 3.1: NSW victim of its own success with GST

New South Wales has long called for the current GST distribution model to be reformed, arguing that an equal per capita system, supplemented by Australian Government 'top up' payments to smaller states to ensure they are no worse off, would be a fairer and more efficient method of distributing GST.

Under the current distribution model, New South Wales is being left worse off for having the nation's strongest performing economy. The current system also discourages states from introducing productivity boosting reforms.

New South Wales will experience the biggest ever gap in GST funding by any state since it was introduced. In 2019-20, New South Wales households are forecast to be taxed $23.7 billion in GST, and receive just $17.8 billion in return. This is by far the most any state has given to the other states in the history of the GST.

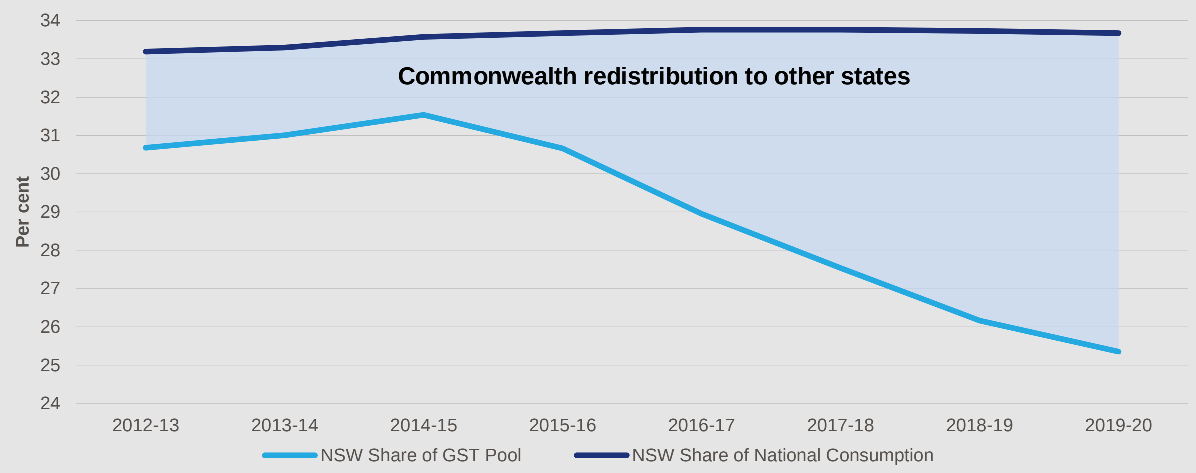
Based on projected GST relativities (the GST share relative to population share) New South Wales will experience the biggest single annual fall in GST funding since it was introduced. New South Wales' economic strength will cause GST funding to be cut by $955.0 million in 2017-18.

In 2019-20 New South Wales' GST relativity is projected to fall below 0.8 for the first time, reaching the lowest relativity recorded by any jurisdiction other than Western Australia.

If New South Wales continues to strengthen economically and fiscally compared to other states its relativity is likely to fall even lower, potentially shifting closer to 0.75.

Chart 3.3 shows the projected fall in NSW's share of the GST pool while NSW's share of national consumption remains over 33 per cent.

Chart 3.3: NSW share of GST pool against NSW consumption share



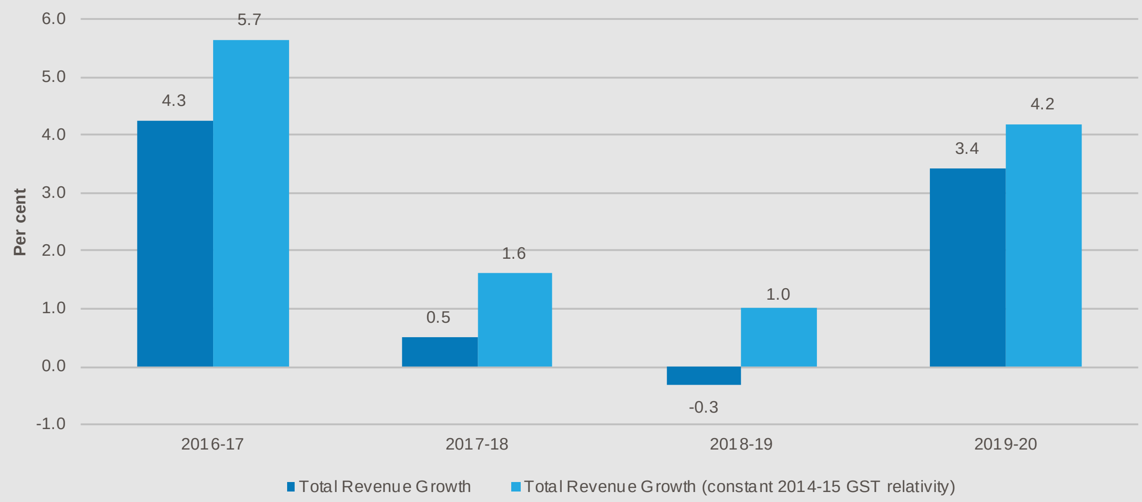
Box 3.1: NSW victim of its own success with GST (cont)

In 2019-20 New South Wales is projected to lose $5.9 billion in GST revenue to other states based on consumption (i.e. New South Wales receives back $5.9 billion less than what it raises).

If GST revenues were returned to the state it was raised in, New South Wales would receive an extra $17.8 billion over four years. If GST revenues were split on a per capita basis as New South Wales argues for, the State would have an extra $13.5 billion revenue over the next four years.

Chart 3.4 shows total revenue growth in 2016-17 and each forward year compared to total revenue growth if the NSW GST relativity was held at its 2014-15 value.

Chart 3.4: Impact of GST share on revenue growth



3.3 Expenses outlook

GGS expenditure in 2016-17 is estimated to be $73.5 billion, $234.4 million higher than at the 2016-17 Budget.

Expenditure is estimated to be $1.9 billion higher across the four years to 2019-20 than forecast at the 2016-17 Budget. The higher expenses principally reflect the impact of new policy decisions that continue to deliver on the Premier's and State Priorities.

Expense growth in 2016-17 is expected to increase to 5.5 per cent. The higher rate of expense growth reflects new policy decisions, as well as the rollover of unspent funds from 2015-16, which lowers expenditure in 2015-16 relative to the revised estimate in 2016-17. The updated four-year average growth rate across the four years to 2019-20 is 3.3 per cent.

Table 3.3 provides a reconciliation of changes to the budget expense aggregates between the 2016-17 Budget and the Half-Yearly Review.

Table 3.3: Expenses reconciliation – 2016-17 Budget to Half-Yearly Review

	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m
Expenses - 2016-17 Budget	**73,292**	**75,622**	**76,097**	**79,043**
Expenses changes since Budget				
New policy measures	243	545	465	331
Total Policy	243	545	465	331
Parameter and other variations				
- Superannuation	(68)	(118)	(91)	(63)
- Interest	(42)	(12)	(44)	(75)
- Depreciation	(20)	16	15	19
- Parameter and technical adjustments	78	234	120	46
- Other variations	44	111	72	125
Total parameter and other variations	(8)	232	72	52
Total expenses variations since 2016-17 Budget	234	776	537	384
Expenses - 2016-17 Half-Yearly Review	**73,526**	**76,398**	**76,633**	**79,427**

The increased expenditure in 2016-17 and across the forward estimates relative to the 2016-17 Budget is being driven by new policy decisions that are expected to impact expenses by $1.6 billion over four years to 2019-20. Key expenditure decisions since the 2016-17 Budget that impact on 2016-17 and the forward estimates include:

- $740.0 million over three years for the delivery of a new rail intercity fleet by Transport for NSW (TfNSW) on behalf of Rail Corporation (see Box 3.3). This expenditure impacts aggregate expenses, however, is budget neutral given a corresponding revenue impact from fees for service
- $284.8 million in expenditure over three years to implement the Climate Change Fund Strategic Plan. The Strategic Plan outlines key policies the Government will pursue over the next five years towards achieving zero net greenhouse emissions by 2050, and ensuring New South Wales is more resilient to a changing climate
- $179.9 million in Restart NSW grants to local government and businesses for the delivery of community infrastructure, social housing, resources for regions and tourism projects
- $69.2 million over three years from 2017-18 as part of the Government's four-year $73.3 million package towards reparations for survivors of the Stolen Generations comprising $60.6 million in 2017-18. The funding will contribute towards monetary reparations to survivors, collective healing programs, a funeral fund, improved family records services, trauma-informed training for public sector staff and memorials/keeping places
- $40.0 million for the NRL Centres of Excellence Program. This program is intended to support capital investment in Centres of Excellence and NRL clubs' training venues
- $11.0 million in 2016-17 to establish a street circuit in Newcastle in order to relocate the V8 Supercars Championships Finale
- $7.1 million to boost the Western Sydney economy with the relocation of government departments including the Department of Planning and Environment and the Department of Finance, Services and Innovation, delivering on the Government's 'Decade of Decentralisation' policy and further contributing to establishing Parramatta as Sydney's second CBD.

New policy decisions that are being funded from a reallocation of existing resources and have no impact on aggregate expenses in 2016-17 and over the forward estimates include:

- $27.1 million over four years to 2019-20 in contributions to the Murray-Darling Basin Joint Programs. The joint programs promote and coordinate effective planning, management and sharing of water and other natural resources of the Basin

- an additional $8.6 million towards the Shark Management Strategy. This includes $2.4 million in 2016-17 for a six-month shark net trial on the North Coast and $6.2 million for the expansion of SMART drumlines, with $425,000 in 2016-17 to purchase the drumlines and $5.8 million over two years towards management, monitoring and operation
- $3.5 million towards NSW's successful bid to host the 2018 Invictus Games. This includes support for the Games' accommodation, venues, marketing, and opening and closing ceremonies.

For details on the Government's new capital expenditure related policy decisions refer to Section 3.5.

Parameter adjustments and other budget variations are largely beyond government control and are expected to decrease expenditure in 2016-17 by $8.1 million relative to the 2016-17 Budget. Key drivers impacting expenses include the following:

- superannuation expenses are estimated to be $67.6 million lower than the 2016-17 Budget due to actuarial changes. Interest expenses are also expected to be $41.9 million lower due to debt restructuring, which has resulted in securing borrowing at lower interest rates
- parameter and technical adjustments are estimated to increase expenses by $78.1 million. This primarily reflects actuarial adjustments and long service leave costs ($89.1 million), which can vary significantly year-on-year due to movements in 10-year Commonwealth Government bond rates and demographic changes. The increase is also being driven by updated insurance claim liabilities and payments ($92.0 million).

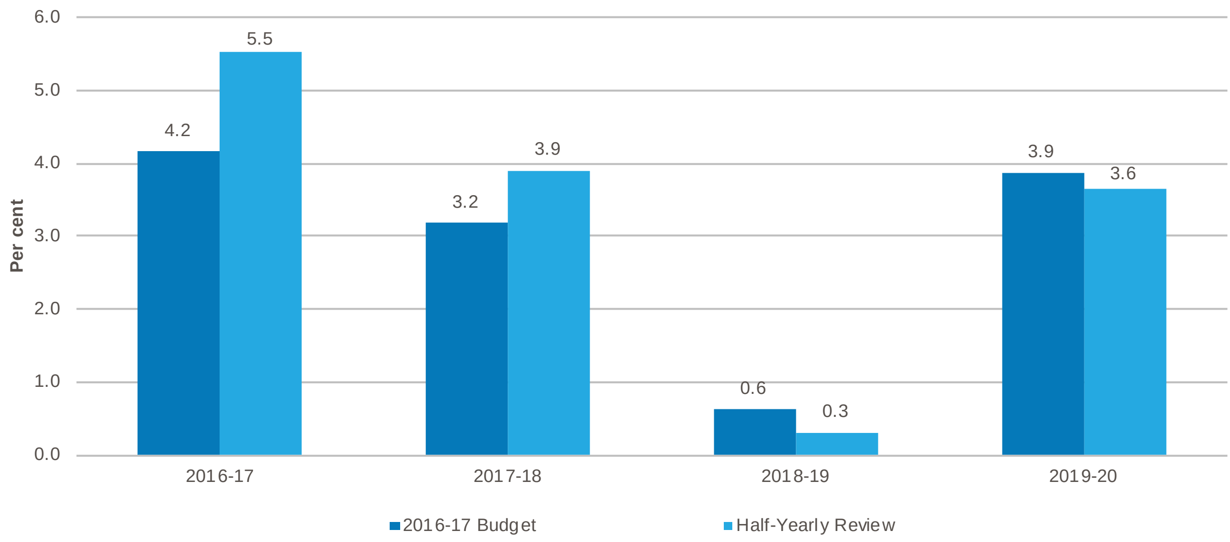
From 2017-18 to 2019-20, parameter adjustments and other variations are forecast to increase expenditure by $356.4 million relative to the 2016-17 Budget. Significant drivers impacting expenses over the forward estimates include:

- increased expenses due to parameter and technical adjustments by $400.3 million over the forward estimates. This increase is being driven by the reprofile of expenditure from 2015-16 into the forward estimates ($116.6 million). The increase is also due to updated expenses related to scheme liabilities for long service leave for the Crown Finance Entity ($166.4 million)
- a partially offsetting reduction in superannuation expenses ($271.6 million), primarily reflecting actuarial changes and movements in liability discount rates (based on updated forecasts for the 10-year Commonwealth Government bond rate relative to Budget). There is also a reduction in interest expenses ($130.6 million) due to debt restructuring, which has resulted in securing borrowing at lower interest rates.

The Government's commitment to restrain expense growth is demonstrated through ongoing efficiency measures. These include procurement savings and eliminating unnecessary duplication across government, as well as reprioritisation of existing resources where possible. The Government's wages policy is also estimated to have avoided costs of around $2.75 billion from March 2011 to June 2016.

Chart 3.5 shows the change in annual expense growth rates from the Budget to Half-Yearly Review.

Chart 3.5: Comparison of expected expense annual growth rate



3.4 Expense measures

The Government remains committed to investing in critical services for communities across regions and cities of New South Wales.

Table 3.4 shows the impact of new policy decisions by cluster. The table displays the expense impact of these decisions, and does not include associated revenue or capital expenditure.

Table 3.4: New policy decisions since 2016-17 Budget – recurrent expenses(a)(b)

	2016-17 Revised $m	2017-18 Forward estimates $m	2018-19 Forward estimates $m	2019-20 Forward estimates $m	Four year Total $m	Comment on major decisions included in totals
Education	...	60.6	4.5	4.1	69.2	Support for survivors of the Stolen Generations, including monetary reparations, healing programs and family records services.
Family and Community Services	(2.3)	0.8	2.0	0.6	1.2	Support for the Social Housing Strategy.
Finance, Services and Innovation	2.0	1.8	1.9	1.1	6.8	Administering the Point-to-Point levy, on behalf of Transport.
Industry, Skills and Regional Development	4.2	41.9	3.7	33.7	83.5	Implementing the Land Management and Biodiversity Conservation reforms, and commencing the Broken Hill water pipeline project, establishing a long-term water supply solution for the area.
Justice	3.7	26.0	(2.0)	(2.0)	25.7	Supporting the establishment of the new Law Enforcement Conduct Commission, in response to the Tink Review of Police Oversight.
Planning and Environment	59.5	106.1	105.5	118.5	389.7	Parramatta Road Amenity program, enhancement of the Climate Change Fund Strategic Plan, and expansion of the Waste Less, Recycle More initiative.
Premier and Cabinet	62.4	...	...	...	62.4	Establishing the NRL Centres of Excellence program, and civil works associated with construction of a street circuit to host the V8 Supercars Championships Finale in Newcastle.
Transport, Roads and Maritime	21.5	211.3	281.3	151.3	665.5	Delivery of the New Intercity Fleet, planning for the regional rail fleet replacement, and establishment of the Point-to-Point Transport Commission.
Treasury	91.5	95.9	67.8	24.0	279.2	Supporting local government programs with funding from Restart NSW. This includes the Hunter Infrastructure Investment Fund and Water Security for Regions program, along with further support for regional infrastructure works and tourism. Providing compensation to landowners affected by compulsory acquisitions. Establishing the Emergency Services Property Levy, including support to local councils.

(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

3.5 Capital expenditure outlook

General government capital expenditure

In 2016-17, capital expenditure in the GGS is expected to be $12.8 billion as the Government continues its record investment in infrastructure and support for service delivery across the State. This is $261.1 million higher than projected in the 2016-17 Budget. Over the budget and forward estimates, capital expenditure is forecast to be $46.8 billion, which is $2.2 billion higher than in the Budget. This is largely due to new spending initiatives in the transport and health sectors being delivered as part of the Rebuilding NSW program, offset by changes to the funding arrangements for the Broken Hill water pipeline project.

Rebuilding NSW is the Government's plan to invest $20 billion in new infrastructure. The Rebuilding NSW plan is funded from the lease of 49 per cent of the State's electricity network, with the proceeds deposited into the Restart NSW Fund (Restart NSW) before being invested into Rebuilding NSW projects.

Table 3.5 provides a reconciliation of capital expenditure between the 2016-17 Budget and the 2016-17 Half-Yearly Review.

Table 3.5: Capital reconciliation – 2016-17 Budget to Half-Yearly Review

	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m
Capital - 2016-17 Budget	**12,514**	**12,075**	**12,322**	**7,709**
Capital changes since Budget				
Policy				
- New capital works	536	793	733	662
Parameter and other budget variations	(275)	(155)	(96)	(5)
Total variations since 2016-17 Budget	**261**	**638**	**637**	**657**
Capital - 2016-17 Half-Yearly Review	**12,775**	**12,713**	**12,959**	**8,366**

New Government initiatives for infrastructure projects that are expected to commence in 2016-17 and continue over the forward estimates have contributed to the growth in capital expenditure. New capital expenditure supported by the Government since the 2016-17 Budget from Restart NSW includes:

- $393.0 million for delivery of the Pinch Points and Clearways program
- $380.0 million for delivery of the M4 Smart Motorways project
- $256.3 million for delivery of the Gateway to the South Pinch Points program
- $181.1 million to TfNSW and Roads and Maritime Services (RMS) for planning and preconstruction for various transport projects
- $196.5 million for delivery of Regional Multipurpose Services (MPS) health facilities.

New capital expenditure since the 2016-17 Budget from other funding sources includes:

- $523.5 million as part of a $576.0 million redevelopment and new car park for Nepean Hospital and Integrated Ambulatory Services which will commence in 2017-18
- $431.0 million for WestConnex Stage 3 preconstruction activities and Parramatta Road improvements
- $360.0 million for Waterloo Metro Station
- $190.0 million for new office accommodation at the Royal North Shore Hospital South Campus (including $80.0 million allocated previously in the budget).

Changes in the funding arrangements for the Broken Hill water pipeline project have also had an impact on capital expenditure over the budget and forward estimates. The expected delivery of the project is unchanged and will be delivered by WaterNSW.

Box 3.2: Infrastructure pipeline to underpin economic growth in New South Wales

The 2016-17 Half-Yearly Review allocates a record $73.2 billion over the four years to 2019-20 across the GGS and public non-financial corporation (PNFC) sectors. The $2.2 billion increase in GGS capital expenditure is offset by the reduction in PNFC capital expenditure as a result of the partial lease of Ausgrid.

The New South Wales investment program is the largest on record in Australia and is designed to provide a strong foundation for economic growth and to maintain and improve the standard of public services provided to all NSW residents.

This program is funded from a number of sources, including budget funding through general government agency own-source receipts and appropriations, Restart NSW (see Box 3.5), Australian Government grants and PNFC own-source funding (including from equity and borrowings).

Critical service delivery infrastructure projects that are being delivered include:

- hospital redevelopments and new major works (supported by almost $6 billion in government funding over the next four years), including:
  - Nepean Hospital redevelopment, new car park and Integrated Ambulatory Services
  - Tweed Hospital Redevelopment (Stage 1), Port Macquarie Base Hospital Expansion and Singleton Hospital Upgrade and new stages of redevelopments at Dubbo Hospital (Stages 3 and 4) and John Hunter Neonatal Intensive Care Unit (Stages 2 and 3)
  - ongoing major hospital works including at Westmead, Blacktown, Gosford, Lismore, St George, Bowral, Armidale and Northern Beaches hospitals
- investment in family and community services and social housing, including $2.4 billion over the next four years for social housing projects
- new schools and upgrades at existing schools to meet the growth in student numbers and to improve facilities such as the new Inner Sydney High School, and new schools at Parramatta Public School and Arthur Phillip High School (supported by $2.4 billion in government funding over the next four years).

The infrastructure pipeline includes major transport projects and programs:

- Sydney Metro Northwest (estimated total cost (ETC) $8.3 billion)
- WestConnex (ETC $16.8 billion)
- CBD South East Light Rail (ETC $2.1 billion)
- New Intercity Fleet (ETC $2.3 billion for rolling stock and maintenance, see Box 3.3 below)
- NorthConnex (ETC $3.0 billion), with a State Government contribution of $560.0 million
- Regional Growth Roads and Fixing Country Roads ($1.5 billion allocation in Rebuilding NSW)
- Bridges for the Bush ($200 million allocation in Rebuilding NSW).

This investment program will be further boosted by the remainder of the Government's $20 billion Rebuilding NSW program (see Box 3.6).

The Government is also creating public service-enabling infrastructure assets through the use of public private partnerships (PPPs). PPPs offer opportunities to improve services and achieve better value for money for the taxpayer in the development of service based infrastructure. PPPs also encourage innovation and allow greater asset utilisation and integrated whole-of-life asset management.

Since the release of the 2016-17 Budget, the NSW Government has progressed several key projects such as the delivery of a new intercity rail fleet (Box 3.3 below) and Regional Multipurpose Services (MPS) health facilities (Box 3.4).

Box 3.3: New Intercity Fleet to modernise the commuter experience

Project:

The NSW Government is delivering the New Intercity Fleet to replace the trains carrying customers from Sydney to the Central Coast, Newcastle, the Blue Mountains and the South Coast.

Funding allocation:

On 18 August 2016, the Minister for Transport and Infrastructure signed a $2.3 billion contract to build and maintain more than 500 new carriages for the NSW intercity rail network with RailConnect, which is a joint venture between the Hyundai Rotem Company, Mitsubishi Electric Australia and UGL Limited.

Service delivery objective:

The program is part of the Government's Sydney's Rail Future Strategy.

The fleet will provide a more consistent and improved level of customer service for passengers, reduce the operating and maintenance costs of intercity operations and contribute to the expansion of capacity on the intercity and suburban network.

Implementation:

The New Intercity Fleet program involves the purchase of more than 500 new train carriages, the construction of a new maintenance depot at Kangy Angy to service and maintain the new fleet (subject to planning approval), and the construction of a program of enabling works.

The new trains will come into service progressively, with the first train expected to be delivered in 2019.

Outcomes:

The fleet of high-capacity double deck trains will give long-distance customers a more comfortable travelling experience. The trains will be safe, comfortable, accessible and provide an appealing environment for customers during longer journeys.

Box 3.4: Regional Multipurpose Services (MPS) health facilities to enhance health and aged care services

Project:

The MPS strategy continues the investment in developing multipurpose services facilities to provide health and aged care services for small and remote rural communities.

Funding allocation:

The estimated total cost of the MPS strategy Stage 5 is $300.0 million, which has now been fully funded following the commitment of an additional $196.5 million since the 2016-17 Budget.

Service delivery objective:

To provide integrated health and aged care services to better meet the needs of rural and remote communities.

Implementation:

Walgett MPS is complete and operational. Construction has begun or will commence in 2016-17 at Bonalbo, Molong, Coolah, Tocumwal, Holbrook, Culcairn and Rylstone. Planning continues on Barham, Cobar, Tumbarumba, Harden, Braidwood, Yass and Murrurundi. Further planning will be progressed to determine the roll out of the next tranche.

Outcomes:

The continuation of the MPS strategy will provide:

- improved access to health and aged care services in rural communities
- improved service coordination through increased integration, innovation and flexibility in the delivery of health and aged care services
- improved economic viability and cost effectiveness of service delivery
- access to recurrent funding from the Australian Government for agreed aged care places.

Restart NSW Fund (including Rebuilding NSW)

Restart NSW is the Government's dedicated infrastructure fund, designed to enable a range of high priority infrastructure projects to be funded and delivered. Restart NSW is also the vehicle for the delivery of the Rebuilding NSW plan.

Since the 2016-17 Budget, several significant funding commitments have been made from Restart NSW that will deliver important infrastructure projects in both urban and regional New South Wales (see Box 3.5). Rebuilding NSW projects are detailed in Box 3.6.

Box 3.5: Restart NSW

A record total receipts of $23.1 billion have been deposited into Restart NSW by the Half-Yearly Review. This represents an increase of $6.5 billion since 30 June 2016, driven by the receipt of $5.6 billion (including transfer duty) in proceeds from the successful long-term lease of 50.4 per cent of electricity network operator Ausgrid.

The table below summarises aggregate commitments and reservations for current and future projects funded from Restart NSW.

Table 3.6: Restart NSW Fund (expected position at Half-Yearly Review)[(a)]

	Restart NSW (excluding Rebuilding NSW)	Rebuilding NSW	Total
Total inflows			$23.1 billion
Commitments	$5.6 billion	$10.8 billion	$16.3 billion
Reservations[(b)]	$1.4 billion	$5.3 billion[(c)]	$6.8 billion

(a) Reflects inflows received but not future inflows such as those relating to Australian Government Asset Recycling Initiative payments of $1.008 billion recently received, proceeds from the sale of Pillar administration and future interest.
(b) Restart NSW reservations are funds reserved with a view to a future Restart NSW commitment, at which time expenditure on projects will be included in the Budget aggregates.
(c) Includes the proceeds received to date from the partial lease of Ausgrid (including stamp duty) and windfall tax revenues advanced to Restart NSW, which are yet to be committed to Rebuilding NSW projects.

The Half-Yearly Review incorporates a number of new Restart NSW funding commitments, including commitments to fund Rebuilding NSW projects. These projects have been subject to a rigorous selection process, supported by sound business cases demonstrating that they are financially and economically justifiable.

Table 3.7 summaries these commitments, which are included in the budget aggregates and will commence in 2016-17.

Box 3.5: Restart NSW (cont)

Table 3.7: Additional Restart NSW commitments from 2016-17 Budget to Half-Yearly Review

	Commitments $m
Water Security for Regions program	89.7
Regional Freight Pinch Point and Safety program	84.0
Hunter Infrastructure and Investment Fund	50.0
Resources for Regions program	25.3
Western Sydney Roads to support Sydney's second airport at Badgerys Creek	16.4
Regional Health Infrastructure program	12.0
Housing Acceleration Fund (HAF 4)	10.0
Housing Acceleration Fund (HAF 3)	8.9
Regional Tourism Infrastructure program	5.9
Fixing Country Roads program[(a)]	1.0
Restart NSW commitments (excluding Rebuilding NSW)	**303.2**
Pinch Points and Clearways	393.0
M4 Smart Motorways	380.0
Gateway to the South Pinch Points	256.3
Regional Multipurpose Services (MPS) health facilities	196.5
Regional Road Freight Corridor (planning and preconstruction)	73.9
Regional Growth Roads (planning and preconstruction)	49.5
Visitor Experience – Taronga Western Plains Zoo	24.4
Motorway Planning, including Western Harbour Tunnel (planning and preconstruction)	23.9
Traffic Management Upgrades (including planning and preconstruction)	20.9
Fixing Country Rail (planning and preconstruction)	11.0
Redevelopment of ANZ Stadium (planning)	10.0
Bridges for the Bush (planning and preconstruction)	8.6
Smart Motorways – Southern Cross Drive and Warringah Freeway (planning)	2.7
Rebuilding NSW commitments	**1,450.7**
Total commitments since the Budget	**1,753.9**

(a) This relates to the replacement of Allison Bridge, in the Warrumbungle Shire, following confirmation of matching Australian Government funding. This is in addition to the $90.2 million committed to the Fixing Country Roads program, included in the 2016-17 Budget.

The Government also reserves funds for projects in anticipation of future commitments, subject to the preparation of final business cases and Infrastructure New South Wales (INSW) endorsement.

Table 3.8 below summarises these reservations, which will impact on the budget aggregates when a final and formal commitment is made.

Table 3.8: Additional reservations from 2016-17 Budget to Half-Yearly Review

	Reservations $m
Resources for Regions program	15.0
Rebuilding NSW reservations[(a)]	6,707.4
Total additional reservations since the Budget	**6,722.4**

(a) Additional Rebuilding NSW reservations primarily consist of proceeds received to date from the Ausgrid transaction (including stamp duty) and windfall tax revenues advanced to Restart NSW.

Box 3.6: New Rebuilding NSW funding commitments

Following the successful $16.2 billion (gross) proceeds from the partial lease of Ausgrid, the NSW Government is now able to bring forward funding for a pipeline of infrastructure projects across regional and metropolitan New South Wales.

Projects include $393.0 million for delivery of the Pinch Points and Clearways program, which will deliver critical roads upgrades to help reduce congestion in communities across Sydney and the Hunter region. An additional $256.3 million has been committed to the Gateway to the South Pinch Points program, to alleviate pinch points and develop bus priority works around southern Sydney. The M4 Smart Motorways project will receive $380.0 million to introduce intelligent transport technology on the M4 Motorway.

Table 3.9: Rebuilding NSW plan

Priority areas	Project/Program	Rebuilding NSW Plan Contribution	Restart NSW Fund Commitments to date	Net Consolidated Fund Advances
		$m[(a)]	$m	$m[(b)]
Urban public transport	Sydney Metro City and Southwest	7,000.0	7,000.0	...
	Existing Network Enhancements (previously Sydney's Rail Future Stage 2 incl. Western Sydney Rail Upgrades)	1,000.0	1,000.0	...
	Parramatta Light Rail	600.0	...	19.0
	Bus Priority Infrastructure (including B-Line)	300.0	290.4	10.0
Urban roads	WestConnex northern/southern extensions and Western Harbour Tunnel	1,100.0	29.9	13.0
	Pinch Points and Clearways	400.0	396.0	4.0
	Smart Motorways	400.0	383.2	15.0
	Gateway to the South Pinch Points	300.0	295.0	5.0
	Traffic Management Upgrades	200.0	21.4	9.0
Regional transport	Regional Road Freight Corridor	2,000.0	139.9	16.5
	Regional Growth Roads	1,000.0	117.0	1.0
	Fixing Country Roads	500.0	50.0	...
	Fixing Country Rail	400.0	11.0	...
	Bridges for the Bush	200.0	8.6	7.4
Water security	Regional Water Security and Supply Fund	1,000.0	n.a.[(c)]	...
Education	Future Focused Schools	700.0	...	n.a.[(c)]
	Regional Schools Renewal program	300.0	...	n.a.[(c)]
	Education subtotal	...	...	323.0
Health	Hospitals Growth Program	600.0	...	...
	Regional Multipurpose Services (MPS) health facilities	300.0	223.3	76.7
	Primary and Integrated Care Strategy	100.0	...	48.5
Culture and sport	Culture and Arts	600.0	...	161.6
	Sports Stadia	600.0	n.a.[(c)]	...
	Regional Growth - Environment and Tourism fund	300.0	24.4	...
Other opportunities	Corridor Identification and Reservation	100.0	...	1.0
	Total[(d)]	**20,000.0**	**10,769.1[(e)]**	**710.7[(e)]**

(a) In some cases the amount included is less than the expected total cost of the project and funding from other sources will be required.
(b) Consolidated Fund advances are used to accelerate the delivery of Rebuilding NSW projects.
(c) Commercial-in-confidence.
(d) The total Rebuilding NSW commitments are $11.5 billion which comprises $10.8 billion from Restart NSW with the balance advanced from the Consolidated Fund.
(e) Total includes commercial-in-confidence values.

The Rebuilding NSW plan includes a commitment by the Government to invest 30 per cent of the funds in regional NSW. This includes projects such as Regional MPS health facilities (see Table 3.9 above).

3.6 Managing the State's assets and liabilities

The State's balance sheet remains strong, with the Government's successful asset recycling strategy enabling the implementation of its record $73.2 billion infrastructure program. General government net debt is estimated to be $443.5 million at 30 June 2017, the lowest amongst all mainland states. This represents a reduction of $7.1 billion compared to the estimate at the 2016-17 Budget and is largely a result of the partial lease of Ausgrid.

Over the forward estimates, net debt will increase as the Government will recycle the proceeds from the leasing of TransGrid and the partial leasing of Ausgrid and Endeavour Energy into the Rebuilding NSW program. Net worth is expected to rise from $137.5 billion at the end of 2011-12 to $248.4 billion by the end of 2019-20, reflecting a reduction in superannuation liabilities and increased non-financial assets.

Since the 2016-17 Budget, the Government has committed funding to a number of infrastructure projects from Restart NSW and the impact of these commitments is reflected in the budget aggregates. Consistent with past practice, the Government has also reserved funding for a number of Rebuilding NSW projects that will be included in the budget aggregates following further project development and completion of project assurances.

Total assets for the GGS are projected to be $332.5 billion at June 2017, increasing each year to reach $364.0 billion by June 2020.

Total liabilities for the GGS are projected to be $129.1 billion at June 2017 reducing to $115.6 billion by June 2020.

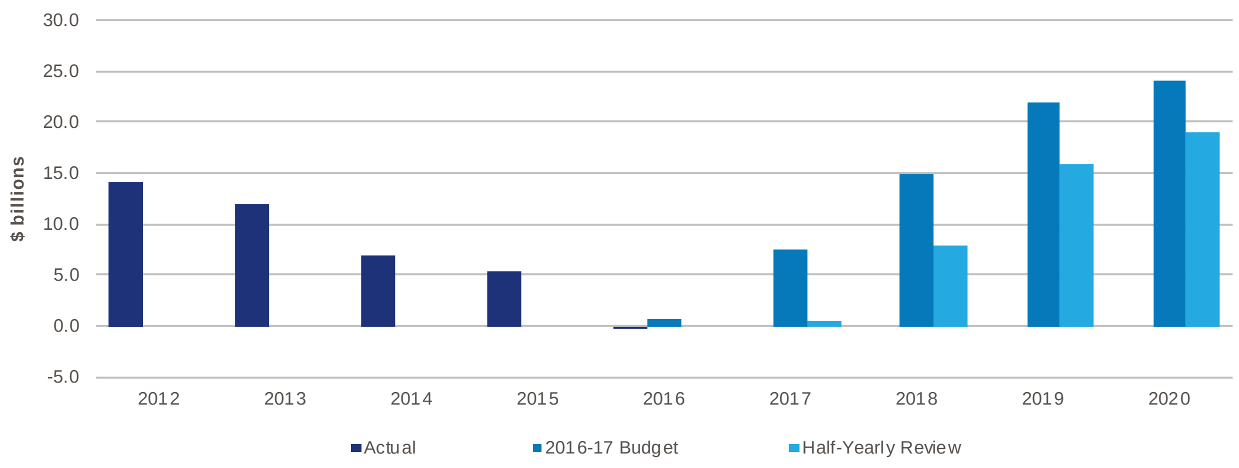
The Government concluded the sale of Pillar on 2 December 2016, with gross proceeds of $35.0 million, which are included in the Half-Yearly Review. Pillar is one of the largest superannuation administration businesses in Australia, administering around $100 billion in funds for over one million members. Finalisation of the transaction completes a process that commenced in December 2015, when the Government announced the intention to sell.

Net debt and net worth

Since the 2016-17 Budget, the projections for GGS net debt at June 2017 have fallen from $7.5 billion to $443.5 million as a result of the Government's prudent fiscal management and asset recycling strategy.

Chart 3.6 presents the movements of net debt since 2011-12 to 2019-20, including comparison of net debt at the time of the 2016-17 Budget and the 2016-17 Half-Yearly Review.

Chart 3.6: General government net debt at 30 June



Box 3.7: NSW general government net debt falls to lowest on record

The Government's strong fiscal position, including low levels of net debt and its triple-A credit rating, allows the State to deliver a record infrastructure program.

At 30 June 2016, general government net debt was the lowest since records began in 1996-97. Lower net debt reflects both the improved budget result and the proceeds of transactions, which are now being invested in new infrastructure.

Since 2016-17 Budget, stronger budget surpluses and the proceeds from the partial lease of Ausgrid have resulted in a further decrease of $7.1 billion in net debt at 30 June 2017.

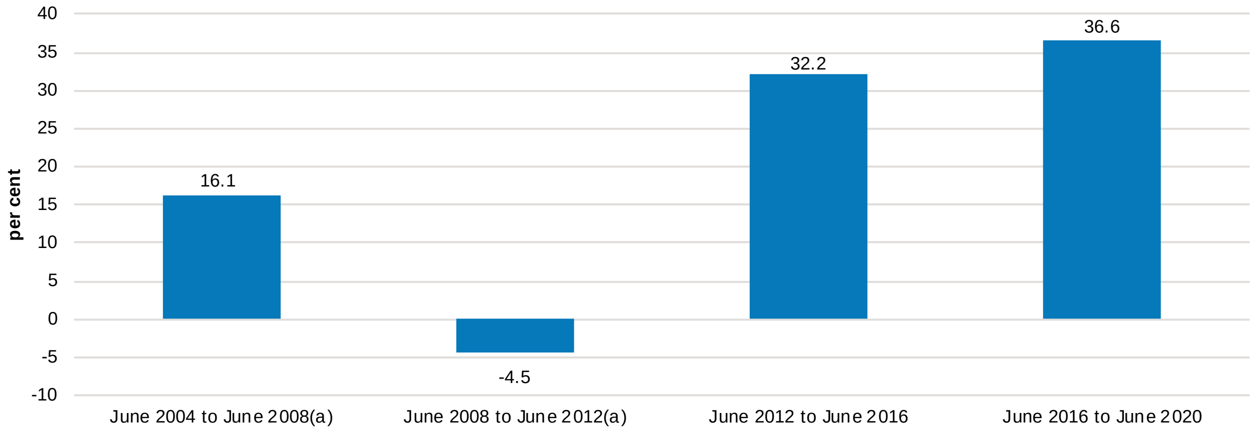
As the Government continues its infrastructure investment and proceeds from transactions are used to fund new infrastructure, net debt is expected to increase over the forward estimates.

The current estimate of general government net debt at 30 June 2017 is projected to be 0.1 per cent of GSP. This is the lowest of the mainland states.

Net worth is estimated to be at the highest level since 2000-01 at $203.4 billion by June 2017 and is expected to increase to $248.4 billion by June 2020. The increase in the State's net worth (see Chart 3.7) over the forward estimates is consistent with the State's prudent balance sheet management. Over the next four years to 2020, net worth is estimated to grow by 36.6 per cent.

Chart 3.7 shows the growth in average net worth from 2004-05 to 2019-20. The Government is on track to increase growth in average net worth by 36.6 per cent over the next four years.

Chart 3.7: Net worth growth from June 2004 to June 2020



(a) The 2007-08 net worth has been restated to account for the revised *AASB 119 Employee Benefits*.

Financial assets

General government financial assets are expected to be $149.4 billion at June 2017, increasing to $152.9 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, enhance returns within acceptable risk parameters and manage liquidity needs.

As part of their assessment of the State's overall creditworthiness, credit rating agencies also consider the State's access to and holdings of liquid assets. The State's financial asset position is particularly robust, due to better than expected budget outcomes in recent years and the successful sale or lease of significant business assets.

Box 3.8: Transforming the way New South Wales manages its finances

Effective management of the State's liquidity is part of the Government's strategy of active and efficient balance sheet management. In the 2016-17 Budget, the Government detailed a once-in-a-generation reform program to transform financial management in the NSW public sector.

Since the 2016-17 Budget, the recently established Asset and Liability Committee (ALCO) has advised the NSW Government on key decisions regarding the State's assets and liabilities. This advice is targeted at achieving better outcomes for the State, in line with the Government's risk appetite.

The State's cash and financial investment holdings – generated mainly through asset transactions – are being set aside to support the State's record infrastructure package under the Rebuilding NSW program. These funds will be invested to generate additional returns to support the State's infrastructure commitments under Restart NSW and Rebuilding NSW rather than relying on debt. The investment period of the financial investments will be matched to the planned infrastructure needs of the State. All investment earnings from these investments will be allocated to Restart NSW.

As part of the Government's drive to improve financial risk and balance sheet management, a number of additional reforms to centralise and improve the management of the State's cash, debt and financial investments are also being developed.

The reforms include a whole-of-government cash and debt management strategy that aims to:

- create a whole-of-government approach to managing cash, debt and financial investments
- deliver improved fiscal outcomes and financial performance
- support the implementation of government priorities.

Pooling resources will help achieve better oversight, governance and performance – strongly aligned with the Government's risk appetite and legislative framework.

Non-financial assets

Total general government non-financial assets are projected to be $183.1 billion at June 2017, increasing to $211.1 billion by June 2020. This increase is largely driven by new infrastructure projects and the impact of net asset revaluations (see section 3.5).

Liabilities

Total general government liabilities are projected to be $129.1 billion at June 2017 falling to $115.6 billion by June 2020. These liabilities comprise borrowings, superannuation liabilities, other employee liabilities, other liabilities and payables. Unfunded superannuation is the largest of these, making up an average of 40.6 per cent of general government liabilities over the four years to 2020 and also accounts for the majority of the movement in liabilities since Budget.

The fall in liabilities over the forward estimates is a combination of changes to discount rates and ongoing Government contributions in line with its commitment to eliminate the general government unfunded superannuation liability by 2030, as outlined in the FRA. Relative to the 2016-17 Budget, the unfunded superannuation liability is estimated to have increased due to forecast lower discount rates used for financial reporting purposes.

There are two methods for valuing unfunded superannuation. The liability for reporting purposes as presented in the balance sheet is calculated in accordance with *AASB 119 Employee Benefits*, and is based on Commonwealth Government 10-year bond yield forecasts. For funding purposes, *AAS 25 Financial Reporting by Superannuation Plans* is used, which assumes the forecast long-term fund earning rate as the discount rate for the superannuation liability. New South Wales continues to comply with legislation requiring the State to fully fund this liability by the 2030 target date.

3.7 Fiscal risks

This section sets out known material fiscal risks as at the 2016-17 Half-Yearly Review, which if realised, could impact on the State's fiscal position and budget outcomes.

Revenue risks

State tax revenue

State tax revenue forecasts are linked to a range of economic variables. Some state taxes, such as transfer duties on residential property transfers, can be volatile and a change in price and/or volume could lead to significant variations. At this point, the housing market continues to show strength amid historically low interest rates, solid population growth and a robust pipeline of new supply.

Commonwealth grants and GST revenue

Commonwealth grants revenue to New South Wales comprises payments for GST revenues, National Agreements and National Partnerships.

GST revenues are dependent not only upon the amount of GST collected (the pool size), but also on the State's share of this revenue. NSW GST revenue may change based on revisions to the GST pool as well as the GST relativities. The relative strength in the State's revenue performance in comparison to other states could put downward pressure on the NSW relativity and GST distribution.

National Agreement and National Partnership funding can be volatile and present a risk to both state revenues and the State Budget. Changes can arise from new programs and projected capital works, the termination of existing agreements and re-profiling in the timing of payments to the states.

Expense risks

Employee-related expenses consist of wages and salaries and superannuation expenses and represent the State's largest expense. Therefore, changes in parameters have a significant impact on the budget. The size of the workforce, new enterprise bargaining agreements and discount rates are important drivers of this expense. Since 2011, risk has been managed primarily through the NSW public sector wages policy.

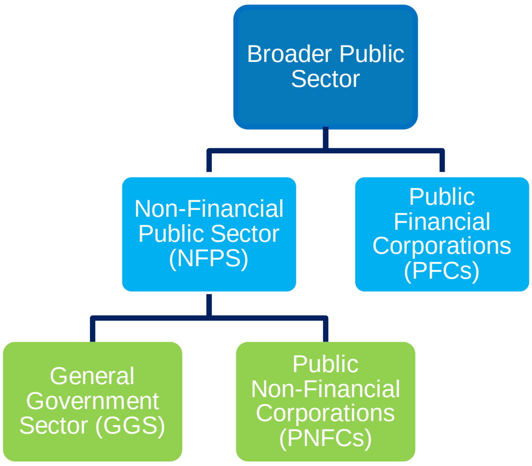
Liabilities for superannuation and long service leave are estimated with reference to assumed rates of investment returns, salary growth, inflation, discount rates and other factors. Changes in these parameters can affect superannuation and long service leave liabilities. Additionally, long service leave liabilities are subject to rates of employee retention, which can vary from those assumed in the liability calculation.

New South Wales also incurs other operating expenses that capture the non-labour costs of providing goods and services, such as maintenance. Material changes in the size and growth of the State's asset base would affect the cost of maintaining those assets. In addition, changes in the assets' useful lives due to accounting revaluations and changes to depreciation would have an impact on expenses.

3.8 Performance and outlook of the broader public sector

This section provides an update on the financial position of the broader public sector. The total state sector (TSS) includes both the non-financial public sector (NFPS) and public financial corporations sector (PFCs). The NFPS is comprised of the GGS and PNFCs.

Chart 3.8: The broader public sector



The GGS includes entities that provide public goods and services and are funded from state revenue, e.g. education, health and police services. The PNFC sector includes entities that provide goods and services on a 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 services and financial services, e.g. bond issuance and financial asset management, such as TCorp.

The successful partial long-term lease of Ausgrid and the sale of Pillar have materially impacted the composition of the State's balance sheet since the 2016-17 Budget. The proceeds from Ausgrid have resulted in higher financial assets and lower borrowings, and the change in the Government's investment in these entities is reflected in the Government's balance sheet. These transactions have reduced the size of the investment in the PNFC and PFC sectors overall.

Non-financial public sector operating performance

The operating performance of the NFPS is estimated to have improved relative to the 2016-17 Budget. The net operating balance has been revised up by $994.4 million in 2016-17 and $157.9 million across the forward estimates. Of the $994.4 million improvement in 2016-17, $407.2 million is due to the accounting treatment of transactions from discontinuing operations resulting from the partial lease of Ausgrid. The full removal of Ausgrid's operating revenue and expenses has impacted the operating balance in the budget year and forward estimates.

Revenue projections for the NFPS have been revised downwards by $1.1 billion in 2016-17 and $4.9 billion across the forward estimates since 2016-17 Budget. This revision is driven primarily by the removal of Ausgrid's operating revenue from the NFPS sector, totalling $2.6 billion in 2016-17 and $7.4 billion across the forward estimates. Revenue in the GGS is expected to be higher in 2016-17 and forward estimates compared to Budget, primarily driven by higher National Partnership payments from the Australian Government and expected stamp duties on the partial lease of Ausgrid.

Expense projections for the NFPS decreased by $1.7 billion in 2016-17 and $5.0 billion across the forward estimates. The removal of Ausgrid's operating expenditure has reduced NFPS operating expenditure by $1.8 billion in 2016-17 and $5.6 billion across the forward estimates. Expenditure in the GGS in the budget year and over the forward estimates is expected to be higher than at Budget, largely due to the impact of new policy decisions.

Further details on the performance of the GGS are set out in section 3.2 and section 3.3. Table 3.10 shows the key aggregates for the NFP sector from 2015-16 to 2019-20.

Table 3.10: Key aggregates – non-financial public sector

	2015-16 Actual	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m	$m
Revenue	81,086	83,185	82,039	83,024	82,708	85,719
Expenses	77,261	81,786	80,052	83,177	83,453	86,682
Transactions from discontinuing operations	(190)	...	407	...	...	...
Net operating balance	**3,634**	**1,400**	**2,394**	**(153)**	**(745)**	**(963)**
Assets	358,204	373,329	368,016	381,622	395,982	404,274
Liabilities	174,506	165,468	161,787	158,897	157,991	152,725
Net worth	**183,698**	**207,861**	**206,229**	**222,724**	**237,990**	**251,549**
Capital expenditure	**16,194**	**21,833**	**21,416**	**20,023**	**18,917**	**12,885**

Non-financial public sector balance sheet

The composition of the balance sheet of the broader public sector has changed significantly since the 2016-17 Budget, primarily as a result of the impact of the partial lease of Ausgrid as well as the Government's asset recycling initiatives and cash and debt management reforms.

Total assets at June 2017 are projected to be $368.0 billion, increasing to $404.3 billion at June 2020. The June 2017 projection represents a reduction of $5.3 billion since Budget. The increase in financial assets in the GGS due to the receipt of lease proceeds is offset by the removal of Ausgrid's non-financial assets.

Total liabilities at June 2017 are expected to be $161.8 billion, falling to $152.7 billion at June 2020. The estimate for 2017 represents a $3.7 billion reduction since Budget, primarily driven by a decrease in borrowings as a result of the retirement of Ausgrid debt. Offsetting this, superannuation liabilities have increased in 2016-17 by $5.4 billion compared to Budget, driven by the decrease in the forecast discount rate used to calculate the value of the liability. The superannuation liability decreases over the forward estimates as a result of changing discount rates and ongoing government contributions in line with the Government's commitment to eliminate unfunded superannuation liabilities by 2030.

Projected NFPS net debt at June 2017 has decreased from $41.7 billion at Budget to $24.7 billion, as a result of investing the net proceeds from the partial lease of Ausgrid in financial assets, and the retirement of debt held by Ausgrid. The Government's successful asset recycling strategy, including TransGrid and Ausgrid, is using asset recycling proceeds to fund vital infrastructure rather than relying on debt.

Further detail on the GGS balance sheet, including the elimination of the unfunded superannuation liability, is set out in section 3.6.

Capital expenditure

The NFPS delivers some of the State's major infrastructure projects, including WestConnex.

Capital expenditure in the NFPS for 2016-17 is expected to be $416.3 million lower than estimated in the 2016-17 Budget, primarily driven by the removal of Ausgrid's capital expenditure. Over the forward estimates, the removal of Ausgrid's capital program will reduce NFPS capital expenditure, however this is offset by additional major capital expenditure allocated since Budget, including projects funded by Restart NSW totalling $1.3 billion.

Dividends and tax equivalent payments

The operating performance of the PNFC sector is important as it affects the value of dividends and tax equivalent payments paid to the State. Changes to estimates for dividend and tax equivalent payments since the 2016-17 Budget are primarily driven by the impact of the partial lease of Ausgrid, as well as the sale of Pillar. The return from the State's continued shareholding in Ausgrid from 2016-17 onwards has been reflected in other distributions receivable.

Dividends and tax equivalent payments for 2016-17 have been revised down since the 2016-17 Budget by $107.0 million and $408.8 million over the forward estimates. While expected distributions from Ausgrid have been removed, dividends and tax equivalent payments for Endeavour Energy and Essential Energy have increased as a result of anticipated improved profitability driven by operating and capital expenditure efficiencies. Adding to this is an increase in projected payments from the water sector, largely from increased revenues from higher than expected consumption and lower finance costs associated with reduced and reprioritised capital expenditure programs.

Table 3.11 shows the dividend and tax equivalent payments of PNFC and PFC sectors over the period 2016-17 to 2019-20.

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

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Dividends and tax equivalents					
Electricity	533	335	72	138	237
Water	438	517	518	537	584
Property and resources	120	126	70	78	40
Ports	3	8	57	47	58
Public financial corporations	79	80	83	89	94
Total dividends and tax equivalents	**1,173**	**1,066**	**800**	**889**	**1,014**

Public financial corporations sector

The PFC sector includes New South Wales Treasury Corporation (TCorp) and Insurance and Care NSW (icare). Given that icare operates on a cost recovery basis and does not generate a profit or pay dividends, the net operating balance of the PFC sector reflects TCorp's performance.

Since the 2016-17 Budget, the Superannuation Administration Corporation (trading as Pillar Corporation) has been sold for $35.0 million. Private ownership will put Pillar in a stronger position to pursue growth opportunities and improve the long-term financial viability of the business. The transaction strengthens New South Wales' balance sheet and eliminates the State's need to make ongoing equity injections into the business.

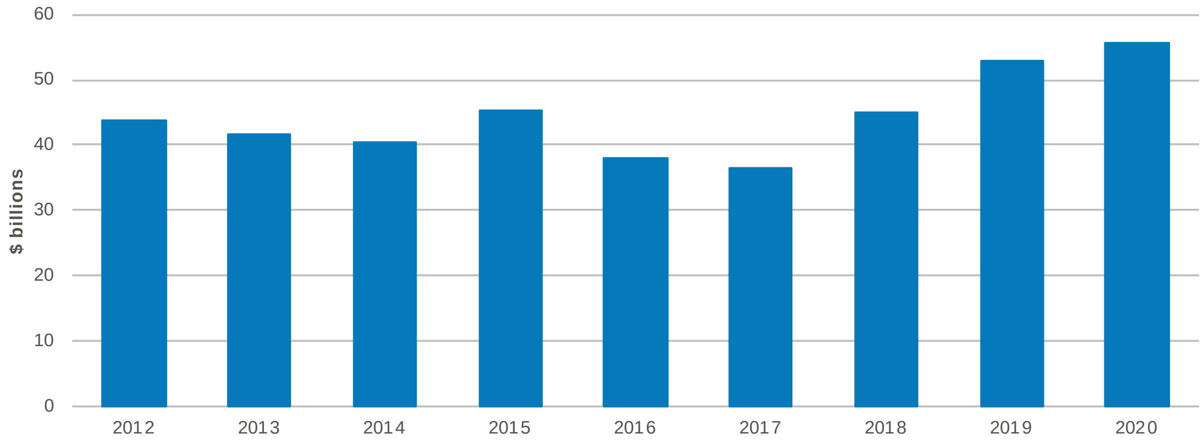
Total state sector

The TSS in New South Wales encompasses the GGS, PNFC and PFC sectors.

TSS net debt is lower than estimated in the 2016-17 Budget for the current year and across the forward estimates, largely as a result of using the proceeds from the partial lease of Ausgrid for debt retirement purposes. TSS net debt is projected to be $36.4 billion at June 2017, a decrease of $13.0 billion since Budget.

Chart 3.9 shows the movement in the State's net debt from 2011-12 to 2019-20.

Chart 3.9: Total state sector net debt at 30 June



TSS net worth reflects the financial value of the State to the people of New South Wales. This comprises total assets, which is the stock of goods, cash and investments for which the State has control, less total liabilities, which is the stock of debt and other obligations the State is committed to repay.

TSS net worth projections for June 2017 and June 2018 are on average about $1.7 billion lower than forecast at 2016-17 Budget. This reflects the increase in the discount rate used to value the State's unfunded superannuation liabilities. Projections of net worth for June 2019 and June 2020 average $1.0 billion higher than at the 2016-17 Budget, driven by higher financial asset holdings offset by a reduction to the superannuation provision due to a combination of changing discount rates and ongoing Government contributions in line with its commitment to eliminate unfunded superannuation liabilities by 2030.

Net worth is projected to be $203.4 billion at June 2017, increasing to $248.4 billion by June 2020, an average annual growth rate of 6.9 per cent.

Projected cash and investment holdings in 2016-17 and across the forward estimates are higher than at Budget, in part reflecting net proceeds and transfer duties received from the partial lease of Ausgrid, interest earnings and Asset Recycling Initiative payments from the Australian Government offset by the reduction in estimated GST revenue. The composition of other assets in the TSS balance sheet has changed to reflect the Government's new holding in Ausgrid and investment of the Ausgrid net proceeds in financial assets. The main cause of the decrease in liabilities is the reduction in borrowings as outlined above as well as the reduction in the unfunded superannuation liability.

Further detail on the State's unfunded superannuation liability is set out in section 3.6.

A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

The Half-Yearly Review presents the Estimated Financial Statements for the GGS.

These comprise the GGS operating statement (Table B.1), GGS balance sheet (Table B.2), GGS cash flow statement (Table B.3) and Australian Bureau of Statistics (ABS) Government Financial Statistics (GFS) GGS cash balance (Table B.4). 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 cover the revised budget estimates for the current year ending 30 June 2017, and estimates for the three forward years ending 30 June 2018, 2019 and 2020.

Scope

The Estimated Financial Statements are prepared for the NSW GGS, which is determined in accordance with the principles and rules contained in the ABS, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 (cat. No. 5514)* (ABS GFS Manual) as amended from time to time.

The GGS comprises government agencies controlled by the State that:

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

The scope of the GGS is outlined in Appendix B3 of the 2016-17 Budget Paper No.1 *Budget Statement*.

Basis of preparation

The Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2016-17 Budget and based on the assumptions outlined below.

The 2016-17 Budget information included in the Estimated Financial Statements reflects the original budget tabled in Parliament on 21 June 2016.

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.

The Estimated Financial Statements have been prepared to reflect existing operations, the impact of all new policy decisions taken by Government (where their financial effect is reliably measurable), as well as known Australian Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review. The revised estimates for 2016-17 are based on actual results at 31 October 2016, and updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data currently available to Treasury as at 6 December 2016.

In keeping with these principles, where the impact of a policy decision or planned event cannot be reliably measured, the impact is not reflected within the 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, or other economic flows, assets or liabilities are based on the latest information available at the time, professional judgements derived from experience and other factors considered to be reasonable under the circumstances. Actual results may differ from such estimates. Key assumptions are detailed below, under the headings *Material economic and other assumptions* and *Summary of other key assumptions.*

Accounting policies

Australian Accounting Standards do not include requirements or provide guidance on the preparation and 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.

Therefore, except for the matters set out below under *Change in Accounting Policies,* these Estimated Financial Statements follow the presentation and principles in the 2016-17 Budget and the accounting policies applied in the audited *2015-16 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* as presented to Parliament.

The same accounting policies have been used for the subsequent forecast years. In particular, Note 1 Statement of Significant Accounting Policies includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenues, expenses, other comprehensive income, assets and liabilities.

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.

Change in accounting policies

There are no significant changes to accounting policies adopted in the preparation of the estimates to those used in preparing the 2016-17 Budget.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 35 of the *2015-16 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2016-17 Budget Paper No.1 *Budget Statement*.

Presentation of the Estimated Financial Statements

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

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. Australian Accounting Standards) with GFS principles in accordance with the GFS framework adopted by the ABS. 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. budget result) is the net result of harmonised GFS-GAAP transactions for the GGS.

In the operating statement:

- the *net operating balance* is the net result of revenue and 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 GGS financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the GGS financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS and/or
- where options do not exist in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

Due to the prospective nature of the statements, detailed notes to the Estimated Financial Statements, including disclosure of contingent assets and liabilities, are not required to be included 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.

Material economic and other assumptions

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

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

	2016-17	2017-18	2018-19	2019-20
New South Wales population (level)	7,800,000	7,910,000	8,010,000	8,120,000
Nominal gross state product ($million)	572,300	596,400	626,000	657,100
Real gross state product	3	$2^{3}/_{4}$	$2^{1}/_{2}$	$2^{1}/_{2}$
Real state final demand	$3^{1}/_{2}$	3	n.a.[(d)]	n.a.[(d)]
Unemployment rate [(b)]	5	5	n.a.[(d)]	n.a.[(d)]
Sydney consumer price index	2	$2^{1}/_{4}$	$2^{1}/_{2}$	$2^{1}/_{2}$
Sydney consumer price index - - through the year to June quarter	2	$2^{1}/_{4}$	n.a.[(d)]	n.a.[(d)]
Wage Price index [(c)]	$2^{1}/_{4}$	$2^{1}/_{2}$	$3^{1}/_{2}$	$3^{1}/_{2}$

(a) Per cent change, year average, unless otherwise indicated.
(b) Year average, per cent.
(c) Weighted private and public sector wages.
(d) n.a. not available.

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 GGS’s overall financial position and sensitivity to changes in key economic assumptions.

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

Revenue from transactions

Taxation revenue

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

Grants revenue

Forecast grants from the Australian Government are based on the latest available information from the Australian Government. 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, and GST collected in 2016-17. 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 annual per capita relativities for 2012-13, 2013-14 and 2014-15, as determined by the Commonwealth Grants Commission.

After 2016-17, the State's share of GST is based on assessed relativity in a particular year, the Australian Government's population and GST 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.

Sale of goods and services

Revenue from the sale of goods and services is forecast taking into account all known 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 or indexation.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenues are estimated by PFC and PNFC based on expected profitability and the agreed dividend policy at the time of the Half-Yearly Review.

Other dividends and distributions

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

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

Fines, regulatory fees and other revenues

Fines, regulatory fees and other revenues include estimates of fines issued by the Courts, estimated traffic infringement fines, estimated revenue from enforcement orders and regulatory fees, contributions and estimated 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 newly approved initiatives and required efficiency savings.

Superannuation expense (and liabilities)

Superannuation expense comprises:

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

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

Superannuation expenses for defined benefit plans are estimated based on actuarial advice applying the long-term 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.

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

	2015-16 %	2016-17 %	2017-18 %	2018-19 %
Liability discount rate	2.0	2.3	2.8	3.3
Expected return on investments [(a)]	4.0	8.3	7.8	7.8
Expected salary increases[(b)]				
- SSS and SASS members	2.5	2.5	2.5	2.5
- PSS members	2.5	2.5	2.5	2.5
Expected rate of CPI	0.9	1.75	2.25	2.5

(a) For the EISS the expected return on investments is 6.3 per cent per annum from 2015-16 and beyond.
(b) Taking the increased Superannuation Guarantee Contribution (SGC) into account, total remuneration will increase by 2.5 per cent. Note that the Australian Government's *Mineral Resources Rent Tax Repeal and Other Measures Act 2014* provides a further pause in the SGC rate increases until 2021.

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 depreciation expense is based on the assumption that there will be no change in depreciation rates over the forecast period, but includes the estimated impact of the current and future revaluation of assets over the forecast period. The depreciation expense may 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 expense are based on:

- payments required on the current GGS debt
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for TCorp bonds 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 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 application of government policy. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expense

Grants and subsidy expenses generally comprise cash contributions to local government authorities and non-government organisations. For the GGS, they also include grants and subsidies paid to PNFCs and PFCs. The forecast grant payments are determined by taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

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 actuarial 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 and non-financial 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 Treasury's *Commercial Policy Framework*.

Assets

Land and buildings, plant and equipment, and infrastructure systems

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, impairment 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 provision 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 on 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 provisions 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 (and liabilities) (above) for information on assumptions that also impact the measurement of the superannuation provisions.

Other provisions

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

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B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Tables

The Uniform Presentation Framework (UPF) for financial aggregates has been agreed by the Australian Loan Council. As part of the Framework, each jurisdiction is to publish a mid-year report, i.e. a half-yearly review of the budget, by the end of February each year.

The UPF tables have been prepared consistent with the 2016-17 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-5 of 2016-17 Budget Paper No.1 *Budget Statement*.

This UPF report includes operating statements, balance sheets and cash flow statements for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS).

The Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the GGS. In addition, revised estimates are presented for the PNFC sector and the NFPS (i.e. a consolidation of the GGS and the PNFC sector). These revised estimates take into account fiscal and economic developments since the Budget.

Table B.1: General government sector operating statement

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	29,759	30,120	31,104	32,347	33,853
Grants and Subsidies					
- Commonwealth General Purpose	17,663	17,438	17,641	17,643	17,862
- Commonwealth Specific Purpose Payments	9,272	9,403	9,815	9,763	10,247
- Commonwealth National Partnership Payments	4,682	4,690	3,554	1,543	1,510
- Other Grants and Subsidies	727	856	721	850	844
Sale of Goods and Services	8,296	8,390	8,439	8,724	8,860
Interest	914	731	529	458	458
Dividend and Income Tax Equivalents from Other Sectors	1,173	1,066	800	889	1,014
Other Dividends and Distributions	441	619	964	1,034	1,072
Fines, Regulatory Fees and Other	4,078	4,185	4,335	4,403	4,600
Total Revenues from Transactions	**77,005**	**77,499**	**77,900**	**77,654**	**80,320**
Expenses from Transactions					
Employee	30,058	30,270	32,313	33,946	35,399
Superannuation					
- Superannuation Interest Cost	1,436	1,326	1,354	1,441	1,480
- Other Superannuation	3,001	3,043	2,934	2,950	2,981
Depreciation and Amortisation	4,608	4,588	4,914	5,083	5,264
Interest	2,165	2,123	2,186	2,233	2,506
Other Property	...	...	...	...	...
Other Operating	18,656	18,814	18,733	18,475	18,992
Grants and Subsidies					
- Current Grants and Subsidies	12,367	12,321	12,889	11,556	12,011
- Capital Grants	1,000	1,041	1,074	950	794
Total Expenses from Transactions	**73,292**	**73,526**	**76,398**	**76,633**	**79,427**
Transactions from Discontinuing Operations	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**3,713**	**3,973**	**1,502**	**1,021**	**893**

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

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	277	189	336	323	309
Other Net Gains/(Losses)	(182)	270	374	280	355
Share of Earnings from Associates (excluding Dividends)	13	38	5	48	38
Dividends from Asset Sale Proceeds	271	204	73	30	...
Deferred Income Tax from Other Sectors	97	(948)	143	118	147
Other	(34)	(29)	(29)	(29)	(29)
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
Other Economic Flows - Included in the Operating Result	**443**	**(277)**	**901**	**769**	**821**
Operating Result	**4,156**	**3,696**	**2,403**	**1,790**	**1,714**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to the Operating Result					
Superannuation Actuarial Gain/(Loss)	8,657	7,554	7,856	7,037	6,243
Revaluations	4,161	4,045	2,969	3,599	2,995
Share of Earnings from Associates from Revaluations	...	...	...	...	...
Items that may be Reclassified Subsequently to the Operating Result					
Net Gain/(Loss) on Equity Investments in Other Sectors	4,906	10,212	5,168	4,945	4,884
Net Gain/(Loss) on Equity Investments in Other Sectors	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	...	...	...	...	...
Other	(3,945)	(3,916)	(2,123)	(2,222)	(2,092)
Other Economic Flows - Other Comprehensive Income	**13,778**	**17,894**	**13,869**	**13,360**	**12,030**
Comprehensive Result - Total Change in Net Worth	**17,934**	**21,591**	**16,272**	**15,150**	**13,744**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth [(a)]	**17,934**	**21,591**	**16,272**	**15,150**	**13,744**
Less: Net Other Economic Flows	(14,221)	(17,618)	(14,770)	(14,129)	(12,851)
Equals: Budget Result - Net Operating Balance	**3,713**	**3,973**	**1,502**	**1,021**	**893**
Less: Net Acquisition of Non-Financial Assets					
Purchases of Non-Financial Assets	12,358	12,633	12,585	9,541	8,212
Sales of Non-Financial Assets	(663)	(1,050)	(329)	(425)	(272)
Less: Depreciation	(4,608)	(4,588)	(4,914)	(5,083)	(5,264)
Plus : Change in Inventories	(8)	(5)	(7)	(4)	(2)
Plus : Other Movements in Non-Financial Assets					
- Assets Acquired Using Finance Leases	156	142	128	3,418	154
- Other	106	130	111	157	152
Equals: Total Net Acquisition of Non-Financial Assets	**7,341**	**7,261**	**7,574**	**7,604**	**2,980**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(3,628)**	**(3,288)**	**(6,072)**	**(6,583)**	**(2,087)**
OTHER AGGREGATES					
Capital Expenditure [(b)]	12,514	12,775	12,713	12,959	8,366

(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 utilising finance leases.

Table B.2: General government sector balance sheet

	June 2017 Budget	June 2017 Revised	June 2018	June 2019 Forward Estimates	June 2020
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalent Assets	1,582	1,760	1,813	1,717	1,313
Receivables	5,885	5,618	5,236	5,043	4,913
Tax Equivalents Receivable	98	59	40	81	96
Investments, Loans and Placements					
Financial Assets at Fair Value	18,613	25,413	22,579	20,693	18,284
Other Financial Assets	5,087	5,481	2,978	1,499	1,564
Advances Paid	1,237	1,184	1,291	1,229	1,342
Deferred Tax Equivalents Assets	3,955	2,737	2,862	2,976	3,117
Equity					
Investments in Other Public Sector Entities	102,380	98,870	104,038	108,983	113,867
Investments in Other Public Sector - Held for Sale	...	...	...	...	...
Investments in Associates	3,927	7,646	7,644	7,660	7,667
Other Financial Assets	562	632	661	692	724
Total Financial Assets	**143,326**	**149,400**	**149,142**	**150,573**	**152,888**
Non-Financial Assets					
Inventories	232	258	251	247	245
Forestry Stock and Other Biological Assets	10	11	10	10	10
Assets Classified as Held for Sale	84	187	163	134	132
Investment Properties	3	...	...	...	...
Property, Plant and Equipment					
Land and Buildings	72,032	72,855	75,795	77,086	77,962
Plant and Equipment	12,530	12,337	12,306	12,277	12,177
Infrastructure Systems	91,664	89,213	96,329	108,212	113,036
Intangibles	3,475	3,489	3,326	3,023	2,686
Other Non-Financial Assets	4,509	4,793	5,973	4,500	4,830
Total Non-Financial Assets	**184,539**	**183,143**	**194,155**	**205,491**	**211,079**
Total Assets	**327,865**	**332,543**	**343,297**	**356,064**	**363,967**
Liabilities					
Deposits Held	113	116	104	92	98
Payables	4,917	5,451	5,455	5,372	5,248
Tax Equivalent Payables	9	28	28	12	...
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...
Borrowings and Derivatives at Fair Value	6	7	5	4	3
Borrowings at Amortised Cost	33,067	33,301	35,639	40,296	40,637
Advances Received	873	859	829	724	791
Employee Provisions	16,519	17,040	17,003	17,059	17,120
Superannuation Provisions[(a)]	55,510	60,733	52,910	46,014	39,879
Deferred Tax Equivalent Provisions	280	112	113	113	114
Other Provisions	8,684	8,579	8,661	8,731	8,980
Other Liabilities	2,910	2,918	2,878	2,826	2,722
Total Liabilities	**122,887**	**129,144**	**123,625**	**121,242**	**115,593**
NET ASSETS	**204,978**	**203,399**	**219,671**	**234,821**	**248,374**
NET WORTH					
Accumulated Funds	24,536	28,544	36,727	43,482	49,176
Reserves	180,443	174,855	182,944	191,339	199,198
TOTAL NET WORTH	**204,978**	**203,399**	**219,671**	**234,821**	**248,374**
OTHER KEY AGGREGATES					
Net Financial Worth[(b)]	**20,440**	**20,256**	**25,517**	**29,330**	**37,295**
Net Debt[(c)]	**7,539**	**443**	**7,916**	**15,979**	**19,026**
Net Financial Liabilities[(d)]	**81,940**	**78,614**	**78,521**	**79,653**	**76,572**

(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 B.3: General government sector cash flow statement

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxes Received	29,742	30,313	31,143	32,420	33,941
Receipts from Sales of Goods and Services	8,776	8,901	9,083	9,444	9,325
Grants and Subsidies Received	32,317	32,372	31,802	29,810	30,491
Interest Receipts	862	743	555	428	462
Dividends and Income Tax Equivalents	1,178	1,232	924	820	927
Other Receipts	7,535	7,773	8,008	8,167	8,251
Total Cash Receipts from Operating Activities	**80,411**	**81,334**	**81,515**	**81,089**	**83,397**
Cash Payments from Operating Activities					
Payments for Employees	(29,834)	(29,862)	(32,187)	(33,638)	(35,065)
Payments for Superannuation	(3,592)	(3,892)	(4,256)	(4,251)	(4,353)
Payments for Goods and Services	(21,716)	(22,091)	(21,760)	(21,241)	(20,701)
Grants and Subsidies Paid	(10,896)	(10,782)	(11,253)	(9,987)	(10,185)
Interest Paid	(1,628)	(1,611)	(1,604)	(1,634)	(1,874)
Other Payments	(4,616)	(4,410)	(4,252)	(4,375)	(4,270)
Total Cash Payments from Operating Activities	**(72,282)**	**(72,648)**	**(75,312)**	**(75,125)**	**(76,448)**
Net Cash Flows from Operating Activities	**8,129**	**8,686**	**6,203**	**5,965**	**6,949**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	663	811	412	506	353
Purchases of Non-Financial Assets	(12,235)	(12,525)	(12,532)	(9,446)	(8,590)
Net Cash Flows from Investments in Non-Financial Assets	**(11,572)**	**(11,713)**	**(12,120)**	**(8,940)**	**(8,237)**
Cash Flows from Investments from Financial Assets for Policy Purposes					
Receipts	461	5,570	266	283	311
Payments	(3,453)	(3,420)	(2,498)	(2,388)	(2,449)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,992)**	**2,150**	**(2,232)**	**(2,105)**	**(2,138)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	10,595	11,647	7,108	4,832	3,927
Payments for Purchases of Investments	(9,091)	(15,301)	(1,089)	(961)	(942)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**1,504**	**(3,654)**	**6,018**	**3,871**	**2,985**
Net Cash Flows from Investing Activities	**(13,061)**	**(13,218)**	**(8,334)**	**(7,175)**	**(7,390)**
Cash Flows from Financing Activities					
Advances Received	47	48	40	25	22
Advances Repaid	(57)	(51)	(54)	(54)	(54)
Proceeds from Borrowings	1,319	1,513	2,841	1,818	840
Repayments of Borrowings	(547)	(517)	(697)	(648)	(723)
Deposits Received (net)	(11)	(11)	(13)	(13)	5
Other Financing (net)	...	(2)	...	...	...
Net Cash Flows from Financing Activities	**751**	**979**	**2,117**	**1,129**	**91**
Net Increase/(Decrease) in Cash Held	**(4,181)**	**(3,552)**	**(14)**	**(81)**	**(350)**

Table B.3: General government sector cash flow statement (cont)

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows from Operating Activities	8,129	8,686	6,203	5,965	6,949
Net Cash Flows from Investments in Non-Financial Assets	(11,572)	(11,713)	(12,120)	(8,940)	(8,237)
Cash Surplus/(Deficit)	**(3,444)**	**(3,027)**	**(5,917)**	**(2,976)**	**(1,288)**

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

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Cash Surplus/(Deficit)	**(3,444)**	**(3,027)**	**(5,917)**	**(2,976)**	**(1,288)**
Assets Acquired under Finance Leases	(156)	(142)	(128)	(3,418)	(154)
Other Financing Arrangements(a)	(123)	131	(136)	(176)	297
ABS GFS Surplus/(Deficit)	**(3,722)**	**(3,038)**	**(6,181)**	**(6,569)**	**(1,145)**

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

Table B.5: Public non-financial corporation sector operating statement

	2016-17 Budget	2016-17 Revised	2017-18 Forward Estimates	2018-19	2019-20
	$m	$m	$m	$m	$m
Revenue from Transactions					
Grants and Subsidies					
- Commonwealth Specific Purpose Payments	0	0	0	0	0
- Commonwealth National Partnership Payments	...	...	...	...	...
- Other Grants and Subsidies	2,896	2,903	3,061	2,914	2,791
Sale of Goods and Services	10,903	9,080	9,346	9,421	9,768
Interest	74	93	66	63	59
Fines, Regulatory Fees and Other	990	866	791	832	863
Total Revenues from Transactions	**14,863**	**12,942**	**13,263**	**13,231**	**13,480**
Expenses from Transactions					
Employee	3,323	3,111	3,163	3,203	3,183
Superannuation					
- Superannuation Interest Cost	66	56	53	54	51
- Other Superannuation	256	191	193	186	183
Depreciation and Amortisation	3,330	2,795	2,932	3,098	3,412
Interest	1,616	1,280	1,334	1,416	1,465
Income Tax Expense	416	335	235	290	316
Other Property	...	...	...	...	...
Other Operating	7,162	6,149	6,301	6,033	5,916
Grants and Subsidies					
- Current Grants and Subsidies	305	151	151	151	151
- Capital Grants	25	81	73	55	55
Total Expenses from Transactions	**16,499**	**14,150**	**14,436**	**14,486**	**14,733**
Transactions from Discontinuing Operations	...	201	...	...	...
NET OPERATING BALANCE - SURPLUS AFTER TAX	**(1,636)**	**(1,007)**	**(1,173)**	**(1,256)**	**(1,252)**

Table B.5: Public non-financial corporation sector operating statement (cont)

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Other Net Gains/(Losses)	672	4,604	230	49	(219)
Share of Earnings from Associates (excluding Dividends)	...	...	...	...	...
Dividends from Asset Sale Proceeds	...	...	...	...	...
Deferred Income Tax from Other Sectors	...	...	...	...	...
Other	0	(37)	(44)	(29)	(25)
Discontinuing Operations - Other Economic Flows	...	(678)	...	...	...
Other Economic Flows - Included in the Operating Result	**672**	**3,890**	**186**	**19**	**(243)**
Operating Result	**(964)**	**2,882**	**(987)**	**(1,236)**	**(1,495)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to the Operating Result					
Superannuation Actuarial Gains/(Loss)	625	382	524	450	424
Deferred Tax Direct to Equity	(100)	972	(86)	(88)	(121)
Revaluations	2,322	2,151	2,199	2,567	2,985
Share of Earnings from Associates from Revaluations	...	...	...	...	...
Items that may be Reclassified Subsequently to the Operating Result					
Net Gain/(Loss) on Financial Instruments at Fair Value	3	3	1	1	0
Other	3,057	3,013	2,234	2,208	2,098
Other Economic Flows - Other Comprehensive Income	**5,908**	**6,521**	**4,872**	**5,137**	**5,387**
Comprehensive Result - Total Change in Net Worth (a)	**4,944**	**9,403**	**3,885**	**3,900**	**3,891**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**4,944**	**9,403**	**3,885**	**3,900**	**3,891**
Less: Net Other Economic Flows	(6,580)	(10,411)	(5,058)	(5,156)	(5,143)
Equals: Net Operating Balance - Surplus After Tax	**(1,636)**	**(1,007)**	**(1,173)**	**(1,256)**	**(1,252)**
Less: Net Acquisition of Non-Financial Assets					
Purchases of Non-Financial Assets	7,752	7,075	7,303	5,852	4,523
Sales of Non-Financial Assets	(858)	(651)	(652)	(541)	(491)
Less: Depreciation	(3,330)	(2,795)	(2,932)	(3,098)	(3,412)
Plus : Change in Inventories	9	(41)	162	101	507
Plus : Other Movements in Non-Financial Assets					
- Assets Acquired Using Finance Leases	1,570	1,570	11	110	...
- Other	490	439	333	400	410
Equals: Total Net Acquisition of Non-Financial Assets	**5,634**	**5,597**	**4,225**	**2,824**	**1,537**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(7,270)**	**(6,604)**	**(5,397)**	**(4,079)**	**(2,789)**
OTHER AGGREGATES					
Capital Expenditure (b)	9,322	8,645	7,313	5,961	4,523
Dividends Accrued (c)	678	571	482	630	747

(a) '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.
(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising finance leases.
(c) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and therefore does not fully reflect the sector's call on the financial markets.

Table B.6: Public non-financial corporation sector balance sheet

	June 2017 Budget	June 2017 Revised	June 2018	June 2019 Forward Estimates	June 2020
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalent Assets	2,132	2,327	2,112	1,875	1,428
Receivables	1,505	1,172	1,170	1,193	1,249
Tax Equivalents Receivable	9	14	28	12	...
Investments, Loans and Placements					
Financial Assets at Fair Value	103	17	17	16	16
Other Financial Assets	716	823	756	740	707
Advances Paid	0	...	...	...	...
Deferred Tax Equivalents Assets	274	105	105	106	106
Equity					
Investments in Associates	...	...	...	...	...
Other Financial Assets	152	...	...	...	...
Total Financial Assets	**4,890**	**4,458**	**4,188**	**3,942**	**3,507**
Non-Financial Assets					
Inventories	559	563	600	594	991
Forestry Stock and Other Biological Assets	899	945	945	945	945
Assets Classified as Held for Sale	93	128	130	130	131
Investment Properties	527	471	429	408	418
Property, Plant and Equipment					
Land and Buildings	66,608	67,318	68,778	70,252	71,920
Plant and Equipment	6,241	5,677	5,725	5,922	6,108
Infrastructure Systems	74,219	58,989	63,715	67,218	69,143
Intangibles	1,040	950	935	901	868
Other Non-Financial Assets	186	163	167	174	180
Total Non-Financial Assets	**150,372**	**135,204**	**141,425**	**146,543**	**150,703**
Total Assets	**155,263**	**139,662**	**145,613**	**150,485**	**154,210**
Liabilities					
Deposits Held	34	31	27	27	26
Payables	2,797	2,251	2,300	2,170	2,146
Tax Equivalent Payables	92	53	33	74	88
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...
Borrowings and Derivatives at Fair Value	567	830	2,417	3,242	3,434
Borrowings at Amortised Cost	36,151	26,142	27,882	29,230	29,794
Advances Received	389	389	374	358	343
Employee Provisions	1,515	1,294	1,210	1,173	1,175
Superannuation Provisions[(a)]	2,582	2,745	2,243	1,812	1,418
Deferred Tax Equivalent Provisions	3,955	2,736	2,861	2,975	3,117
Other Provisions	1,351	1,225	1,018	1,014	1,072
Other Liabilities	317	329	281	203	247
Total Liabilities	**49,748**	**38,024**	**40,647**	**42,278**	**42,859**
NET ASSETS	**105,514**	**101,637**	**104,966**	**108,207**	**111,351**
NET WORTH					
Accumulated Funds	48,530	47,629	49,058	50,023	50,498
Reserves	56,984	54,008	55,908	58,184	60,853
TOTAL NET WORTH	**105,514**	**101,637**	**104,966**	**108,207**	**111,351**
OTHER KEY AGGREGATES					
Net Financial Worth [(b)]	**(44,858)**	**(33,566)**	**(36,459)**	**(38,336)**	**(39,352)**
Net Debt [(c)]	**34,190**	**24,225**	**27,815**	**30,226**	**31,446**
Net Financial Liabilities [(d)]	**44,858**	**33,566**	**36,459**	**38,336**	**39,352**

(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 B.7: Public non-financial corporation sector cash flow statement

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Receipts from Sales of Goods and Services	11,892	10,816	9,665	9,669	9,838
Grants and Subsidies Received	2,896	2,903	3,061	2,915	2,791
Interest Receipts	69	87	60	57	52
Other Receipts	1,754	1,687	1,329	1,424	1,478
Total Cash Receipts from Operating Activities	**16,611**	**15,492**	**14,115**	**14,065**	**14,159**
Cash Payments from Operating Activities					
Payments for Employees	(3,519)	(3,183)	(3,385)	(3,377)	(3,319)
Payments for Superannuation	(246)	(436)	(224)	(221)	(204)
Payments for Goods and Services	(7,186)	(6,325)	(6,162)	(6,097)	(6,193)
Grants and Subsidies Paid	(322)	(232)	(157)	(207)	(207)
Interest Paid	(1,622)	(1,412)	(1,227)	(1,331)	(1,408)
Income Tax Equivalents Paid	(409)	(485)	(271)	(235)	(291)
Other Payments	(1,212)	(1,386)	(1,047)	(1,000)	(1,017)
Total Cash Payments from Operating Activities	**(14,515)**	**(13,459)**	**(12,473)**	**(12,467)**	**(12,639)**
Net Cash Flows from Operating Activities	**2,096**	**2,033**	**1,642**	**1,598**	**1,520**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	858	652	652	541	491
Purchases of Non-Financial Assets	(7,702)	(7,081)	(7,286)	(5,879)	(4,531)
Net Cash Flows from Investments in Non-Financial Assets	**(6,845)**	**(6,429)**	**(6,633)**	**(5,337)**	**(4,040)**
Cash Flows from Investments from Financial Assets for Policy Purposes					
Receipts	...	...	0	...	...
Payments	(6)	(21)	(5)	(3)	(3)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(6)**	**(21)**	**(5)**	**(3)**	**(3)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	220	375	87	79	97
Payments for Purchases of Investments	(175)	(276)	(28)	(53)	(55)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**45**	**99**	**59**	**26**	**42**
Net Cash Flows from Investing Activities	**(6,805)**	**(6,351)**	**(6,579)**	**(5,315)**	**(4,000)**
Cash Flows from Financing Activities					
Advances Received	3,057	3,002	2,234	2,208	2,098
Advances Repaid	(302)	(234)	(105)	(61)	(31)
Proceeds from Borrowings	2,414	2,174	3,309	3,109	923
Repayments of Borrowings	(130)	(177)	(142)	(1,176)	(284)
Dividends Paid	(717)	(717)	(571)	(602)	(673)
Deposits Received (net)	(14)	(3)	(4)	0	(1)
Other Financing (net)	...	...	...	...	...
Net Cash Flows from Financing Activities	**4,308**	**4,044**	**4,722**	**3,479**	**2,033**
Net Increase/(Decrease) in Cash Held	**(401)**	**(273)**	**(216)**	**(238)**	**(447)**

Table B.7: Public non-financial corporation sector cash flow statement (cont)

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows from Operating Activities	2,096	2,033	1,642	1,598	1,520
Net Cash Flows from Investments in Non-Financial Assets	(6,845)	(6,429)	(6,633)	(5,337)	(4,040)
Dividends Paid	(717)	(717)	(571)	(602)	(673)
Cash Surplus/(Deficit)	**(5,466)**	**(5,113)**	**(5,563)**	**(4,341)**	**(3,192)**

Table B.8: Derivation of ABS GFS public non-financial corporation sector cash surplus/(deficit)

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Cash Surplus/(Deficit)	**(5,466)**	**(5,113)**	**(5,563)**	**(4,341)**	**(3,192)**
Assets Acquired under Finance Leases	(1,570)	(1,570)	(11)	(110)	...
Other Financing Arrangements(a)	(50)	5	(17)	27	8
ABS GFS Surplus/(Deficit)	**(7,086)**	**(6,679)**	**(5,590)**	**(4,424)**	**(3,185)**

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

Table B.9: Non-financial public sector operating statement

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	28,931	29,456	30,539	31,747	33,229
Grants and Subsidies					
- Commonwealth General Purpose	17,663	17,438	17,641	17,643	17,862
- Commonwealth Specific Purpose Payments	9,272	9,403	9,815	9,763	10,247
- Commonwealth National Partnership Payments	4,682	4,690	3,554	1,543	1,510
- Other Grants and Subsidies	351	597	520	570	551
Sale of Goods and Services	15,831	13,994	14,298	14,669	15,290
Interest	890	728	502	432	426
Dividend and Income Tax Equivalents from Other Sectors	79	80	83	89	94
Other Dividends and Distributions	441	619	964	1,034	1,072
Fines, Regulatory Fees and Other	5,045	5,033	5,108	5,218	5,439
Total Revenues from Transactions	**83,185**	**82,039**	**83,024**	**82,708**	**85,719**
Expenses from Transactions					
Employee	32,732	32,739	34,836	36,499	37,917
Superannuation					
- Superannuation Interest Cost	1,501	1,381	1,407	1,495	1,531
- Other Superannuation	3,256	3,234	3,127	3,136	3,164
Depreciation and Amortisation	7,938	7,383	7,846	8,181	8,676
Interest	3,683	3,308	3,428	3,559	3,879
Other Operating	22,262	21,585	21,610	21,059	21,576
Grants and Subsidies					
- Current Grants and Subsidies	9,686	9,620	10,218	8,910	9,340
- Capital Grants	727	801	705	615	598
Total Expenses from Transactions	**81,786**	**80,052**	**83,177**	**83,453**	**86,682**
Transactions from Discontinuing Operations	...	407	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**1,400**	**2,394**	**(153)**	**(745)**	**(963)**

Table B.9: Non-financial public sector operating statement (cont)

	2016-17 Budget $m	2016-17 Revised $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Superannuation	...	...	...	...	...
Gain/(Loss) from Other Liabilities	277	189	336	323	309
Other Net Gains/(Losses)	490	4,874	603	329	137
Share of Earnings from Associates (excluding Dividends)	13	38	5	48	38
Dividends from Asset Sale Proceeds	...	...	(1)	...	...
Other	(37)	(29)	(31)	(32)	(32)
Discontinuing Operations - Other Economic Flows	...	(678)	...	...	...
Other Economic Flows - Included in the Operating Result	**743**	**4,394**	**912**	**667**	**453**
Operating Result	**2,143**	**6,788**	**759**	**(77)**	**(510)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to the Operating Result					
Superannuation Actuarial Gain/(Loss)	9,282	7,936	8,380	7,487	6,667
Deferred Tax Direct to Equity	...	(13)	16	3	4
Revaluations	6,483	6,195	5,168	6,166	5,981
Items that may be Reclassified Subsequently to the Operating Result					
Net Gain/(Loss) on Equity Investments in Other Sectors	1,859	2,603	2,062	1,821	1,745
Net Gain/(Loss) on Financial Instruments at Fair Value	3	3	1	1	0
Other	(888)	(903)	111	(13)	5
Other Economic Flows - Other Comprehensive Income	**16,739**	**15,822**	**15,737**	**15,463**	**14,403**
Comprehensive Result - Total Change in Net Worth [(a)]	**18,882**	**22,610**	**16,496**	**15,386**	**13,893**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**18,882**	**22,610**	**16,496**	**15,386**	**13,893**
Less: Net Other Economic Flows	(17,482)	(20,216)	(16,648)	(16,131)	(14,855)
Equals: Net Operating Balance	**1,400**	**2,394**	**(153)**	**(745)**	**(963)**
Less: Net Acquisition of Non-Financial Assets					
Purchases of Non-Financial Assets	20,106	19,704	19,885	15,389	12,731
Sales of Non-Financial Assets	(1,520)	(1,701)	(982)	(966)	(763)
Less: Depreciation	(7,938)	(7,383)	(7,846)	(8,181)	(8,676)
Plus : Change in Inventories	2	(46)	156	97	505
Plus : Other Movements in Non-Financial Assets					
- Assets Acquired Using Finance Leases	1,726	1,712	138	3,527	154
- Other	596	568	445	557	562
Equals: Total Net Acquisition of Non-Financial Assets	**12,972**	**12,854**	**11,795**	**10,424**	**4,514**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(11,572)**	**(10,460)**	**(11,948)**	**(11,169)**	**(5,476)**
OTHER AGGREGATES					
Capital Expenditure [(b)]	21,833	21,416	20,023	18,917	12,885

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

Table B.10: Non-financial public sector balance sheet

	June 2017 Budget $m	June 2017 Revised $m	June 2018 $m	June 2019 Forward Estimates $m	June 2020 $m
Assets					
Financial Assets					
Cash and Cash Equivalent Assets	3,714	4,087	3,925	3,591	2,741
Receivables	5,408	5,176	4,886	4,688	4,539
Investments, Loans and Placements					
Financial Assets at Fair Value	18,715	25,430	22,596	20,709	18,300
Other Financial Assets	5,344	5,844	3,292	1,795	1,834
Advances Paid	847	795	917	871	999
Deferred Tax Equivalents Assets	1	1	1	1	1
Equity					
Investments in Other Public Sector Entities	(252)	63	2,125	3,945	5,691
Investments in Associates	3,927	7,646	7,644	7,660	7,667
Other Financial Assets	714	632	661	692	724
Total Financial Assets	**38,418**	**49,675**	**46,047**	**43,953**	**42,496**
Non-Financial Assets					
Inventories	791	820	852	841	1,236
Forestry Stock and Other Biological Assets	909	956	955	955	955
Assets Classified as Held for Sale	177	315	293	264	263
Investment Properties	530	471	429	408	418
Property, Plant and Equipment					
Land and Buildings	138,640	140,173	144,573	147,338	149,882
Plant and Equipment	18,771	18,014	18,031	18,200	18,286
Infrastructure Systems	165,883	148,202	160,044	175,430	182,179
Intangibles	4,515	4,439	4,262	3,924	3,554
Other Non-Financial Assets	4,695	4,951	6,136	4,669	5,005
Total Non-Financial Assets	**334,911**	**318,341**	**335,575**	**352,029**	**361,778**
Total Assets	**373,329**	**368,016**	**381,622**	**395,982**	**404,274**
Liabilities					
Deposits Held	146	146	131	119	125
Payables	6,764	7,071	7,096	6,863	6,693
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...
Borrowings and Derivatives at Fair Value	573	837	2,422	3,246	3,436
Borrowings at Amortised Cost	68,758	58,983	63,080	69,082	69,995
Advances Received	873	859	829	724	791
Employee Provisions	18,003	18,298	18,191	18,210	18,273
Superannuation Provisions [(a)]	58,091	63,478	55,153	47,825	41,297
Deferred Tax Equivalent Provisions	6	7	7	7	7
Other Provisions	9,034	8,872	8,840	8,897	9,149
Other Liabilities	3,220	3,236	3,148	3,018	2,958
Total Liabilities	**165,468**	**161,787**	**158,897**	**157,991**	**152,725**
NET ASSETS	**207,861**	**206,229**	**222,724**	**237,990**	**251,549**
NET WORTH					
Accumulated Funds	69,376	73,387	82,901	90,533	96,580
Reserves	138,485	132,842	139,824	147,457	154,969
TOTAL NET WORTH	**207,861**	**206,229**	**222,724**	**237,990**	**251,549**
OTHER KEY AGGREGATES					
Net Financial Worth [(b)]	**(127,050)**	**(112,112)**	**(112,850)**	**(114,038)**	**(110,229)**
Net Debt [(c)]	**41,729**	**24,668**	**35,731**	**46,205**	**50,472**
Net Financial Liabilities [(d)]	**126,798**	**112,175**	**114,975**	**117,984**	**115,919**

(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 B.11: Non-financial public sector cash flow statement

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxes Received	29,001	29,521	30,619	31,841	33,329
Receipts from Sales of Goods and Services	17,207	16,227	15,386	15,792	15,993
Grants and Subsidies Received	32,010	32,075	31,500	29,463	30,149
Interest Receipts	847	747	538	410	441
Dividends and Income Tax Equivalents	48	56	81	84	90
Other Receipts	9,224	9,489	9,429	9,650	9,761
Total Operating Receipts	**88,337**	**88,116**	**87,551**	**87,240**	**89,764**
Cash Payments from Operating Activities					
Payments for Employees	(32,541)	(32,255)	(34,774)	(36,223)	(37,578)
Payments for Superannuation	(3,838)	(4,327)	(4,480)	(4,472)	(4,557)
Payments for Goods and Services	(25,407)	(25,331)	(24,721)	(24,140)	(23,818)
Grants and Subsidies Paid	(8,059)	(7,969)	(8,261)	(7,101)	(7,414)
Interest Paid	(3,166)	(2,940)	(2,754)	(2,890)	(3,208)
Other Payments	(5,822)	(5,702)	(5,291)	(5,336)	(5,252)
Total Operating Payments	**(78,834)**	**(78,524)**	**(80,281)**	**(80,163)**	**(81,828)**
Net Cash Flows from Operating Activities	**9,503**	**9,592**	**7,270**	**7,078**	**7,936**
Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	1,520	1,464	1,064	1,047	844
Purchases of Non-Financial Assets	(19,934)	(19,602)	(19,815)	(15,321)	(13,117)
Net Cash Flows from Investments in Non-Financial Assets	**(18,413)**	**(18,138)**	**(18,750)**	**(14,274)**	**(12,273)**
Cash Flows from Investments from Financial Assets for Policy Purposes					
Receipts	159	5,717	161	222	280
Payments	(1,349)	(1,372)	(492)	(299)	(360)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(1,190)**	**4,346**	**(331)**	**(77)**	**(80)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	10,772	11,879	7,152	4,869	3,981
Payments for Purchases of Investments	(9,265)	(15,476)	(1,117)	(1,014)	(996)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**1,507**	**(3,597)**	**6,035**	**3,854**	**2,985**
Net Cash Flows from Investing Activities	**(18,097)**	**(17,390)**	**(13,046)**	**(10,498)**	**(9,368)**
Cash Flows from Financing Activities					
Advances Received	995	979	263	142	28
Advances Repaid	(57)	(51)	(54)	(54)	(54)
Proceeds from Borrowings	3,733	3,687	6,150	4,927	1,763
Repayments of Borrowings	(635)	(651)	(797)	(1,781)	(964)
Deposits Received (net)	(25)	(14)	(16)	(13)	4
Other Financing (net)	...	(2)	...	(120)	(143)
Net Cash Flows from Financing Activities	**4,011**	**3,948**	**5,546**	**3,101**	**634**
Net Increase/(Decrease) in Cash Held	**(4,583)**	**(3,851)**	**(230)**	**(319)**	**(797)**

Table B.11: Non-financial public sector cash flow statement (cont)

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows from Operating Activities	9,503	9,592	7,270	7,078	7,936
Net Cash Flows from Investments in Non-Financial Assets	(18,413)	(18,138)	(18,750)	(14,274)	(12,273)
Cash Surplus/(Deficit)	**(8,910)**	**(8,546)**	**(11,480)**	**(7,197)**	**(4,337)**

Table B.12: Derivation of ABS GFS non-financial public sector cash surplus/(deficit)

	2016-17 Budget	2016-17 Revised	2017-18	2018-19 Forward Estimates	2019-20
	$m	$m	$m	$m	$m
Cash Surplus/(Deficit)	**(8,910)**	**(8,546)**	**(11,480)**	**(7,197)**	**(4,337)**
Assets Acquired under Finance Leases	(1,726)	(1,712)	(138)	(3,527)	(154)
Other Financing Arrangements[a]	(173)	136	(153)	(149)	305
ABS GFS Surplus/(Deficit)	**(10,809)**	**(10,123)**	**(11,771)**	**(10,873)**	**(4,186)**

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

B.2 Loan Council Allocation

Table B.13 presents the Budget estimates of the State's Loan Council Allocation (LCA) for 2016-17 and a revised estimate taking into account recent fiscal and economic developments.

Overall, the LCA for 2016-17 is estimated to be a $7.5 billion deficit. This is an improvement of $6.4 billion on the Budget estimate of a $13.9 billion deficit. The variance is outside the tolerance limit of $1.7 billion set by the Loan Council. This tolerance limit is calculated as 2 per cent of cash receipts from operating activities for the non-financial public sector.

The variance is largely due to:

- The $5.5 billion improvement in cash flows from investments in financial assets for policy purposes primarily driven by the partial long-term lease Ausgrid. In accordance with normal practice, such transactions are not included in budget estimates for commerciality reasons.
- A $0.5 billion improvement in the GGS cash flows mainly related to increased revenues from stamp duty related to the Ausgrid transaction.
- A $0.4 billion decrease in the PNFC cash deficit largely related to improved timing of capital expenditure payments to suppliers.
- The memorandum items included in the LCA were mainly impacted by a decrease in the value of financial assets of $0.2 billion from the Budget time estimate. A higher than estimated rate of earnings by the State Super Schemes is offset by a projected increase in University borrowings.

Table B.13: Loan Council Allocation estimates[(a)]

		2015-16 Actual	2016-17 Budget-time Estimate	2016-17 Half-Yearly Estimate
		$m	$m	$m
	General Government Sector Cash Deficit/(Surplus)	(2,894)	3,444	3,027
	Public Non-Financial Corporations Sector Cash Deficit/(Surplus)	4,906	5,466	5,113
	Non-Financial Public Sector Cash Deficit/(Surplus)[(b)]	**1,841**	**8,910**	**8,546**
	Acquisitions Under Finance Leases and Similar Arrangements[(c)]	453	1,899	1,577
Equals:	**ABS GFS Cash Deficit/(Surplus)**	**2,294**	**10,809**	**10,123**
Minus:	Net Cash Flows From Investments in Financial Assets For Policy Purposes[(d)]	8,229	(1,190)	4,346
Plus:	Memorandum Items[(e)]	3,785	1,930	1,759
	Loan Council Allocation	**(2,150)**	**13,929**	**7,536**

(a) Cash surplus/deficits and finance leases are displayed with the opposite sign to that under which they are reported in cash flow statements. That is, a surplus is displayed as a negative number.

(b) The non-financial public sector cash surplus/(deficit) may not directly equate to the sum of the general government and public non-financial corporation sectors' cash deficits due to intersectoral transfers which are netted out.

(c) 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.

(d) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as reported in cash flow statements.

(e) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute 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 an 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, LCAs.

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

Contracts expected to be entered into in 2016-17

Nil.

Expected Government Contingent Liability	Nil

C. VARIATIONS ON REVISED 2016-17 BUDGET

C.1 Revised 2016-17 Budget

The revised budget result for 2016-17 is a surplus of $4.0 billion compared to a forecast surplus of $3.7 billion at the time of the 2016-17 Budget.

Total revenue in 2016-17 is estimated to be $77.5 billion, which is $0.5 billion higher than the budget estimate of $77.0 billion.

Total expenses in 2016-17 are estimated to be $73.5 billion, which is $0.2 billion higher than the budget estimate of $73.3 billion.

C.2 Operating statement

Total revenue in 2016-17 is forecast to be higher than estimated at the time of the Budget largely due to:

- higher than anticipated transfer duty receipts largely relating to the partial long-term lease of Ausgrid
- upward revisions of land tax receipts due to growth in land value in 2015-16
- increased distributions, largely relating to higher returns from Restart NSW and private sector investments
- higher forecast of mining royalty revenue reflecting higher coal prices, partly offset by higher exchange rates and lower coal export volumes
- higher revenue from sales of goods, including transport fee for services revenue.

Offset by:

- reduced GST grants revenue relating to lower than expected GST collections in 2015-16 and 2016-17
- lower interest income due to changed investment practices of the Government, with funds deposited in higher return investments, resulting in returns as distributions revenue rather than interest
- lower dividend and tax equivalent payments from Ausgrid following the successful partial lease.

Total expenses in 2016-17 are forecast to be higher than estimated at the time of the Budget, primarily due to new policy decisions in key service areas including transport, regional and community services which increase total expenses by $242.6 million.

C.3 Balance sheet

Proceeds from the partial lease of Ausgrid have boosted the Government's financial assets. This transaction also varies the composition of the Government's equity assets.

Superannuation liabilities are higher due to lower forecast government bond rates for 30 June 2017 along with changes in actuarial assumptions and investments returns, which increase the value of defined benefit superannuation liabilities.

C.4 Cash flow statement

The improvement in the cash position is primarily driven by proceeds from asset sales and leases, higher dividends and distribution revenue and increased transfer duty. As part of the Government's financial management reforms, funds from major transactions are invested in Restart NSW to generate higher investment returns, further increasing the cash and investment position for reinvestment.

Table C.1: General government sector operating statement

	2015-16 Actual $m	2016-17 Budget $m	Revised $m	Variance $m	Variance %	4 Months to 31/10/2016 Actual $m
Revenue from Transactions						
Taxation	29,081	29,759	30,120	362	1.2	9,165
Grants and Subsidies						
- Commonwealth General Purpose	17,637	17,663	17,438	(225)	(1.3)	5,878
- Commonwealth Specific Purpose Payments	8,927	9,272	9,403	131	1.4	3,090
- Commonwealth National Partnership Payments	2,608	4,682	4,690	8	0.2	203
- Other Grants and Subsidies	925	727	856	130	17.9	329
Sale of Goods and Services	8,379	8,296	8,390	94	1.1	2,754
Interest	780	914	731	(183)	(20.0)	263
Dividend and Income Tax Equivalents from Other Sectors	1,280	1,173	1,066	(107)	(9.1)	364
Other Dividends and Distributions	674	441	619	178	40.4	60
Fines, Regulatory Fees and Other	4,043	4,078	4,185	108	2.6	1,283
Total Revenue from Transactions	**74,334**	**77,005**	**77,499**	**494**	**0.6**	**23,390**
Expenses from Transactions						
Employee	29,618	30,058	30,270	212	0.7	9,878
Superannuation						
- Superannuation Interest Cost	1,504	1,436	1,326	(110)	(7.7)	438
- Other Superannuation	2,935	3,001	3,043	42	1.4	975
Depreciation and Amortisation	4,394	4,608	4,588	(20)	(0.4)	1,506
Interest	2,206	2,165	2,123	(42)	(1.9)	672
Other Property	...	...	...	...	...	...
Other Operating	16,862	18,656	18,814	158	0.8	5,717
Grants and Subsidies						
- Current Grants and Subsidies	11,386	12,367	12,321	(46)	(0.4)	3,867
- Capital Grants	769	1,000	1,041	41	4.1	177
Total Expenses from Transactions	**69,675**	**73,292**	**73,526**	**234**	**0.3**	**23,230**
Transactions from Discontinuing Operations	...	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Result]	**4,659**	**3,713**	**3,973**	**260**	**7.0**	**160**

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

	2015-16 Actual	2016-17 Budget	Revised	Variance	Variance	4 Months to 31/10/2016 Actual
	$m	$m	$m	$m	%	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(1,037)	277	189	(88)	(31.9)	62
Other Net Gains/(Losses)	(127)	(182)	270	452	(248.3)	304
Share of Earnings from Associates (excluding Dividends)	11	13	38	25	182.5	9
Dividends from Asset Sale Proceeds	...	271	204	(67)	(24.8)	...
Deferred Income Tax from Other Sectors	(691)	97	(948)	(1,045)	(1,072.6)	12
Other	(61)	(34)	(29)	5	(14.9)	13
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - Included in the Operating Result	**(1,904)**	**443**	**(277)**	**(720)**	**(162.4)**	**401**
Operating Result	**2,755**	**4,156**	**3,696**	**(460)**	**(11.1)**	**561**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to the Operating Result						
Superannuation Actuarial Gain/(Loss)	(14,331)	8,657	7,554	(1,103)	(12.7)	2,518
Revaluations	2,813	4,161	4,045	(116)	(2.8)	(19)
Share of Earnings from Associates from Revaluations	(106)	...	...	...	...	...
Items that may be Reclassified Subsequently to the Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	5,740	4,906	10,212	5,305	108.1	2,114
Net Gain/(Loss) on Equity Investments in Other Sectors Discontinued	3,606	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	1	...	...	...	...	(1)
Other	(2)	(3,945)	(3,916)	29	(0.7)	(1,278)
Other Economic Flows - Other Comprehensive Income	**(2,279)**	**13,778**	**17,894**	**4,116**	**29.9**	**3,334**
Comprehensive Result - Total Change in Net Worth	**476**	**17,934**	**21,591**	**3,657**	**20.4**	**3,895**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**476**	**17,934**	**21,591**	**3,657**	**20.4**	**3,895**
less: Net Other Economic Flows	4,183	(14,221)	(17,618)	(3,397)	23.9	(3,735)
Equals: Budget Result - Net Operating Balance	**4,659**	**3,713**	**3,973**	**260**	**7.0**	**160**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	9,032	12,358	12,633	275	2.2	2,706
Sales of Non-Financial Assets	(892)	(663)	(1,050)	(388)	58.5	(588)
Less: Depreciation	(4,394)	(4,608)	(4,588)	20	(0.4)	(1,506)
Plus : Change in Inventories	24	(8)	(5)	2	(29.6)	(1)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	304	156	142	(14)	(8.9)	12
- Other	184	106	130	24	22.1	98
Equals: Total Net Acquisition of Non-Financial Assets	**4,258**	**7,341**	**7,261**	**(80)**	**(1.1)**	**722**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**401**	**(3,628)**	**(3,288)**	**340**	**(9.4)**	**(562)**
OTHER AGGREGATES						
Capital Expenditure	9,336	12,514	12,775	261	2.1	2,718

Table C.2: General government sector balance sheet

	2016 Actual $m	June 2017 Budget $m	Revised $m	Variance $m	Variance %	October 2016 Actual $m
ASSETS						
Financial Assets						
Cash and Cash Equivalent Assets	5,260	1,582	1,760	178	11.2	4,045
Receivables	5,853	5,885	5,618	(267)	(4.5)	6,206
Tax Equivalents Receivable	104	98	59	(39)	(40.0)	114
Investments, Loans and Placements						
Financial Assets at Fair Value	10,545	18,613	25,413	6,800	36.5	13,525
Other Financial Assets	16,016	5,087	5,481	394	7.7	14,807
Advances Paid	1,064	1,237	1,184	(52)	(4.2)	1,036
Deferred Tax Equivalents Assets	3,919	3,955	2,737	(1,219)	(30.8)	3,940
Equity						
Investments in Other Public Sector Entities	97,750	102,380	98,870	(3,510)	(3.4)	99,910
Investments in Other Public Sector - Held for Sale	...	...	...	...	...	...
Investments in Associates	3,783	3,927	7,646	3,719	94.7	3,783
Other Equity Investments	605	562	632	70	12.5	614
Total Financial Assets	**144,899**	**143,326**	**149,400**	**6,074**	**4.2**	**147,980**
Non-Financial Assets						
Inventories	263	232	258	26	11.0	262
Forestry Stock and Other Biological Assets	11	10	11	1	5.3	11
Assets Classified as Held for Sale	432	84	187	103	121.5	105
Investment Properties	...	3	...	(3)	(100.0)	...
Property, Plant and Equipment						
Land and Buildings	70,617	72,032	72,855	823	1.1	70,717
Plant and Equipment	11,408	12,530	12,337	(193)	(1.5)	11,279
Infrastructure Systems	82,389	91,664	89,213	(2,451)	(2.7)	83,431
Intangibles	3,093	3,475	3,489	14	0.4	3,138
Other Non-Financial Assets	3,418	4,509	4,793	285	6.3	3,888
Total Non-Financial Assets	**171,631**	**184,539**	**183,143**	**(1,396)**	**(0.8)**	**172,831**
TOTAL ASSETS	**316,530**	**327,865**	**332,543**	**4,678**	**1.4**	**320,810**
LIABILITIES						
Deposits Held	126	113	116	3	2.7	127
Payables	5,617	4,917	5,451	534	10.9	5,440
Tax Equivalent Payables	3	9	28	19	211.0	21
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	8	6	7	0	6.5	9
Borrowings at Amortised Cost	31,836	33,067	33,301	234	0.7	34,652
Advances Received	857	873	859	(14)	(1.6)	867
Employee Provisions	16,794	16,519	17,040	521	3.2	16,764
Superannuation Provision	67,862	55,510	60,733	5,224	9.4	65,540
Deferred Tax Equivalent Provision	337	280	112	(168)	(59.9)	348
Other Provisions	8,429	8,684	8,579	(105)	(1.2)	8,431
Other Liabilities	2,861	2,910	2,918	8	0.3	2,908
TOTAL LIABILITIES	**134,731**	**122,887**	**129,144**	**6,257**	**5.1**	**135,106**
NET ASSETS	**181,799**	**204,978**	**203,399**	**(1,579)**	**(0.8)**	**185,704**
NET WORTH						
Accumulated Funds	11,150	24,536	28,544	4,009	16.3	12,940
Reserves	170,649	180,443	174,855	(5,588)	(3.1)	172,763
TOTAL NET WORTH	**181,799**	**204,978**	**203,399**	**(1,579)**	**(0.8)**	**185,704**
OTHER KEY AGGREGATES						
Net Financial Worth[(a)]	**10,168**	**20,440**	**20,256**	**(183)**	**(0.9)**	**12,873**
Net Debt[(b)]	**(57)**	**7,539**	**443**	**(7,096)**	**(94.1)**	**2,241**
Net Financial Liabilities[(c)]	**87,582**	**81,940**	**78,614**	**(3,326)**	**(4.1)**	**87,037**

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

Table C.3: General government sector cash flow statement

	2015-16 Actual $m	2016-17 Budget $m	Revised $m	Variance $m	Variance %	4 Months to 31/10/2016 Actual $m
Cash Receipts from Operating Activities						
Taxes Received	29,640	29,742	30,313	571	1.9	9,397
Receipts from Sales of Goods and Services	8,990	8,776	8,901	125	1.4	2,369
Grants and Subsidies Received	30,211	32,317	32,372	54	0.2	9,492
Interest Receipts	575	862	743	(119)	(13.8)	170
Dividends and Income Tax Equivalents	2,248	1,178	1,232	54	4.6	477
Other Receipts	8,006	7,535	7,773	238	3.2	2,755
Total Cash Receipts from Operating Activities	**79,670**	**80,411**	**81,334**	**924**	**1.1**	**24,661**
Cash Payments from Operating Activities						
Payments for Employees	(29,394)	(29,834)	(29,862)	(28)	0.1	(9,544)
Payments for Superannuation	(3,874)	(3,592)	(3,892)	(299)	8.3	(1,165)
Payments for Goods and Services	(18,886)	(21,716)	(22,091)	(375)	1.7	(6,944)
Grants and Subsidies Paid	(10,216)	(10,896)	(10,782)	114	(1.0)	(3,352)
Interest Paid	(1,690)	(1,628)	(1,611)	17	(1.1)	(565)
Other Payments	(4,762)	(4,616)	(4,410)	206	(4.5)	(1,613)
Total Cash Payments from Operating Activities	**(68,822)**	**(72,282)**	**(72,648)**	**(366)**	**0.5**	**(23,182)**
Net Cash Flows from Operating Activities	**10,848**	**8,129**	**8,686**	**558**	**6.9**	**1,479**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	903	663	811	148	22.4	359
Purchases of Non-Financial Assets	(8,857)	(12,235)	(12,525)	(289)	2.4	(2,970)
Net Cash Flows from Investments in Non-Financial Assets	**(7,954)**	**(11,572)**	**(11,713)**	**(141)**	**1.2**	**(2,611)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	6,314	461	5,570	5,110	1,108.8	139
Payments	(3,576)	(3,453)	(3,420)	33	(0.9)	(1,617)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**2,738**	**(2,992)**	**2,150**	**5,142**	**(171.9)**	**(1,477)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	9,531	10,595	11,647	1,052	9.9	1,619
Payments for Purchases of Investments	(22,174)	(9,091)	(15,301)	(6,210)	68.3	(3,137)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(12,643)**	**1,504**	**(3,654)**	**(5,158)**	**(343.0)**	**(1,518)**
Net Cash Flows from Investing Activities	**(17,859)**	**(13,061)**	**(13,218)**	**(157)**	**1.2**	**(5,607)**
Cash Flows from Financing Activities						
Advances Received	45	47	48	0	0.9	0
Advances Repaid	(134)	(57)	(51)	6	(10.3)	(3)
Proceeds from Borrowings	435	1,319	1,513	193	14.7	2,895
Repayments of Borrowings	(487)	(547)	(517)	30	(5.6)	(171)
Deposits Received (net)	(1)	(11)	(11)	0	(0.7)	1
Other Financing (net)	0	...	(2)	(2)	...	(2)
Net Cash Flows from Financing Activities	**(141)**	**751**	**979**	**228**	**30.3**	**2,719**
Net Increase/(Decrease) in Cash Held	**(7,153)**	**(4,181)**	**(3,552)**	**628**	**(15.0)**	**(1,409)**

Table C.3: General government sector cash flow statement (cont)

	2015-16 Actual	2016-17 Budget	2016-17 Revised	Variance	Variance	4 Months to 31/10/2016 Actual
	$m	$m	$m	$m	%	$m
Derivation of Cash Result						
Net Cash Flows from Operating Activities	10,848	8,129	8,686	558	6.9	1,479
Net Cash Flows from Investments in Non-Financial Assets	(7,954)	(11,572)	(11,713)	(141)	1.2	(2,611)
Cash Surplus/(Deficit)	**2,894**	**(3,444)**	**(3,027)**	**417**	**(12.1)**	**(1,132)**

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

	2015-16 Actual	2016-17 Budget	2016-17 Revised	Variance	Variance	4 Months to 31/10/2016 Actual
	$m	$m	$m	$m	%	$m
Cash Surplus/(Deficit)	**2,894**	**(3,444)**	**(3,027)**	**417**	**(12.1)**	**(1,132)**
Assets Acquired under Finance Leases	(304)	(156)	(142)	14	(8.9)	(12)
Other Financing Arrangements[(a)]	(186)	(123)	131	253	(206.4)	492
ABS GFS Surplus/(Deficit)	**2,404**	**(3,722)**	**(3,038)**	**684**	**(18.4)**	**(652)**

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