Budget Statement

2019-20

NSW

Budget Paper No. 1

Circulated by The Hon. Dominic Perrottet MP, Treasurer

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ABOUT THIS BUDGET PAPER

Purpose and scope

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

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

The scope of the Budget is the general government sector. However, this budget paper also includes Estimated Financial Statements for the public non-financial corporations (PNFC) and the public financial corporations (PFC) sectors. The statements provide a comprehensive picture of the State's fiscal position and strategy.

In this Budget, the Government has identified a number of priority projects for which it has reserved Restart NSW funding. The budget estimates include the estimated direct budget impact of spending funds reserved in Restart NSW. Funding has been reserved with a view to future Restart NSW commitments being made. Restart NSW commitments can only be made following completion of project development and assurance processes, including final business case approval.

Where reference is made to revised forecasts, unless otherwise stated, the comparison is made to the 2019 Pre-election Budget Update – released on Tuesday, 5 March 2019. The exception is Chapter 8 Commercial Performance in the Broader Public Sector. As the Pre-election Budget Update only updated fiscal information for the general government sector, any reference to revised forecasts in that chapter are to the 2018-19 Half-Yearly Review.

Changes to cluster and agency arrangements

Following the Government's re-election, a number of Orders were gazetted for Administrative Arrangement Changes. These Orders established new Departments, abolished some existing Departments and transferred functions across Agencies. The Ministerial changes order commenced on 2 April 2019 and the public service agencies order commences on 1 July 2019.

While the administrative changes affect the presentation of other Budget Papers, they do not materially impact the presentation of the consolidated financial aggregates as presented in Budget Paper No.1 *Budget Statement*.

For more detailed explanations of the changes, refer to About this Budget Paper in Budget Paper No. 3 *Budget Estimates*.

Reporting of Budget data

The Estimated Financial Statements in these budget papers are prepared on an accrual basis of accounting, in accordance with Australian Accounting Standards, the Uniform Presentation Framework and the principles and rules contained in the Australia Bureau of Statistics, Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (Cat. No. 5514) (ABS-GFS Manual).

Aggregated financial data is presented on an eliminated basis – that is, intra government transactions between entities are eliminated.

From 1 July 2019, the State applies AASB 15 *Revenue from Contracts with Customers* (AASB 15), AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and AASB 16 *Leases* (AASB 16). The new accounting standards have been applied to 2019-20 estimates and forward estimates in the Estimated Financial Statements (see Appendix A1). The revised estimates for 2018-19 do not reflect the impact of the changes to the accounting standards.

Notes

- The budget year refers to 2019-20, while the forward estimates period refers to 2020-21, 2021-22 and 2022-23. Figures in tables, charts and text may have been rounded. Discrepancies between totals and the sum of components reflect rounding:
  - estimates under $100,000 are rounded to the nearest thousand
  - estimates midway between rounding points are rounded up
  - percentages are based on the underlying unrounded values.
- For the budget result, parentheses indicate a deficit, while no sign indicates a surplus.
- One billion equals one thousand million.
- The following notations are used:
  - n.a. means data is not available
  - N/A means not applicable
  - no. means number
  - 0 means not zero, but rounded to zero
  - … means zero
  - ‘000 means thousand
  - $m means millions of dollars
  - $b means billions of dollars.
- Differences between harmonised government finance statistics (GFS) and generally accepted accounting principles (GAAP) information, as shown in the budget papers, and pure GFS information, as reported by the Australian Bureau of Statistics, are known as convergence differences. Such differences are not departures from Accounting Standards but merely variations in measurement or treatments between GAAP and GFS frameworks. Details of these main convergence differences between GAAP and GFS are explained in Appendix A.
- Unless otherwise indicated, the data source for tables and charts is NSW Treasury.

1. BUDGET OVERVIEW

1.1 Delivering on our promises, maintaining budget discipline

After being re-elected for a third term in March 2019, the NSW Government is getting on with the job of building a better New South Wales for communities across the State.

The 2019-20 Budget continues the Government's legacy of strong financial management, delivering its election commitments, making unprecedented investments in frontline services and infrastructure, easing the cost of living for families and cutting taxes. At the same time, the Government is also laying the foundations for a stronger economic and financial future.

The Budget delivers sustainable operating surpluses – averaging $1.7 billion per annum over the next four years. New South Wales continues to have the lowest net debt in Australia, projected to be negative $8.8 billion at June 2019. The State is now one of only five sub-national jurisdictions around the world to have the highest possible credit rating, rated triple-A by both major credit ratings agencies.

Families and communities across New South Wales are seeing tangible benefits following eight years of Government fiscal discipline, as the proceeds of the Government's successful asset recycling program bear fruit in the form of new transformational infrastructure like North West Metro, which opened in May this year. The 2019-20 Budget builds on this momentum by projecting the largest infrastructure program in the State's history at $93.0 billion over the next four years.

This once-in-a-generation infrastructure program includes continued construction of new and upgraded schools and hospitals on a historic scale. The Government is also making record levels of investment in rural and regional areas, including replacing country bridges, repairing local roads and investing in regional water security, to create new and better economic opportunities in our regions.

Through careful management and ongoing discipline, the infrastructure program is being rolled out without burdening future generations with excessive debt, while also steadily increasing the value of the overall asset base owned by the people of New South Wales. The State's net worth has surpassed a quarter of a trillion dollars, the highest of any Australian state, and continues to grow towards one third of a trillion dollars by June 2023.

This Budget also ensures the people of New South Wales will benefit from exceptional services, no matter where they live or what their circumstances. A massive increase in frontline personnel includes 4,600 extra teachers, 5,000 extra nurses and midwives and 1,500 more police.

This Budget delivers much needed drought assistance to help communities across regional New South Wales.

Households will benefit from more cost saving measures like doubling the $100 Active Kids Rebate voucher and the new $50 weekly Opal Travel cap. The Government's commitment to reducing the cost of living means the Budget invests in better services and world-class infrastructure without increasing taxes or imposing new fees or charges.

Despite a period of exceptional growth, the New South Wales economy is not immune to the global and local headwinds affecting the nation as a whole. A moderating housing market has resulted in revisions to revenue forecasts, as has the recent announcement by the Commonwealth Government of reductions in forecast GST receipts. Significant drought conditions continue to impact the State, especially regional communities. This Budget responds to these fiscal pressures by maintaining responsible levels of public expenditure and reinforcing the State's strong fiscal foundations to ensure New South Wales remains well placed to manage future economic headwinds and revenue volatility.

This Budget further advances expenditure and balance sheet reforms already underway, while also opening new avenues of economic and revenue reform. In doing so, the Government continues to lay foundations for a stronger future for our State and its people.

This Budget introduces a four pillar strategy to ensure a sustainable fiscal and economic future for New South Wales:

- the NSW Economic Blueprint – a roadmap to deliver the next wave of state economic growth, identifying emerging opportunities and a pathway to capitalise on them
- the NSW Generations Fund (NGF) – an innovative approach to balance sheet reform that helps maintain debt at sustainable levels consistent with a triple-A credit rating and helps lower the debt burden for future generations
- a Review of Federal Financial Relations from a state perspective – an independent panel will provide the people of our State with options to give New South Wales more autonomy and flexibility in federal financial relations, while making the State's taxes lower, simpler and fairer
- driving outcome budgeting across Government – outcome budgeting widens the spotlight during decision making. It is not just the finances that matter, but how success will be tracked and how citizens will be kept informed throughout delivery.

1.2 Economic outlook – returning to trend by 2020-21

The New South Wales economy has shown exceptional strength in recent years. It has outperformed – both in the number of jobs created and in the State's contribution to national growth since 2013-14. Solid economic fundamentals and a wave of policy stimulus should see the State's economy continue to perform well, despite near-term challenges.

New South Wales has had the lowest unemployment rate of all the states over the last 12 months and employment growth has stayed well above average. These conditions have facilitated the State's highest ever workforce participation rate, particularly boosted by female participation.

However, some risks (especially those related to the global and national economy) have either intensified in recent months or are starting to be realised. Solid conditions in the labour market and the Government's record infrastructure program means the New South Wales economy is in an advantageous position to manage headwinds to growth.

For the financial year about to end (2018-19) and the year ahead (2019-20) growth in real gross state product is expected to dip slightly below trend, at 2¼ per cent per annum. However, there is a stronger outlook further ahead (see Chart 1.1) [1]. Government initiatives are making a valuable contribution to this comparatively strong outlook, supporting jobs and helping to partially offset headwinds from the household sector.

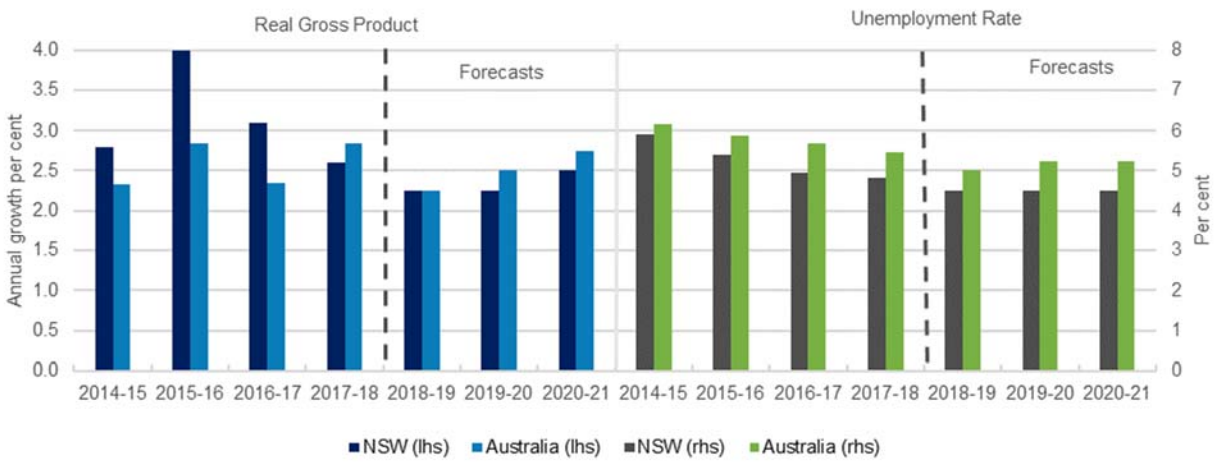
[1] Trend economic growth is projected at 2½ per cent a year over the medium term driven by the supply capacity of the economy.

Underpinned by the Government's record infrastructure program, public investment is expected to contribute ½ a percentage point a year to economic growth this year and over the next two years, which is around five times its historical average.

Conditions in the household sector are expected to improve by mid-2020, particularly as stimulus measures (including income tax cuts and lower interest rates), stronger wages growth and improved housing market conditions drive a consumer-led recovery. When added to a recovery in the rural sector, strength in the non-residential construction sector and above-trend population growth, the economy is forecast to experience a return to trend growth by 2020-21.

Following a period of near-term weakness, external demand conditions are expected to improve as the national and global economies strengthen. This will help to stimulate demand for the State's exports and provide a more favourable environment for local businesses to hire and invest.

Chart 1.1: Economic growth returning to trend and the labour market to remain tight



Source: ABS 5220.0, 6202.0 and NSW Treasury

1.3 Strong fiscal discipline without raising taxes

The 2019-20 Budget is underpinned by strong financial management and fiscal responsibility. It forecasts average budget surpluses of $1.7 billion over the budget and forward estimates.

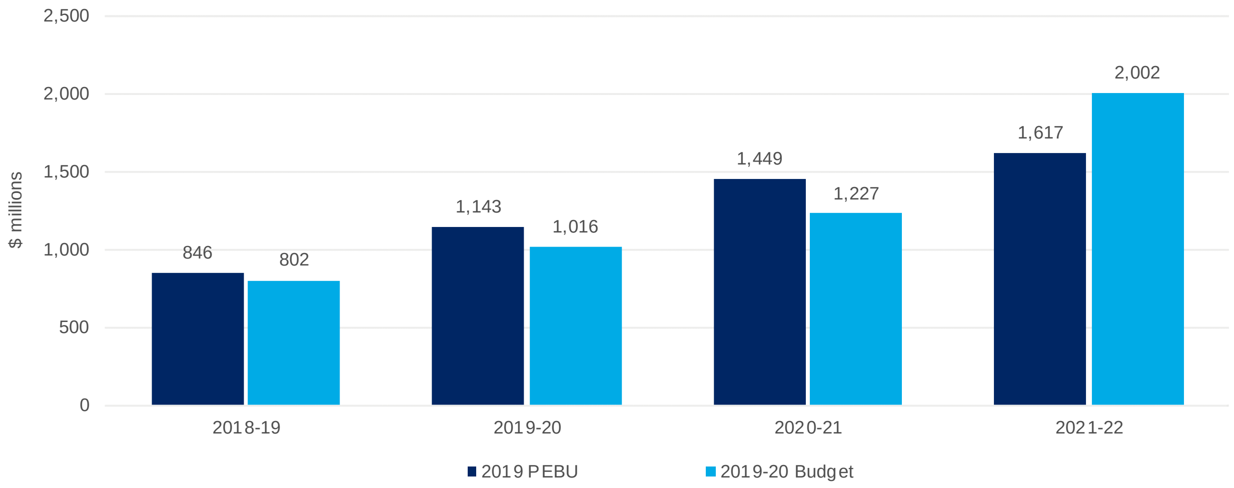
Table 1.1: Key general government sector 2019-20 Budget aggregates

	2018-19 Revised	2019-20 Budget	2020-21	2021-22 Forward Estimates	2022-23
Budget Result ($m)	802	1,016	1,227	2,002	2,599
Per cent of GSP	0.1	0.2	0.2	0.3	0.3
Capital expenditure ($m)	17,864	22,345	17,750	17,247	14,349
Per cent of GSP	2.9	3.4	2.6	2.4	1.9
Net debt ($m)	(8,818)	12,354	22,973	32,884	38,640
Per cent of GSP	(1.4)	1.9	3.4	4.6	5.2
Net worth ($m)	262,022	266,946	280,816	293,500	311,013
Per cent of GSP	41.8	41.1	41.4	41.3	41.7

Budget surpluses are being maintained despite the State facing revenue pressures. This Budget sees the Government continue to manage transfer duty pressures, with a further write-down of $232 million over the four years to 2021-22, having already written down more than $10 billion since the 2017-18 Budget.

The impact of these transfer duty revisions has been compounded by revisions to the State's GST revenue, which has been revised down by $2.3 billion across the four years to 2021-22 since the 2019 Pre-election Budget Update. This was largely a result of the 2019-20 Commonwealth Budget and its revision of the forecast national GST pool.

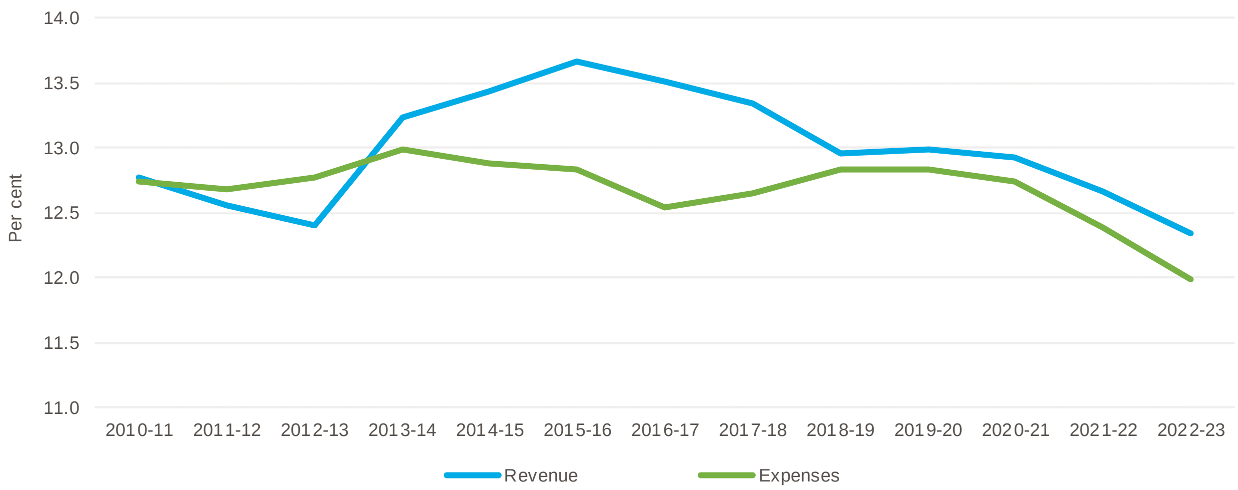
Chart 1.2: Budget result: 2019-20 Budget compared to the 2019 Pre-election Budget Update



Despite these fiscal challenges, the 2019-20 Budget delivers the NSW Government's election commitments. The investment in this Budget spans health, education, transport, drought relief and cost of living relief – all done without raising any State taxes.

Much of this investment will be in front-line services, with more teachers, police and nurses added to improve services. Meanwhile, this Budget continues the Government's focus on efficient use of taxpayer resources. This discipline will enable the Government to keep expenses in line with expected revenue (see Chart 1.3).

Chart 1.3: General government revenues and expenses as a share of GSP



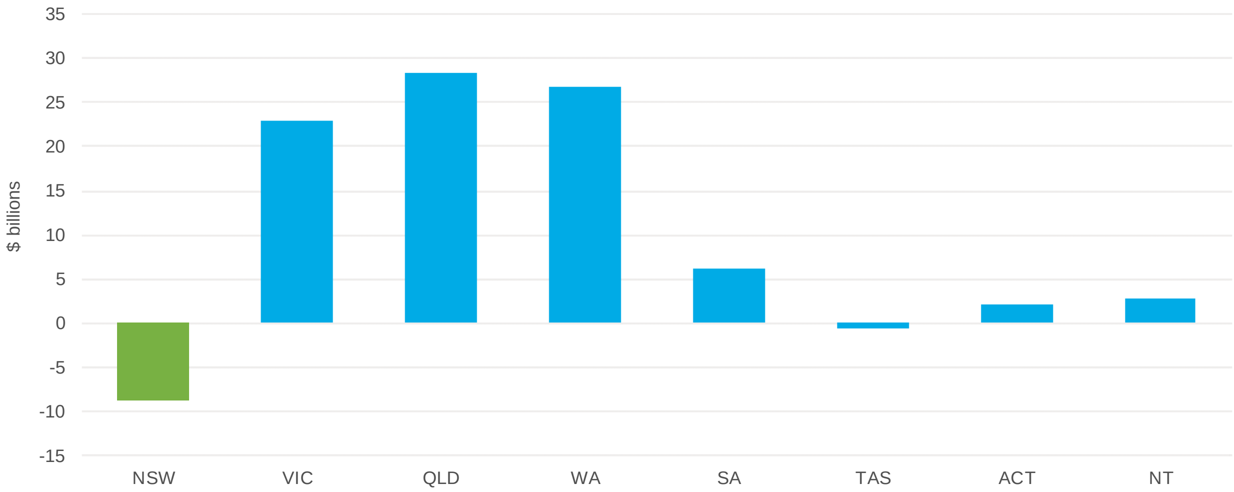
This Budget continues the Government's record investment in infrastructure which will allow people to get home to their families sooner, while also providing state of the art hospitals and schools. This has been supported by the Government's successful asset recycling strategy, which has funded much needed infrastructure across metropolitan and regional New South Wales, with many projects reaching completion and delivering benefits to the community.

Through its sound financial management, the Government is on track to deliver ongoing budget surpluses, a once-in-a-generation infrastructure program and sustainable debt levels.

The State's balance sheet is strong. A fourth consecutive year of negative net debt (negative $8.8 billion) is projected for June 2019. This result is $852 million better than projected in the 2019 Pre-election Budget Update, driven by better than anticipated financial asset returns. From 1 July 2019 the new Australian accounting standard, AASB 16 *Leases*, comes into effect. It impacts all Australian Governments and will negatively impact the State's net debt by $3.2 billion at June 2023 – see Box 6.1 in Chapter 6 for more detail.

New South Wales' net debt at June 2019 is the lowest of all states and territories (see Chart 1.4). Across the four years to June 2023, net debt is forecast to increase as the Government continues its record infrastructure program. However, by using asset recycling proceeds and budget surpluses to fund investment, the Government is able to ensure its borrowings remain at sustainable levels.

Chart 1.4: General government net debt compared to other States and Territories, as at June 2019[(a)(b)]



(a) Queensland's reported net debt is adjusted for its superannuation asset treatment, making comparisons consistent across all jurisdictions.
(b) South Australia shown as at 2018-19 Mid-Year Budget Review, all other jurisdictions are shown as at 2019-20 Budget.

The State's net worth is forecast to reach $311.0 billion by the end of June 2023 driven by balance sheet reform and the use of budget surpluses and asset recycling to fund new infrastructure investment.

1.4 The NSW Generations Fund

As the Government invests the proceeds of asset recycling into its record infrastructure program, it is also setting the State up for the future with the NGF.

One year on – the NSW Generations Fund is up and running

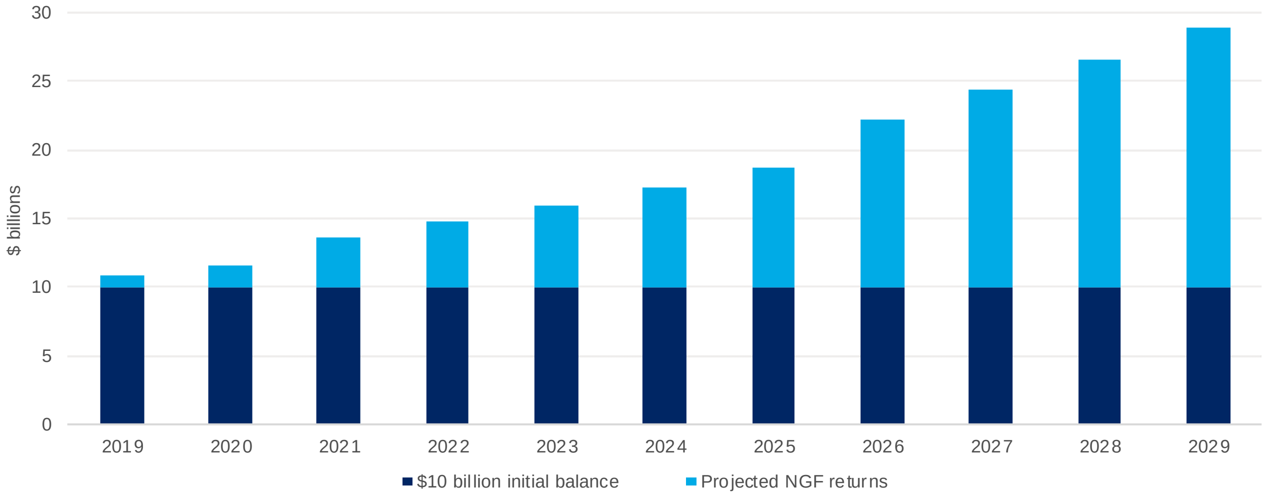
In late 2018, the State deposited $10 billion into the NGF. The NGF Board convened for the first time in August 2018 and has overseen formation of the NGF's investment strategy and initial deployment into financial markets by the State's funds management arm, NSW Treasury Corporation (TCorp).

The NGF's investment strategy (i.e. the mix of assets it is invested in) is aligned to its long-term investment objective of returns of 4.5 per cent above inflation. Guided by the NGF Board, the Fund has invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure assets.

Investment performance has been well above expectations, resulting in a fund value of $10.8 billion five months in. The NGF is projected to grow to more than $28 billion by June 2029, helping further strengthen the State's balance sheet (see Chart 1.5).

The *NSW Generations Funds Act 2018* safeguards these assets for debt retirement. Both major credit ratings agencies (Moody's and S&P Global) have confirmed their recognition of the NGF as an offset to the State's debt. This allows the NGF to support the triple-A credit rating in a way that the State's other investment funds cannot.

Chart 1.5: The projected NGF balance is growing over the next 10 years [(a)]



(a) Projected NGF returns also include distributions from NGF equity interests.

As the NGF grows, it also delivers for today's communities through the My Community Project initiative. Over 1,850 applications have been received, with community members able to vote online for their preferred project from July this year. This innovative approach will allow communities to have a direct say in the projects that get delivered in their local area.

1.5 Delivering the Government's priorities for everyone

The 2019-20 Budget delivers on the Government's priorities, including its suite of election commitments. This is the budget that brings everything together and focuses on delivering for everyone in the community, whether you're a commuter on your way home from work, a family with school-aged children, a farmer in regional or rural New South Wales, a business owner, or someone who needs a helping hand.

Building a better New South Wales

The 2019-20 Budget continues the Government's program to build a better New South Wales. The Governments election commitments deliver new rail and road that will make it easier for people to get to their homes and their families. To support the State's economy and to provide the best possible services to the people of New South Wales, the Government is also embarking on a record investment program in schools and hospitals.

- **Sydney Metro City and Southwest** is planned to open in 2024 with twin 15.5 kilometre tunnels from Chatswood to Sydenham. It will deliver high-frequency services to new metro stations at Crows Nest, Victoria Cross, Barangaroo, Martin Place, Pitt Street and Waterloo. It will also deliver connections to the existing rail network.
- **Sydney Metro West** will be a game-changer for Western Sydney, doubling rail capacity through an underground metro railway line and providing a faster, easier and more reliable journey between Sydney CBD and Greater Parramatta (through Olympic Park and the Bays Precinct) with a journey time of around 20 minutes. It will begin construction in 2020 with services scheduled to start in the second half of the 2020s.
- **North South Metro Rail Link - Stage 1** will connect passengers and employees from St Marys (connecting to the existing T1 Western train line) to the Western Sydney Aerotropolis via Western Sydney International (Nancy-Bird Walton) Airport. This will provide a fast, continuous service with fully-automated driverless trains like the rest of the Sydney Metro system. The Commonwealth and New South Wales governments have a shared objective of having the metro operational in 2026 when the Western Sydney Airport is scheduled to open.

The Government is building world-class education infrastructure. In this Budget, the Government's total investment in school infrastructure is $6.7 billion over the next four years. This includes $917.4 million to **build eight new schools** and significantly **upgrade a further 32 schools**. In addition, the Government is providing $500 million over four years to support non-government schools to build, extend or upgrade their facilities.

Vocational education and training infrastructure is getting much-needed investment with:

- $79.6 million over four years to deliver the **new TAFE Western Sydney Construction Hub** located close to the Western Sydney Airport
- a further $61.7 million over four years to **construct eight new TAFE Connected Learning Centres** in rural and regional locations.

This Budget continues the Government's commitment to providing a world-class healthcare system to everyone in New South Wales. Over $10 billion is being invested over the next four years in health infrastructure to continue current works and commence upgrading and building a further 29 hospital and health facility projects. Within the next four years, this will enable:

- **delivery of new hospitals** at Tweed, Maitland, Macksville and Mudgee as well as commencement of works at Bankstown-Lidcombe and Eurobodalla
- **completion of hospital upgrades** at Blacktown / Mt Druitt, Concord, Dubbo, Manning, Nepean, Wagga Wagga, Westmead and Wyong

- **commencement of hospital upgrades** at Ryde, Shoalhaven and St George
- acceleration of work at Nepean, Randwick, Tweed and Westmead
- completion of the Rural Ambulance Infrastructure Reconfiguration program, the Sydney Ambulance Metropolitan Infrastructure Strategy and the regional Multipurpose Services Strategy.

This Budget invests in the planning and delivery of **new urban road projects** across Sydney, the Central Coast and the Lower Hunter and in measures to reduce congestion and improve safety. This Budget provides a $695 million commitment for technology upgrades to reduce congestion, as well as a $450 million commitment to address a further 12 pinch points at intersections along major arterial roads and regional links around Sydney. The Budget also includes further investment in Western Sydney roads, including upgrades to Mamre Road and Mulgoa Road.

This Budget also invests $500 million for **Fixing Country Bridges** and $500 million for the **Fixing Local Roads Program**. This supports regional councils with repairing, maintaining and sealing council roads.

Delivering for people in the bush

The Government understands the significant impact the drought has had on our rural and regional communities. This Budget has increased the total investment in drought support to over $1.8 billion. This includes:

- an additional $350 million added to the **Farm Innovation Fund**, bringing the Fund to $1.0 billion, which provides concessional interest rate loans to primary producers to support farming communities affected by the drought
- an additional $185 million to continue existing **drought assistance programs**, including transport rebates for fodder, stock and water ($70 million), one-year relief from Local Land Services annual rates ($50 million) and Farm Innovation Fund loan interest relief ($10 million)
- a reservation of $170 million for a special purpose **Drought Stimulus Package** to undertake water security measures, including new groundwater supply at Dubbo, augmenting supply to Coonabarabran and construction of new supply at Nyngan.

Additional water security funding provided in this Budget includes:

- $45 million to **waive fixed charges for water licence holders** and **provide emergency water carting to secure town water supplies**, as part of the Government's drought assistance program
- $32 million over three years to investigate the augmentation of the **Wyangala Dam**
- $5.1 million to further **enhance water regulation** through the recently established Natural Resources Access Regulator
- $2.9 million to continue implementation of **enhancements to dam safety**
- $13 million over four years to **rehabilitate high priority free flowing bores and drains in the Great Artesian Basin** to enhance reliability of water supply to reduce the impact of drought.

Digital connectivity is critical for everyone in our regions, whether it's farmers and businesses or individuals accessing education or social networks. This Budget is allocating $518.8 million over four years for the **Regional Digital Connectivity Program** to provide mobile black spot towers and data centres to improve internet connectivity and reliability in the State's regions.

Delivering world-class services

The Government is committed to delivering world-class services to everyone across New South Wales. The 2019-20 Budget provides for more teachers, nurses, police officers and other front-line staff to make this commitment a reality. This includes:

- **4,600 extra teachers** across government schools in New South Wales over the next four years to meet population growth and provide more targeted support to the students that need it most, delivering the highest number of teachers in government schools in the State's history
- **5,000 nurses and midwives** including mental health and palliative care nurses, as part of a $2.8 billion initiative to recruit 8,300 frontline health staff over the next four years, with 45 per cent in regional New South Wales, which also includes:
  - 1,060 medical staff (e.g. doctors, psychiatrists and specialists) to enhance response times for patients waiting in emergency departments, for elective surgery and for psychiatric care
  - 880 allied health staff including pharmacists, social workers, physiotherapists, occupational therapists and psychologists
  - 1,360 hospital support staff.
- **1,500 more police** to deliver on the Government's commitment to invest in increasing the State's crime fighting capability and keep the community safe ($583.6 million over four years)
- To help parents of school-aged children, an **investment in before and after school care** ($120 million over four years) to make it available to all parents with children at public primary schools by 2021
- To keep our children safe, $18.5 million for **300 new school crossing supervisors** across NSW primary schools by 2022. There are currently 1,200 supervisors at around 800 crossings funded by the Government, and 69 schools have already been identified as eligible for one of the new crossing supervisors
- Extending the **Local Landcare Coordinator Initiative** with $22.4 million over four years, which will see a continuation of an ongoing partnership between Local Land Services and Landcare NSW, supporting ongoing sustainability and oversight of Landcare NSW
- On the back of the success of making Service NSW a world-leading one-stop shop for government services, an additional **ten new Service NSW centres** will be rolled out across Metropolitan Sydney ($55 million expenses and $15 million capital over four years) as will **four one-stop shop Service NSW buses** to service communities throughout the State.

Making it easier to do business

It is critical for the State's success that New South Wales is the place where businesses want to set up and thrive.

- The Government is continuing to implement payroll tax cuts, **progressively raising the payroll tax threshold** to $1.0 million by 2021-22, providing tax relief for those small to medium sized businesses.
- To enable businesses to reduce red tape and opt in to communications about policy or regulatory changes affecting their industry, the **Easy to do Business program** ($27 million expenses and $22 million capital in 2019-20) will provide a concierge service and interface with local councils and government bodies for small businesses in five sectors (cafes,

housing construction, clothing retail, printing and road freight) to reduce the time it takes to either open or expand a small business.

- In February 2019 the Government launched a major **procurement policy to help small, medium and regional enterprises** to do business with Government. The policy encourages Government agencies to prioritise small and medium businesses when considering suppliers.
- From 1 July 2019 payroll tax changes make it **easier to do business and cut red tape**. Monthly payroll tax returns are replaced with single annual returns for businesses with payroll tax liabilities up to $20,000 per annum. Pre-set monthly payments will also be available for businesses with liabilities between $20,000 and $150,000 per annum.
- The **Energy Switch program** has been extended to small businesses, helping them gain access to lower cost energy providers.

Helping families with the cost of living

The Government understands the impact of cost of living pressures on households across the State. Since the 2017-18 Budget, this Government has provided numerous measures and rebates to assist in easing the cost of living. This Budget continues that momentum.

- On the back of the success of the **Active Kids program**, the Government will expand the number of Active Kids vouchers from one to two $100 vouchers per child each year to encourage children's participation in organised sport and physical activity outside school hours ($291.1 million over the next four years).
- The **Creative Kids program** will continue, providing parents and guardians with a $100 Creative Kids voucher each year to help with the cost of their school-aged kids' participation in creative and cultural activities ($92.1 million in 2019-20).
- The Government is **reducing early childhood costs** with universal access to two years of early childhood education through the Start Strong program, supporting preschool education in both community preschools and long day care centres across New South Wales ($526.7 million in 2019-20). This continues the commitment made in the 2018-19 Budget, with funding support to be provided for all three-year olds in community preschools from 1 January 2019.
- The Government is also providing **free dental care for primary school kids** ($70 million over four years), providing access to dental checks and basic dental care for up to 136,000 primary school children each year through 35 new free mobile dental clinics for primary school children in Western Sydney, the Mid North Coast and the Central Coast.
- We will provide new parents with the **NSW Baby Bundle** containing welcome essential items to assist in their child's early health and development ($7.9 million in 2019-20).
- The Government will **expand the Toll Relief program** from 1 July 2019 to assist with the motor registration costs of toll road users. Eligibility will be extended so that drivers spending $15 a week or more will receive 50 per cent off their motor vehicle registration for one vehicle. This brings the total toll relief program to $385 million over three years.
- This Budget announces a **new energy rebate for independent retirees** ($42.1 million over four years). This is in addition to the total $1.1 billion over four years for energy rebate programs that support low income households to manage rising costs of energy.
- Seniors across regional New South Wales will become eligible for the **Regional Seniors Transport Card** providing $250 per year in 2020 and 2021 towards fuel, taxi travel or NSW TrainLink tickets for aged pensioners living in regional New South Wales ($90 million over three years).

- To support people in gaining vocational education qualifications, this Budget provides an **additional 100,000 fee-free TAFE and VET courses**, including 70,000 fee-free courses for young job-seekers combining work and study through a traineeship, and 30,000 free TAFE places for mature-aged workers seeking to retrain or re-enter the workforce ($71 million over four years).
- The Government is delivering on its election commitment to **reduce the weekly Opal Travel cap** ($69.6 million over four years). From 1 July 2019, approximately 55,000 commuters will benefit with savings of up to $686 a year by reducing the Opal Travel cap to $50 per week for adults and $25 per week for child/youth and concession travel on all train, bus, ferry and light rail services.
- From 1 July 2019, all New South Wales home buyers will benefit with the **annual indexation of transfer duty thresholds** to the Sydney Consumer Price Index. This is estimated to save homebuyers around $330 on an average-priced dwelling purchased by 2021-22.

Helping the most vulnerable

This Budget continues the focus on helping those in our communities who are most in need.

- It continues the Government's commitment to a **halve street homelessness** by 2025.
- The Government will support Foodbank NSW and ACT Limited with $8 million over four years to expand the **School Breakfast 4 Health Program** to a further 500 schools.
- Mental health in schools is a serious issue for our community. This Budget includes funding for:
  - an **additional 100 school counsellors or psychologists**, 350 student support officers, as well as dedicated services for rural and remote students ($88.4 million over four years) to ensure public high school students across the State have access to mental health and wellbeing support
  - **funding for Lifeline and Kids Helpline** ($23.5 million over four years) to expand capacity
  - funding for **towards zero suicides initiatives** across New South Wales ($19.7 million in 2019-20).
- This Budget continues support for **world-class medical research** with $15 million over five years to support research associated with spinal cord injuries.

2. THE ECONOMY

- New South Wales has recorded impressive economic growth in recent years. The economy grew by an above-trend rate averaging around 3 per cent a year over the four years to 2017-18, and experienced the fastest per capita growth of any state.
- While economic growth has moderated over the last year, this is likely to be temporary. Solid fundamentals, led by exceptionally strong labour market conditions, and a wave of policy stimulus are expected to see a return to trend growth in 2020-21 (see Table 2.1 for economic forecasts).
- A slowing housing market and soft income growth have dictated much of the moderation in economic growth. Severe drought conditions have also weighed on the rural sector.
- The household sector should start to improve from around mid-2020, as stimulus measures (including personal income tax cuts and lower interest rates), stronger wages growth and improved housing market conditions prompt a consumer-led recovery.
- The State's labour market continues to experience healthy momentum, with employment growth of 3¼ per cent forecast for 2018-19. This has facilitated a record workforce participation rate and drove the trend unemployment rate to close to its lowest level in over four decades. Solid economic growth is expected to sustain this strength in labour market conditions. Employment growth is forecast to be around 1¼ to 1½ per cent, reflecting improved productivity, while the unemployment rate is expected to stabilise at around 4½ per cent over the next two years.
- Wage pressures are finally gaining some traction. A firming national labour market and an eventual rise in inflationary pressures should foster a modest rise in wages growth to 2¾ per cent by 2020-21.
- The near-term growth outlook has softened for the national and global economies, but both are expected to improve over the forecast horizon. The anticipated recovery should stimulate demand for export-oriented firms, providing a more favourable environment for broader business hiring and investment.

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

New South Wales	2017-18 Outcomes	2018-19 Forecasts	2019-20 Forecasts	2020-21 Forecasts	2021-22 Projections	2022-23 Projections
Real state final demand	3.4	2½ (2¾)	2½ (2¾)	2½	-	-
Real gross state product	2.6	2¼ (2½)	2¼ (2½)	2½	2½	2½
Employment	3.2	3¼ (2¾)	1½	1¼	1¼	1¼
Unemployment rate [(b)]	4.8	4½	4½	4½	4½	4½
Sydney consumer price index	2.0	1¾	2	2 (2¼)	2¼ (2½)	2½
Wage price index	2.1	2½	2½ (2¾)	2¾ (3)	3	3
Nominal gross state product	4.5	3½ (4¼)	3¾ (4)	4½ (4¾)	4¾ (5)	5
Population [(c)]	1.5	1.7 (1.5)	1.6 (1.5)	1.5	1.5 (1.4)	1.5

(a) Per cent change, annual average unless otherwise stated. 2019 Pre-election Budget Update forecasts in parenthesis if different.
(b) Annual average, per cent.
(c) Per cent change through the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage points.

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

2.1 Policy stimulus to facilitate a lift in economic growth

The New South Wales economy has shown exceptional strength in recent years. It has outperformed – both in the number of jobs created and in the State's contribution to national growth since 2013-14. Solid economic fundamentals, the Government's record infrastructure program, and a wave of policy stimulus should see the state's economy continue to perform well, despite near-term challenges.

While economic growth has eased this year, segments of the economy are resilient, particularly in the labour market where the unemployment rate remains low.

Soft household income growth, a slowing housing market and drought conditions have been the catalyst for a shift in momentum for the economy. As a result, growth in the New South Wales economy for 2018-19 and 2019-20 is forecast to be slightly below trend.

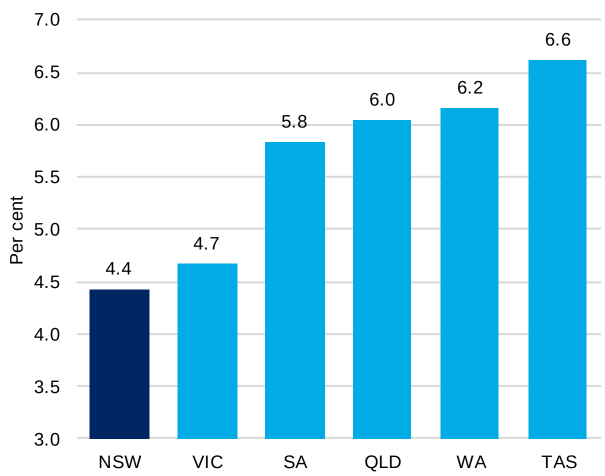
A large public infrastructure program, rising commercial building activity and a solid export sector have underpinned the State's resilience and are expected to partially offset the weakness in the household sector.

Labour market conditions are exceptionally strong. Employment growth has stayed well above average and job vacancies are at elevated levels (see Chart 2.2), prompting an 'encouraged worker effect' that has seen the workforce participation rate hit record highs - led by females (see Box 2.1). Spare capacity in the local labour market remains tight. The trend unemployment rate in New South Wales is near a four decade low, and continues to be the lowest of all the states (see Charts 2.1). However, wage pressures have remained subdued, which is a consistent theme across many developed economies.

In the context of limited inflationary pressures and sub-trend national economic growth, the Reserve Bank of Australia's (RBA) decision to cut interest rates in June reflected its intention to make faster progress in reducing the unemployment rate and lifting inflation back to within their target range. This cut to the cash rate, and market expectations for a further cut, will provide support to the economy, particularly in the consumer and housing sectors.

Lower interest rates are expected to support a stabilisation in housing market conditions from late-2019. However, current weakness in household consumption is not expected to abate until around mid-2020, as an increase in the low and middle income tax offset and stronger wages growth also start to drive a consumer-led recovery. Meanwhile, dwelling investment is forecast to detract ½ a percentage point from economic growth in 2019-20 and ¼ of a percentage point in 2020-21.

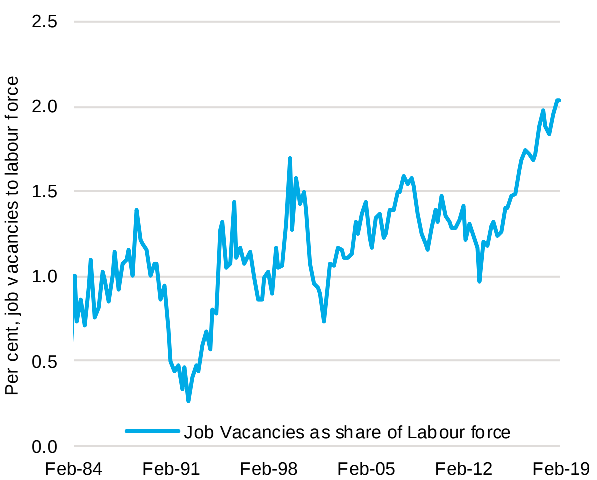
Chart 2.1: New South Wales boasts the lowest trend unemployment rate[(a)]



(a) Lowest of the states. Seasonally adjusted as at April 2019.

Source: ABS 6202.0 and NSW Treasury

Chart 2.2: Job vacancies at an all time high, suggesting strong labour demand[(a)]



(a) Job vacancies derived between May-09 to Nov-09.

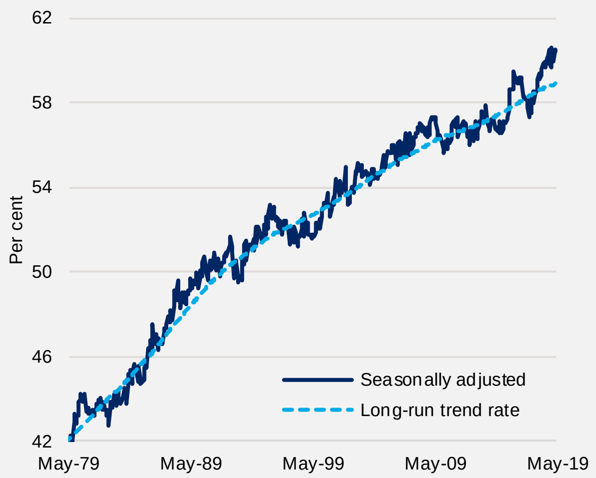
Source: ABS 6202.0, 6354.0 and NSW Treasury

Box 2.1: Strong female employment growth driving workforce participation

Favourable labour market conditions are encouraging entrants into the labour force, with women leading the way.

The female workforce participation rate has exceeded its structural long-run trend since late-2017 (see Chart 2.3). Female employment has grown at an annual average rate of 3.5 per cent over the two years to May 2019, compared to 2.7 per cent for the Rest of Australia.

Chart 2.3: Rising female participation[(a)]



(a) The long-run trend rate is based on underlying participation rate trends by five-year age cohort.

Source: ABS 6202.0 and NSW Treasury

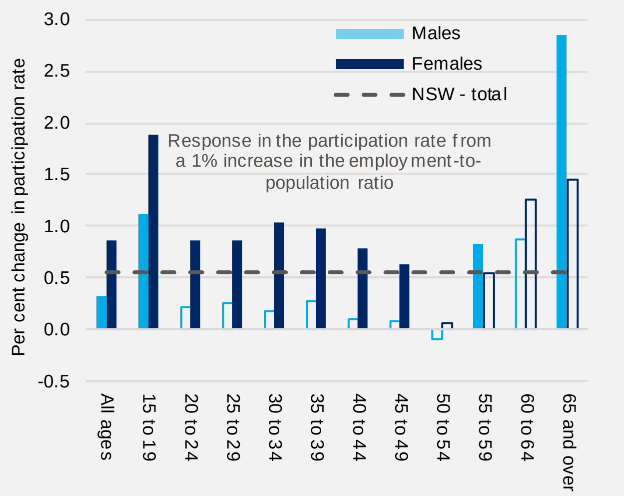
NSW Treasury research indicates that women in New South Wales are more responsive than men to changes in labour demand, particularly the 15 to 49 age group (see Chart 2.4). This broadly aligns with the change in participation rates over the last two years, with females showing the largest increase, particularly those aged 20 to 39.

The size of the cyclical component behind the increase in the participation rate gives an indication of labour market flexibility and spare capacity. By adjusting to the recent strength in labour demand, the rise in female labour supply has been an effective buffer against labour shortages.

More broadly, with the unemployment rate around estimates of full-employment, this is a sign that the New South Wales economy is providing opportunities for those who want to enter the labour force.

Achieving better outcomes for individuals with gainful employment leads to improved social outcomes, including a pathway out of poverty and reduced crime, and supports the State's economic growth.

Chart 2.4: Females more responsive to changes in labour demand[(a)]



(a) Non-shaded bars indicate coefficients are insignificant at the 10 per cent threshold.

Source: ABS 6291.0.55.001 and NSW Treasury

Over the long run, the female participation rate has trended upwards. This reflects structural factors such as greater workplace flexibility, access to paid parental leave and child care, a lower fertility rate, higher education levels and the shift in demand to more labour-intensive service industries. These include industries that tend to employ a higher proportion of females, including education and health, with participation in the latter seeing added support from the National Disability Insurance Scheme more recently.

A sustained increase in female participation has been a key driver in the rise of the State's productive capacity and living standards, along with productivity and population growth.

Non-residential construction activity is expected to partially offset falls in dwelling construction over the next two years. The public sector will be a major driver, assisted by the State's record $93.0 billion capital spending program over the next four years. This investment should bolster employment growth and improve productivity growth in the longer term.

The combined impact of recovering household consumption, smaller declines in housing construction activity and ongoing strength in the non-residential construction sector are expected to nudge economic growth back to trend from 2020-21. An expected recovery from drought and ongoing above-trend population growth will provide additional support.

External demand conditions should improve as the national and global economies strengthen. Greater economic integration with Asia, solid growth potential for our major trading partners, a lower Australian dollar and elevated commodity prices are all encouraging for the longer-term outlook (see Chapter 4 economic blueprint).

2.2 New South Wales, the jobs capital of Australia

Strong employment growth, a record participation rate and full-employment

Over the past year, the labour market has achieved a trifecta of strong employment growth, a record high workforce participation rate and close to the lowest trend unemployment rate in four decades. Employment growth is expected to be elevated at around 3¼ per cent in 2018-19, double its long-run average, despite softening economic activity.

Job vacancies have reached an all-time high, reflecting the strong demand for labour. Consequently, the unemployment rate has drifted lower to 4½ per cent, around estimates for full-employment. However, the underemployment rate remains elevated, suggesting a willingness to work more hours and potentially some skills mismatch.

Other leading indicators of labour demand, such as job advertisements and business surveys of hiring intentions, are mixed and overall suggest employment growth may moderate in the near-term. This has occurred in the construction industry, where labour demand has softened as conditions in the housing market have weakened. That said, the construction industry remains the State's second-largest employer of full-time workers, and the expected pickup in non-residential construction will likely provide some offset.

2.3 Public and business investment to support the construction sector

Dwelling construction eases amid slowing housing market conditions

Dwelling investment has been an important driver of the State's economic growth in recent years. However, dwelling construction has likely passed its peak for this cycle, with activity currently 9 per cent below its mid-2018 record high. That said, dwelling construction in the past year has remained near decade highs when measured as a share of state final demand.

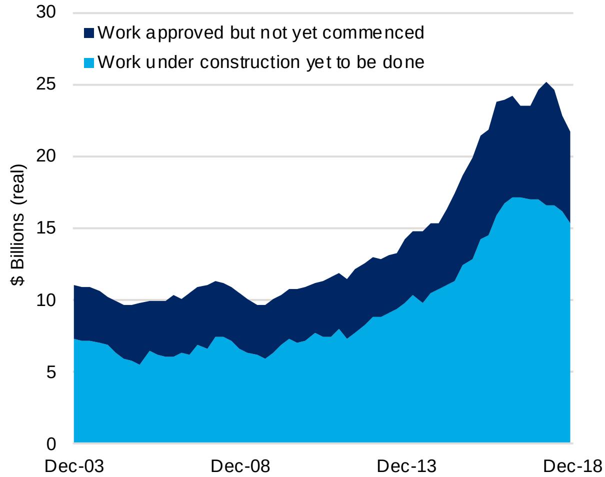
Declining house prices (see Box 2.2) and lower transaction volumes have had an impact on building approvals and commencements, although an elevated pipeline of dwellings under construction should allow for an orderly slowdown in activity in the near-term (see Chart 2.5).

The flow of new residential projects being approved has declined and the stock of projects waiting for approval has also fallen. This suggests a lower level of activity once the existing pipeline is worked through. Developer sentiment has fallen in line with house prices and other impediments, including stricter pre-sale and credit requirements. Given these conditions, approvals are expected to fall further, especially for apartments (see Chart 2.6)

Dwelling commencements have also fallen. Apartment commencements, which make up the largest share of the pipeline, fell 22 per cent in the final quarter of 2018 (see Chart 2.6).

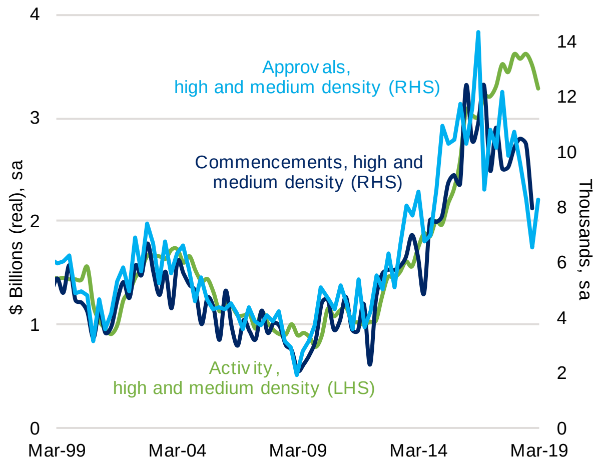
Expectations for ongoing strong population growth and a stabilisation in house prices from late-2019 should encourage the commencement of more projects. How conditions in the housing market evolve over the next 12 months will be important for dwelling investment and household consumption.

Chart 2.5: Large pipeline of work to support near-term housing activity



Source: ABS 8752.0 and NSW Treasury

Chart 2.6: Commencements suggest bigger drop in construction activity looming



Source: ABS 8755.0, 8752.0, 8731.0 and NSW Treasury

Record public investment to partially offset housing construction weakness

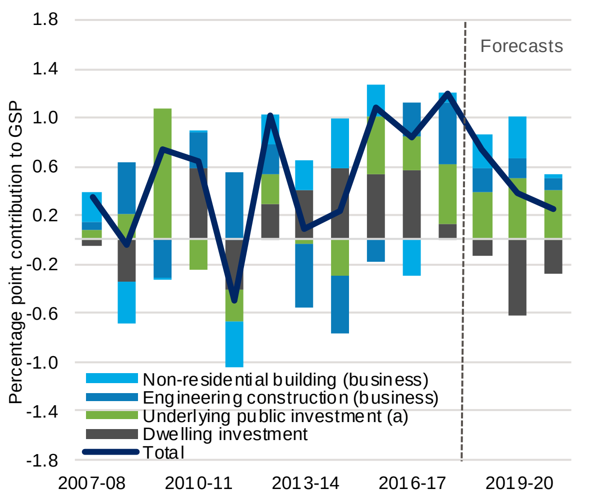
Public demand has been a source of strength for the economy, accounting for almost three-quarters of the growth in state final demand over the past year.

Government consumption has been a key driver, supported by the expansion of State front line services and the Commonwealth's rollout of the National Disability Insurance Scheme. This has added to employment, with industries that deliver social services contributing around a quarter of the growth in employment over the past three years.

The Government's infrastructure program is also doing the heavy lifting on the investment front, partly offsetting the drag from housing construction (see Chart 2.9). Public investment is expected to contribute ½ a percentage point per year to economic growth over the next two years, around five times its historical average. This should bolster employment in construction and its supporting services, including engineers and project managers, though the scale of the program could add to pressures on available capacity to deliver projects.

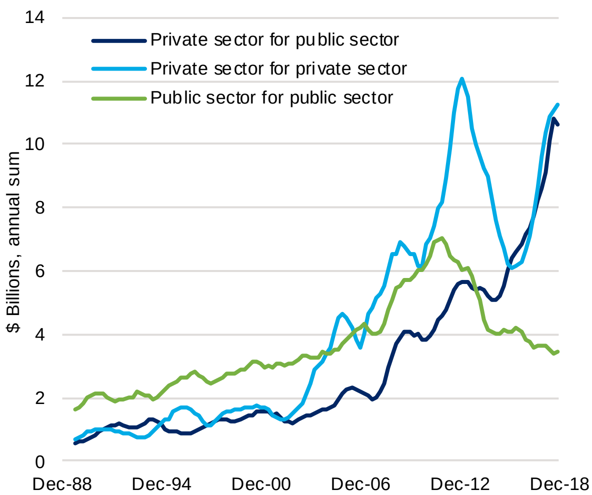
In addition to the direct contribution during the construction phase, investment in transport, education and health-related infrastructure, in the long term, should significantly improve the productive capacity of the economy. These investments will reduce travel times and provide new and upgraded facilities and technologies for students and patients.

Chart 2.7: Non-residential construction to partially offset dwellings drag



Source: ABS 5206.0 and NSW Treasury

Chart 2.8: Private sector delivering a large share of publicly-led infrastructure



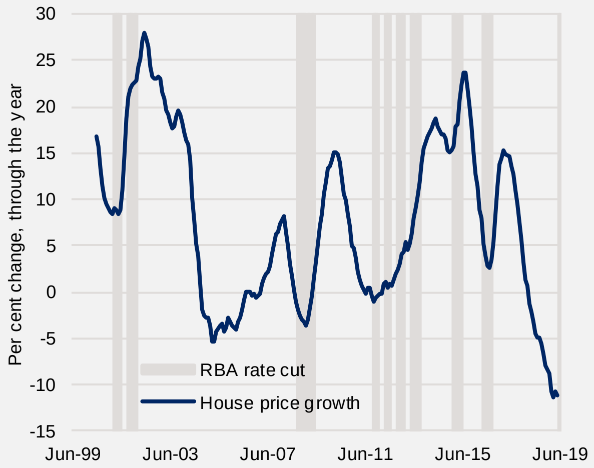
Source: ABS 8762.0 and NSW Treasury

Businesses are directly benefiting from this strong investment in public infrastructure. Almost 60 per cent of the engineering work done in New South Wales over the past year was commissioned by the public sector, with over 75 per cent of that delivered by the private sector (see Chart 2.8). This has contributed to elevated levels of capacity utilisation among businesses and should flow into other investment, such as capital expenditure on equipment.

Box 2.2: Housing market to see some relief

Sydney house prices have continued to decline from their peak in mid-2017. In May 2019, median house prices were 14 per cent below their peak, marking the largest nominal decline since the early 1980s[1].

Chart 2.9: Interest rate cuts should support a stabilisation in house prices



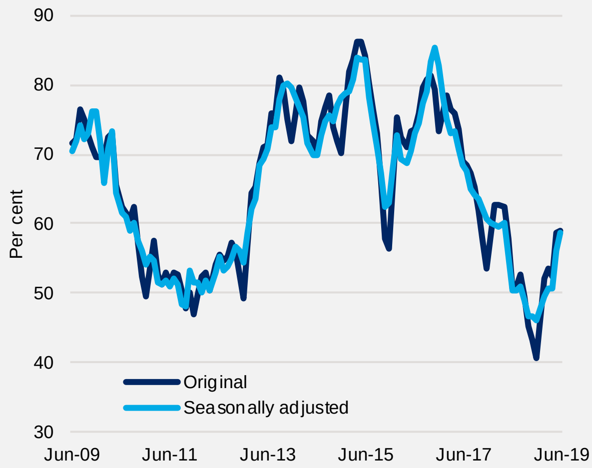
Source: CoreLogic, RBA and NSW Treasury

Sydney rents fell for only the second time on record in the March quarter 2019. The Sydney rental vacancy rate has also been steadily increasing to around 3.5 per cent, which is a level consistent with further downward pressure on rental price growth.

Housing finance commitments have also been weak, but there are some recent positives in the housing market which point to a stabilisation from late-2019.

The pace of house price declines appear to have moderated in April and May 2019. At the same time, auction clearance rates have shown a marked improvement from the very low rates seen earlier this year (see Chart 2.10). Albeit, the volume of auctions are still well below that of previous years.

Chart 2.10: Auction clearance rates have shown some improvement(a)



(a) Excludes January where insufficient data available.
Source: CoreLogic and NSW Treasury

The outcome of the Federal election and recent (and prospective) RBA interest rate cuts appear to have lifted housing market sentiment. The election outcome has removed the uncertainty around changes to negative gearing and capital gains tax discounts.

The Federal government's First Home Loan Deposit Scheme should compliment the state's First Home Owner Grant and First Home Buyers Assistance scheme.

Further, the Australia Prudential Regulation Authority has begun consulting on the possiblity of loosening minimum debt serviceability requirements. If implemented, this would increase the borrowing capacity of many buyers.

These recent developments have helped partially offset downside risks to the housing market and increased the likelihood of house prices stabilising from late-2019.

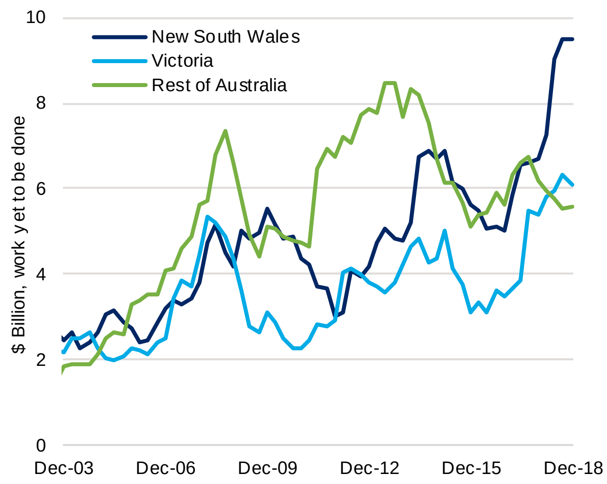
Strong fundamentals continue to support business investment

The solid run in business investment is expected to continue, providing a major driver of economic growth. While some broad leading indicators, such as surveyed business conditions and investment intentions, have eased over the past year in line with weaker demand, they remain around average levels. Furthermore, the pipeline of infrastructure and non-residential building projects is elevated and fundamental drivers in several sectors indicate a favourable investment environment.

[1] Consistent house price data are only available since the early 1980s.

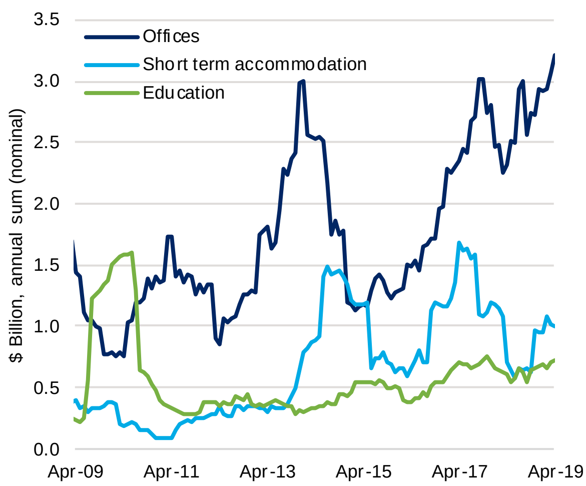
Non-residential building, led by the commercial sector (particularly office buildings), is expected to be the standout performer, underpinned by a record pipeline of projects and strong fundamentals (see Chart 2.11). Office approvals in the past year were at record levels (see Chart 2.12), consistent with low office vacancy rates, high commercial property prices and rents, and strong employment growth in the services sector. Short-term accommodation and education approvals have also risen, supported by solid exports of services.

Chart 2.11: Record pipeline of private non-residential building



Source: ABS 8752.0 and NSW Treasury

Chart 2.12: Private non-residential building approvals remain elevated



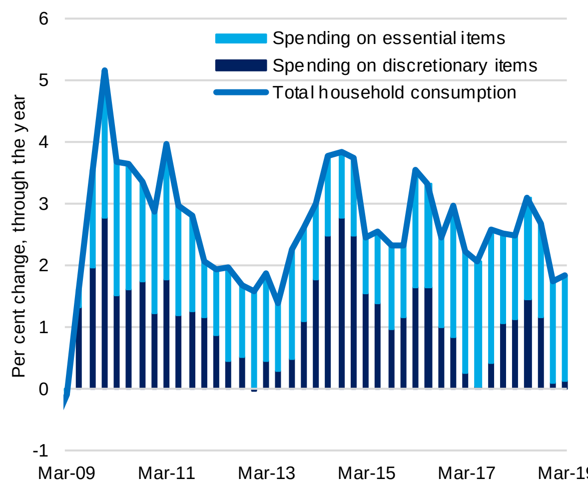
Source: ABS 8731.0 and NSW Treasury

2.4 Faster income growth expected to lead consumer recovery

Household spending has pulled back

Household consumption growth has slowed over the past year, following a significant squeeze on household wealth and weakness in income growth. Consumers initially displayed resilience to weakening housing market conditions. The impact of declining house prices and housing transactions materialised in the second half of 2018, however, and has continued into 2019. Household consumption grew by just 1.8 per cent through the year to the March quarter 2019.

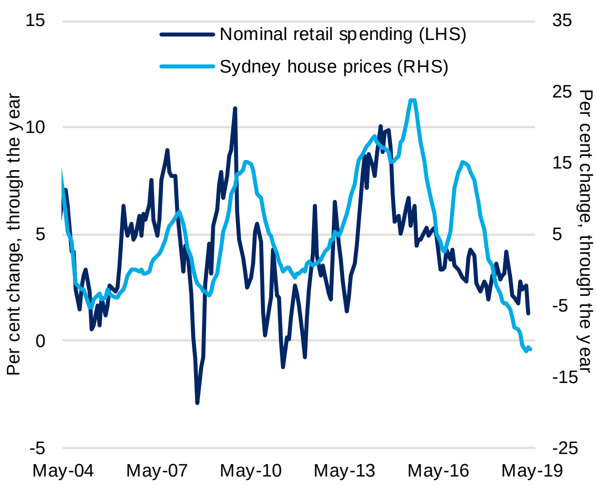
Chart 2.13: Household discretionary consumption has pulled-back[(a)]



Source: ABS 5206.0 and NSW Treasury

(a) Discretionary spending: tobacco, alcohol, clothing, furnishings, vehicles, recreation and culture, hotels, cafes and restaurants.

Chart 2.14: Falling house prices are weighing on consumer spending



Source: CoreLogic, ABS 5206.0 and NSW Treasury

There has been a noticeable slowdown in discretionary spending since mid-last year (see Chart 2.13). This is consistent with discretionary spending being more sensitive to changes in wealth and housing transactions. Partly offsetting this slowdown has been continued demand for essential goods and services.

While consumer spending is significantly more responsive to changes in income compared with changes in wealth, the magnitude of the declines in house prices appears to have impacted consumer spending (see Chart 2.14) more than was previously anticipated.

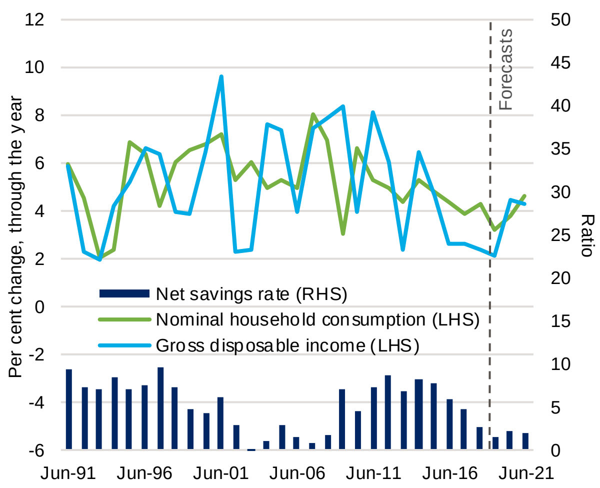
Policy stimulus and wages growth should lift consumption going forward

In recent years, consumers have supported their spending in the face of subdued income growth, by lowering their savings rate (see Chart 2.15). This has been facilitated by large increases in household wealth as the value of assets, such as housing, experienced robust growth. With house prices falling, consumer spending will have to rely more on future growth in household disposable income.

Fiscal and monetary policy stimulus should help to invigorate household disposable incomes in the near-to-medium term. The Commonwealth Government's low-and-medium-income tax offset will provide a lift to disposable income in 2019-20. Easing monetary policy will also provide a boost by lowering households' interest payments, though the impact is partially offset by those households reliant on interest income.

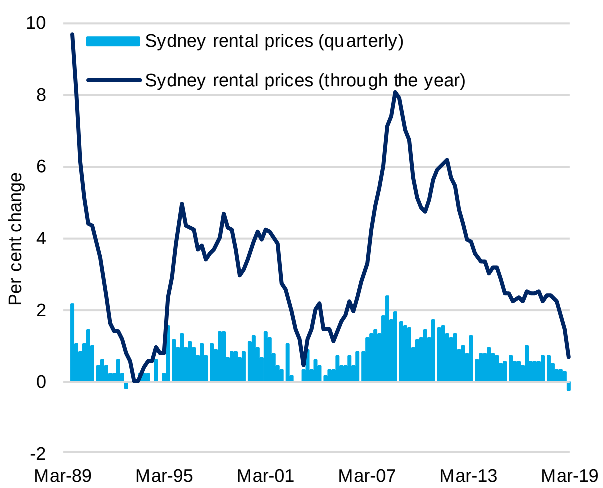
National labour market conditions are expected to facilitate a gradual increase in wages growth, which will help to slowly lift income growth in the out years. This should provide a backstop for household spending at a time when support to growth from policy stimulus will begin to wane.

Chart 2.15: Household spending has been rising faster than incomes



Source: ABS 5220.0 and NSW Treasury

Chart 2.16: Housing costs have become a material drag on inflation



Source: ABS 6401.0 and NSW Treasury

Stronger income growth and a stabilisation in housing market conditions should see consumption growth improve in 2020-21, becoming a key driver in returning economic growth to a trend rate.

Box 2.3: The State's role in boosting productivity

Productivity is the most important determinant of improvements in living standards and underpins growth in wages and household incomes. Productivity grows when the value of the economy's output grows by more than the inputs.

Labour productivity, defined as total output in the economy per hour worked, is the most commonly used productivity measure.

There are several drivers of labour productivity, including:

- improved skills for workers
- increased capital input – investment in assets and technology
- innovation and technological change – so people and assets work smarter together, which increases multifactor productivity (MFP).

Weak productivity growth has been a problem for many advanced economies over recent decades, including Australia, and New South Wales has been no exception to the trend.

Chart 2.17 shows the contributions of increased capital and labour inputs, multi factor productivity, and changes in the terms of trade to growth in per capita income. Labour productivity growth averaged 2.8 per cent annually in New South Wales between 1994-95 and 1998-99, but slowed to an average of 0.8 per cent between 2003-04 and 2011-12, and has averaged 0.9 per cent annually since 2011-12.

Despite weakening labour productivity growth in the 2000s, living standards were bolstered by a surge in our terms of trade between 2003-04 and 2011-12, linked to the mining boom. This allowed for higher wages, and cheaper imports. However, the terms of trade have now receded, and wage growth has declined since around 2012.

The economy also faces the demographic challenge of an ageing population, which will likely lead to a fall in the labour force participation rate over the next few decades. As a result, we will need to increase productivity growth to sustain robust growth in per capita incomes.

The Government established the NSW Productivity Commission in 2018 and appointed Peter Achterstraat as the Productivity Commissioner.

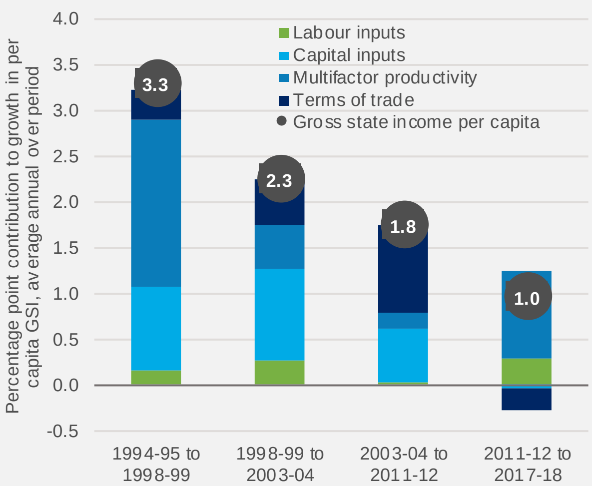
The Commission has already made some progress on the Government's goal of making it easier to do business in New South Wales by saving business owners' time and money through the introduction of a streamlined payroll tax system. From 1 July 2019, payroll tax will become a set-and-forget affair for thousands of businesses, rather than a monthly hassle.

The Productivity Commission is currently developing a Productivity White Paper, which will identify reform priorities for the economy to support business investment and innovation, create quality jobs, and attract businesses and skilled migrants.

Many key productivity levers sit with states, including planning regulation, economic infrastructure, energy and water policy, vocational skills development, and state taxes.

The Government is prioritising increasing productivity growth, because we know that it is crucial to a strong economy, which shares the benefits of growth throughout our community and ensures high living standards for future generations.

Chart 2.17: Higher productivity growth is the key to driving per capita income growth



Source: ABS 5220.0, 6202.0, 6291.0.55.003, 5260.0.55.002.
Note: 'Productivity cycles', as defined by the ABS.

Improving labour market to spur faster wages growth and inflation

Wages growth is expected to make a modest comeback over the next two years, providing a basis for higher household income growth and inflation. This improvement is consistent with solid labour market conditions (nationally and locally), fewer wage freezes, larger bonus payments, higher advertised salaries and improving productivity growth (see Box 2.3).

The wage price index has seen a gradual trend upwards. Private sector wages maintained a growth rate of 2.3 per cent through the year to the March quarter 2019, the equal fastest rate in four-and-a-half years. Job level micro-data reveals that a higher share of employees have received wage increases after an extended period of wage freezes. This has supported much of the pick-up in aggregate wages growth over the past two years.

The national unemployment rate should trend lower again once the national economy regains some momentum in 2020-21. This reduced labour market spare capacity is forecast to continue spurring faster wages growth, with the wage price index forecast to rise 2¾ per cent in 2020-21 (revised from 3 per cent at the 2019 Pre-election Budget Update).

The expectation remains for inflation to rise in line with faster wages growth and a lower Australian dollar, albeit gradually. Multiple factors, however, have constrained inflation recently. A large fall in petrol prices at the end of 2018 and the first quarterly fall in Sydney rents since 1992 (see Chart 2.16) saw headline inflation fall in the March quarter 2019. Elevated housing rental vacancy rates and falling advertised rental prices, suggest rental price growth will likely remain weak for some time. This slowdown in rents, as well as government cost-of-living initiatives and intense retail competition will likely see further downward pressure on inflation, improving consumers' purchasing power.

2.5 Solid export demand despite global and national challenges

Near-term outlook for the national and global economies has weakened

The International Monetary Fund (IMF) has cut its outlook for global growth to 3.3 per cent in 2019 (from 3.9 per cent in April 2018), the lowest rate since the Global Financial Crisis, with around three quarters of the world's economies projected to slow. This comes amid a challenging environment of trade tensions, geopolitical uncertainty and tightening financial conditions in emerging markets. Stuttering global trade growth has implications for the State's key commodity and service exports.

More positively, global growth is expected to rise towards the end of 2019, helped by the expectation of a more accommodative monetary policy stance in major economies. It also reflects China's ramp up of stimulus to counteract the negative impact of its escalating trade tensions with the United States. Global growth is projected to tick up to around 3.6 per cent in 2020, before stabilising at around this trend rate.

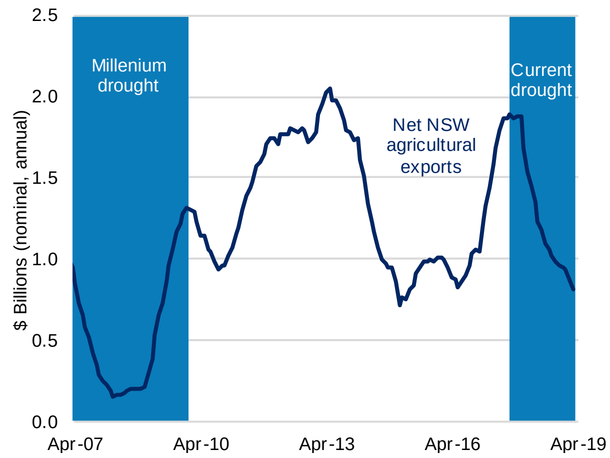
Closer to home, subdued national economic conditions will also be less supportive for New South Wales businesses, while drought conditions will continue to weigh on the rural sector.

Overseas export growth has remained strong this year, despite the State facing severe drought conditions. A rebound in resource exports and strong growth in advanced manufactured goods and service exports have offset significant declines in rural exports. Rural export volumes are expected to decline by a fifth in 2018-19 and remain below 2017-18 levels over the next two years (see Chart 2.18). The severity of the drought has led the Commonwealth Department of Agriculture to approve overseas wheat importation for the first time since 2007.

Longer-term export drivers remain favourable, particularly for services

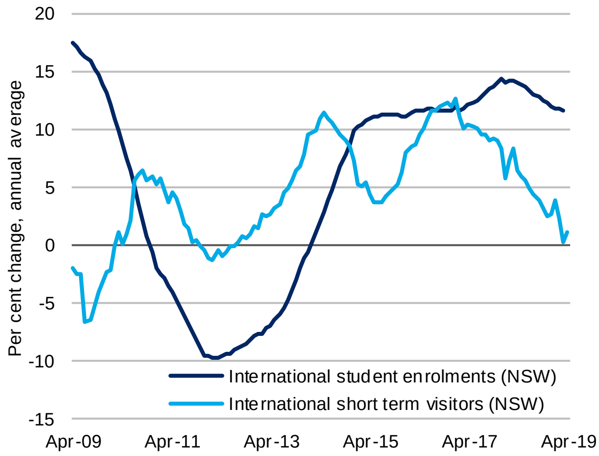
While the growth in service exports has been robust, more timely indicators suggest it may not have fully escaped the recent shift in global economic conditions. Growth in student enrolments has slowed modestly (see Chart 2.19). A more acute slump can be seen in overseas visitor arrivals, where growth has slowed. This slowdown in international students and visitors is broad-based across most countries, but with a material slowdown from China.

Chart 2.18: Agricultural exports hit by persistent drought conditions



Source: ABS.Stat and NSW Treasury

Chart 2.19: Education and tourism temporarily slowing



Source: ABS, DET and NSW Treasury

Growth in services exports is expected to moderate in the near-term, but then rebound along with improving economic conditions for our major export partners. A lower exchange rate will provide support, while the long-term growth drivers, such as growing demand from an emerging Asian middle class will help to fuel export growth for many years.

How global demand for New South Wales service exports evolves over the next few years will have significant implications for the broader state economy. The service sector has not only been a direct driver of economic growth, but a critical force behind employment and business investment, particularly for sectors like education, short-term accommodation and recreation and entertainment.

2.6 Risks to the economic outlook

Trade tensions between the United States and China appear to be more entrenched and likely to persist. The recent escalation of trade tensions are not incorporated in the current IMF forecasts for global growth, and therefore are a clear downside risk. That said, if global trade differences are resolved expediently, there should be some upside to global growth.

Adding to the trade risks is the possibility that China may seek to head-off a ballooning current account deficit by curtailing imports such as outbound tourism and international education. A development that could have significant implications for the New South Wales economy. However, China still has many other options for addressing its external balance. Additionally, any unexpected policy stimulus designed to revitalise growth in the Chinese economy, will help bolster demand for commodity exports, and support national income growth.

Domestic risks remain focused around conditions in the housing market, slowing construction activity and a cautious consumer that has not seen substantive real wages growth in some time (Appendix F provides a sensitivity analysis of the economic impacts from a negative house price shock). The response of households to lower interest rate expectations and any change to lending standards, could be either larger or smaller than currently expected.

A weaker-than-anticipated wage recovery, driven by an unexpected rise in the unemployment rate, and a sharper deterioration in housing activity, could exacerbate the slowdown in household consumption. That said, there is potential for wages and workforce participation to surprise to the upside (see Appendix F), particularly as spare capacity in the national labour market begins to tighten and inflationary pressures start to build.

Persistent drought conditions are another source of uncertainty, although the unpredictability of weather patterns means a risk to either the upside (a quicker-than-expected recovery) or the downside if dry conditions continue to impact crops and livestock.

3. FISCAL STRATEGY AND OUTLOOK

- The 2019-20 Budget continues the Government's track record of responsible financial management.
- Across the four years to 2022-23, the 2019-20 Budget is projecting average budget surpluses of $1.7 billion.
- This strong fiscal position enables the Government to deliver its election commitments alongside a general government infrastructure program of $71.7 billion across the budget and forward estimates.
- The investment in services and infrastructure will have long term economic benefits whilst also meeting the needs of a growing population.
- This budget continues efforts to moderate expense growth to align with revenue growth, with measures to reduce expenditure that leverage recent machinery of government changes.
- The Budget's strong fiscal position has been achieved without raising taxes. This has enabled the Government to reinvest in communities and help families with the cost of living.
- For the fourth consecutive year, New South Wales is projected to end the financial year with negative net debt – projected to be negative $8.8 billion at 30 June 2019.
- The State's strong fiscal position reflects the Government's ongoing commitment to deliver the investment that communities need while keeping debt sustainable and maintaining a triple-A credit rating.

3.1 Strong fiscal discipline today, delivering for tomorrow

This Budget demonstrates the Government's ongoing commitment to responsible financial management. At the same time, New South Wales is investing in services and infrastructure which has only been made possible by:

- maintaining surpluses, without unnecessarily raising taxes
- funding capital expenditure through budget surpluses and asset recycling proceeds as much as possible
- maintaining sustainable debt levels consistent with a triple-A credit rating (see Box 3.1), and
- growing the NSW Generations Fund (NGF), the State's dedicated debt retirement fund.

The *Fiscal Responsibility Act 2012* (FRA) provides a fiscal anchor for the Government with the legislated requirement to maintain a triple-A credit rating. New South Wales is the only jurisdiction to legislate this requirement, making it unique amongst Australian and international jurisdictions. The FRA includes legislated fiscal targets and principles of sound financial management to support the triple-A objective[1] (see Table 3.1 and Appendix E).

The Government believes maintaining the State's triple-A credit rating is important during uncertain economic times. Not only does it keep interest costs for the State as low as possible, it is a signal of fiscal discipline and economic strength. Yield spreads between triple-A and lower-rated government bonds can widen significantly during periods of economic stress, leading to higher costs of borrowing for non-triple-A rated governments. Additionally, a triple-A rating allows the State to maintain access to wholesale funding markets during times of market stress.

Table 3.1: Fiscal objective and targets

Requirements of the *Fiscal Responsibility Act 2012*	**Target met?**	**Explanation**
Objective: Maintain the triple-A credit rating		
S&P Global	✓	Reaffirmed AAA with a stable outlook in September 2018
Moody's	✓	Reaffirmed Aaa with a stable outlook in September 2018
Target 1: Annual expense growth less than the long-term average revenue growth	✓	Annual expense growth is less than long-term average revenue growth (5.6 per cent) across all five years
Target 2: Elimination of the State's unfunded superannuation liability by 2030	✓	NSW is on track to fully fund its superannuation liabilities by 2030 as per the triennial review completed in October 2018

The State's dedicated $10.8 billion debt retirement fund, the NGF, further supports the State's triple-A credit rating, allowing debt to be maintained at sustainable levels over the long term – see section 1.4 in Chapter 1 for more details.

Box 3.1: New South Wales is part of the world-class triple-A club

Both major global credit rating agencies, Moody's and S&P Global, re-affirmed the State's triple-A credit rating in September 2018. Once again New South Wales has been determined to have the lowest possible risk of defaulting on its debt – synonymous with very strong fiscal and economic health.

New South Wales is one of only two Australian states (see Chart 3.1) and one of five international sub-sovereigns rated triple-A by both major credit rating agencies[2].

A triple-A credit rating reflects an independent assessment of a strong fiscal and economic position, a solid institutional and governance framework, and sustainable debt levels. Triple-A rated jurisdictions are generally able to borrow at lower interest rates given their strength and stability relative to lower-rated governments.

[1] The principles of sound financial management are: responsible and sustainable spending, taxation and infrastructure investment; effective financial management, including sound policies and processes; and achieving intergenerational equity.

[2] This excludes the United States where states are assessed under a different methodology.

Chart 3.1: Credit ratings of Australian States and Territories as at June 2019

3.2 Fiscal discipline is the cornerstone of New South Wales' Budget

Due to tightening economic and revenue conditions, the Government has maintained a strong focus on expense discipline.

A budget surplus of $802 million is expected in 2018-19. The Government is projecting to deliver surpluses across the four years to 2022-23 (see Table 3.2) which average $1.7 billion per year.

Maintaining budget surpluses is important as this helps fund infrastructure (keeping debt at sustainable levels) and provides a buffer in times of economic uncertainty to allow the Government to respond to fiscal shocks or other unforeseen events (e.g. drought).

Table 3.2: General government sector budget result aggregates

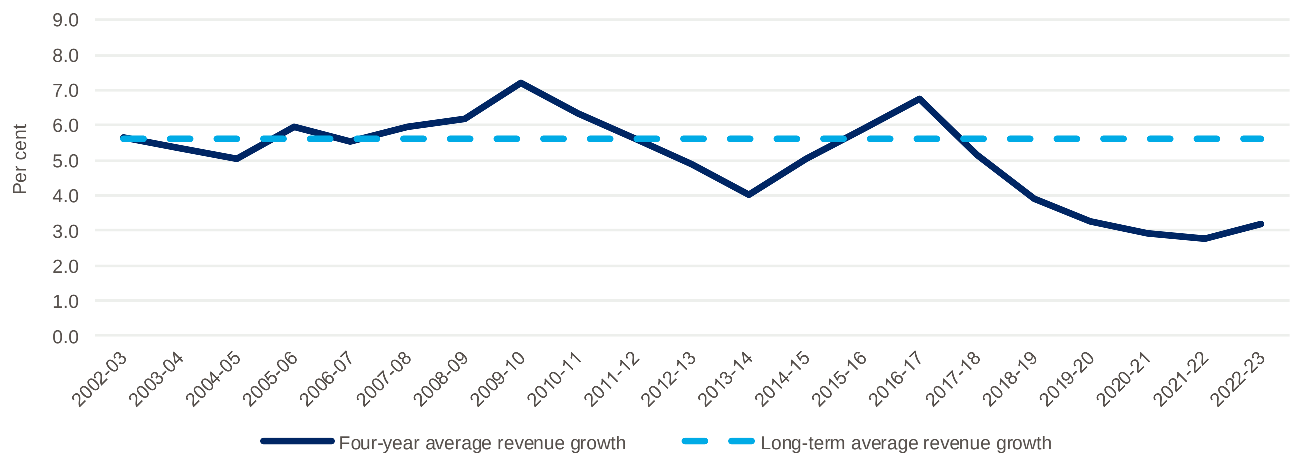
	2018-19 Revised	2019-20 Budget	2020-21	2021-22 Forward Estimates	2022-23
Revenue ($m)	81,128	84,316	87,632	90,018	92,009
Revenue growth (per cent p.a.)	0.6	3.9	3.9	2.7	2.2
Expenses ($m)	80,326	83,300	86,405	88,016	89,410
Expense growth (per cent p.a.)	5.0	3.7	3.7	1.9	1.6
Budget Result ($m)	802	1,016	1,227	2,002	2,599
Per cent of GSP	0.1	0.2	0.2	0.3	0.3

A solid revenue base with emerging pressures

The State's revenue position remains strong. However, revisions to stamp duty and GST revenue have put pressure on revenue growth, with marginally lower revenue in 2018-19 than previously forecast.

Revenue growth is forecast to average 2.8 per cent over the four years to 2021-22 (see Chart 3.2), which is higher than the 2.7 per cent forecast at the 2019 Pre-election Budget Update. This is primarily due to an increase in sales of goods and services, and revised returns on financial asset investments. Further detail on revenue can be found in Chapter 4.

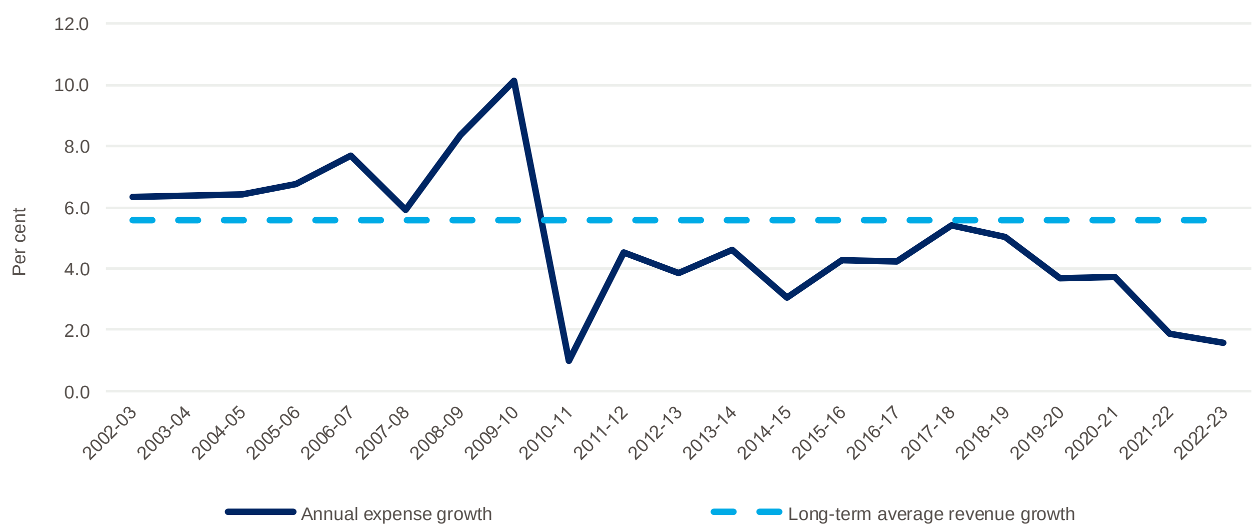
Chart 3.2: Four-year average revenue growth compared to long-term revenue growth



Maintaining tight control of expenses

In 2019-20, the annual expense growth rate is projected to be 3.7 per cent, which is below the long-term average rate of revenue growth (5.6 per cent) as required by the FRA (see Chart 3.3). As revenue growth continues to diverge further from the long-term rate, the importance of maintaining tight control on expenses grows. The Government's disciplined approach to financial management and continued achievement of its FRA targets are helping manage expenses.

Chart 3.3: Annual expense growth



Expense growth is expected to be 5.0 per cent in 2018-19, in line with the projection at the 2019 Pre-election Budget Update. This result has been achieved despite increased expenses flowing from the latest revaluation of NSW Self Insurance Corporation's (SICorp) scheme liabilities. This has been partially offset by a more efficient use of existing resources, providing more streamlined service delivery and reflecting recent machinery of government changes.

Changes in the budget result since 2018-19 Budget

Since the 2018-19 Budget and 2019 Pre-election Budget Update there have been a number of movements in expenses and revenue that have impacted the budget result.

The projected budget surpluses in the near term to 2020-21 have been revised down since the 2019 Pre-election Budget Update, primarily due to a write-down in Commonwealth GST receipts, lower transfer duty forecasts and reduced revenue from fines (see Table 4.3 in Chapter 4).

Table 3.3: Reconciliation of 2019-20 Budget to 2018-19 Budget[(a)]

	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m
Budget result: 2018-19 Budget	**1,425**	**1,528**	**1,412**	**1,855**
Changes from 2018-19 Budget to 2019 Pre-election Budget Update				
Policy measures				
Revenues	(79)	572	871	335
Expenses	(454)	(688)	(919)	(802)
Total policy measures	**(533)**	**(116)**	**(48)**	**(467)**
Parameter and other budget variations				
Revenues	264	175	509	587
Expenses	(310)	(443)	(424)	(357)
Total of parameter and other budget variations	**(46)**	**(268)**	**85**	**230**
Total policy measures, parameter and other budget variations	**(579)**	**(384)**	**37**	**(237)**
Budget result: 2019 Pre-election Budget Update	**846**	**1,143**	**1,449**	**1,617**
Changes from 2019 Pre-election Budget Update to 2019-20 Budget				
Policy measures				
Revenues	...	263	830	590
Expenses	11	(452)	(207)	202
Total policy measures	**11**	**(188)**	**623**	**792**
Parameter and other budget variations				
Revenues	(138)	(402)	(306)	(162)
Expenses	83	464	(538)	(244)
Total of parameter and other budget variations	**(55)**	**61**	**(845)**	**(406)**
Total policy measures, parameter and other budget variations	**(44)**	**(127)**	**(221)**	**386**
Budget result: 2019-20 Budget	**802**	**1,016**	**1,227**	**2,002**

(a) Positive amounts reflect a positive impact on the budget result e.g. an increase in revenue or a decrease in expenses.

NSW infrastructure program delivers for the next decade

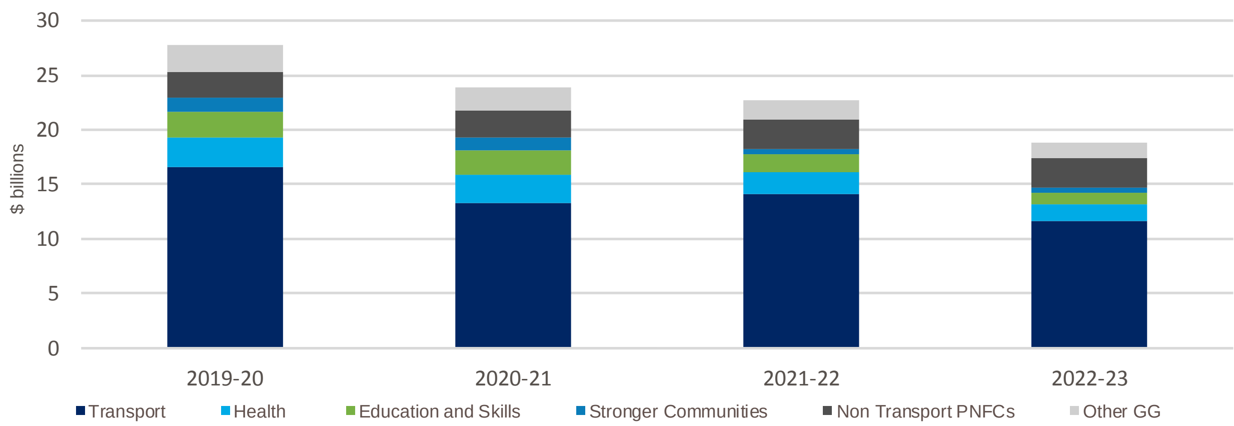
The 2019-20 Budget delivers another record general government infrastructure program with $71.7 billion projected over the four years to 2022-23. This represents an increase of $6.0 billion over the comparable four-year total at the 2018-19 Budget, driven by an additional $3.2 billion for Sydney Metro West, an additional $1.2 billion for the More Trains More Services program, and $1.6 billion more on hospitals and other infrastructure investments.

The Government is committed to investing in the economy and building for tomorrow, with future expenditure in productive infrastructure, including:

- metro projects such as Sydney Metro West, Sydney Metro City and Southwest, and North South Metro Rail Link
- new and upgraded roads including Pacific Highway, Princes Highway and Sydney Gateway
- investments in health for the new Bankstown-Lidcombe Hospital and redevelopment of the Royal Prince Alfred Hospital
- additional investment in education with eight new and 32 upgraded schools.

For the non-financial public sector (NFPS), over the next four years capital expenditure is projected to reach $93.0 billion, with road, rail and other transport infrastructure accounting for 60 per cent. The Government is also investing in other priority areas with health, education and justice related infrastructure making up 21 per cent of the four-year total (see Chart 3.4 and Budget Paper No. 2 *Infrastructure Statement*).

Chart 3.4: Non-financial public sector capital expenditure by cluster[(a)(b)]



(a) Clusters are reported where appropriate to align with new machinery of government changes announced in April 2019, which take effect from 1 July 2019.
(b) Numbers represented in the chart are on an eliminated government sector basis. This chart does not agree with individual agencies reporting which is done on an uneliminated basis, predominately due to showing the impact of leases provided by other clusters.

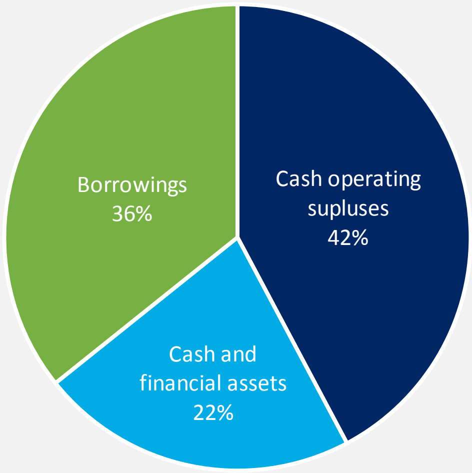
The Government is funding the State's record infrastructure program while maintaining debt levels consistent with a triple-A credit rating. This has been made possible by funding capital expenditure through consistent budget surpluses, reinvesting asset recycling proceeds, and maintaining manageable borrowing levels (see Box 3.2).

Box 3.2: Managing the Budget in times of uncertainty

Maintaining strong fiscal discipline and manageable levels of debt helps to insulate New South Wales against economic shocks. It also provides flexibility for the Government to respond in times of need such as the 2018-19 Emergency Drought Relief Package, as New South Wales is experiencing one of its driest years on record.

The Government's strategy for funding its record infrastructure program ensures that the State maintains acceptable levels of debt consistent with a triple-A rating (see Chart 3.5). Over the five years to June 2023, almost two-thirds of general government sector capital expenditure will be funded from non-debt funding sources, e.g. annual cash operating surpluses and the State's cash and financial asset investments (predominantly the proceeds of asset recycling).

Chart 3.5: Funding of the capital program across five years to June 2023[(a)]



(a) Source: General government sector cash flow statement as published in Appendix A1

NSW to deliver a fourth consecutive year of negative net debt

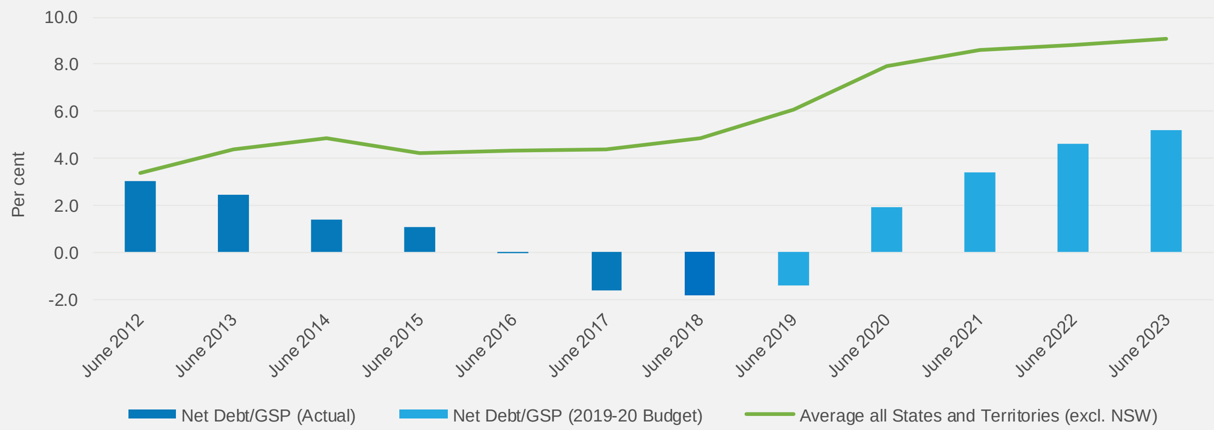
Net debt, which is a measure of the State's capacity to repay its debt immediately, is projected to be negative $8.8 billion at June 2019. This will be the fourth consecutive year of negative net debt, having reached a record low of negative $11.2 billion in June 2018. This negative net debt has been driven by the Government's successful asset recycling program and balance sheet reform, which has meant that over the past four years the Government has been able to minimise its reliance upon borrowings. New South Wales' net debt remains the lowest out of all States and Territories (see Box 3.3).

Box 3.3: New South Wales delivers low net debt relative to other jurisdictions

The Government is maintaining a sustainable level of debt consistent with a triple-A credit rating. The State is expected to deliver a fourth consecutive year of negative net debt with a June 2019 projection of negative 1.4 per cent of gross state product (GSP), lower than the average of all other State and Territories. This is projected to grow to 5.2 per cent of GSP by June 2023, as the State continues its transformative infrastructure investment.

Despite the projected increase in net debt to GSP over the forward estimates, New South Wales will remain well below the average of all other States and Territories at 9.1 per cent in June 2023 (see Chart 3.6 below).

Chart 3.6: Net debt to GSP: New South Wales vs other States and Territories[(a)(b)]



(a) Source: most recent published State and Territory budget data.
(b) June 2023 excludes South Australia as latest published data is 2018-19 Mid-Year Budget Review.

4. REVENUE

- The Government's program of tax reductions is continuing, with further rounds of payroll tax cuts and transfer duty threshold indexation commencing in 2019-20.
- Total revenue for New South Wales in 2019-20 is estimated at $84.3 billion, and $354.0 billion in the four years to 2022-23.
- While individual revenue sources can be highly volatile, the State's diverse revenue base is expected to support average annual growth of 3.2 per cent in the four years to 2022-23.
- A forecast recovery of housing market transaction volumes, and a return to positive price growth during 2019-20, will support forecast annual growth of transfer duty averaging 5.2 per cent in the four years to 2022-23.
- Payroll tax is growing steadily, with average growth of 4.6 per cent forecast in the four years to 2022-23. This is underpinned by forecasts of robust employment and an increasing contribution from wage growth.
- The forecast for GST revenue (including 'no worse off' payments) has been reduced by $290.0 million in 2018-19 and $2.3 billion in the four years to 2021-22, with a significant reduction in the national GST pool.

4.1 A continuing program of tax reductions

The Government is continuing with its program of tax cuts, including implementing indexation of transfer duty thresholds and further reductions in payroll tax.

Indexing transfer duty thresholds to the Consumer Price Index

As announced in the 2018-19 Half-Yearly Review, from 1 July 2019 transfer duty thresholds will be indexed to the Sydney Consumer Price Index. This will gradually increase thresholds and over time, reduce the amount of transfer duty paid on property purchases. With the exception of the 2004 introduction of additional duty on residential properties valued over $3 million, transfer duty brackets had not changed since 1986.

A new $900,000 payroll tax threshold in 2019-20

As announced in the 2018-19 Budget, the payroll tax threshold will be increased progressively from its previous level of $750,000 in 2017-18 to $1.0 million in 2021-22. The threshold will be increased from its current level of $850,000 in 2018-19 to $900,000 in 2019-20, $950,000 in 2020-21 and $1.0 million in 2021-22. This year's increase in the payroll tax threshold will save New South Wales' businesses $187.0 million and further threshold increases over the next two years will provide savings of $571.0 million.

4.2 2019-20 Budget revenue measures

The 2019-20 Budget announces new tax reductions totalling $66.0 million over the four years to 2022-23, including measures to provide drought assistance and relief from surcharge taxes for certain foreign retirees.

Table 4.1: New revenue measures

	2019-20 $m	2020-21 $m	2021-22 $m	2022-23 $m
Foreign Investor Surcharge exemption for retirement visa holders	(4)	(4)	(4)	(4)
Drought Assistance Package 2019-20	(60)	...	...	...
Fee-free training	(4)	(7)	(7)	(8)
More Trains, More Services Stage 2	165	642	400	...
Fast Rail Network	93	105	46	51
More express trains for Western Sydney	3	4	60	...
Transfer of the Country Regional Network to RailCorp	64	77	80	73
Other measures	6	13	16	18
Total new measures	**263**	**830**	**590**	**131**

Foreign Investor Surcharge exemption for retirement visa holders

From 1 July 2019, holders of retirement visas (subclass 410 and 405) will be exempt from foreign investor surcharges on transfer duty and land tax for principal places of residence. This measure will better align the treatment of visa holders in New South Wales with other states. The exemption will reduce Foreign Investor Surcharge revenue by $16.0 million over the four years to 2022-23.

Drought Assistance Package 2019-20

Additional drought relief will provide $50.0 million for one-year relief from Local Land Services annual rates and $10.0 million in Farm Innovation Fund loan interest relief in 2019-20.

Fee-free training

In fulfilling its election commitments, the Government will fund fee-free traineeships for young job seekers, and fee-free training and career advice to mature aged workers, reducing revenue from the sale of goods and services by $25.5 million in the four years to 2022-23.

From 1 January 2020, 70,000 fee-free traineeships will be provided to young job seekers through Smart and Skilled Vocational Education and Training (VET) providers. The Government will also provide free TAFE qualifications and career counselling for up to 30,000 mature aged workers who are seeking to re-train or re-enter the workforce.

More Trains, More Services Stage 2

The Transport cluster will increase service capacity on the T4 Eastern Suburbs and Illawarra Line, T8 Airport Line and South Coast Line by 2021-22. This will increase fee for service revenue from RailCorp (under the Transport Asset Holding Entity) by $1.2 billion over the three years to 2021-22.

Fast Rail Network

The Government will provide $295.0 million in additional funding to start early works for the Fast Rail Network, increasing fee for service revenue from RailCorp to Transport for NSW.

More express trains for Western Sydney

This measure provides eight additional express train services on the T1 Western Line across morning and evening peak periods. As a result, fee for service revenue from RailCorp to Transport for NSW will increase by $66.6 million over the three years to 2021-22.

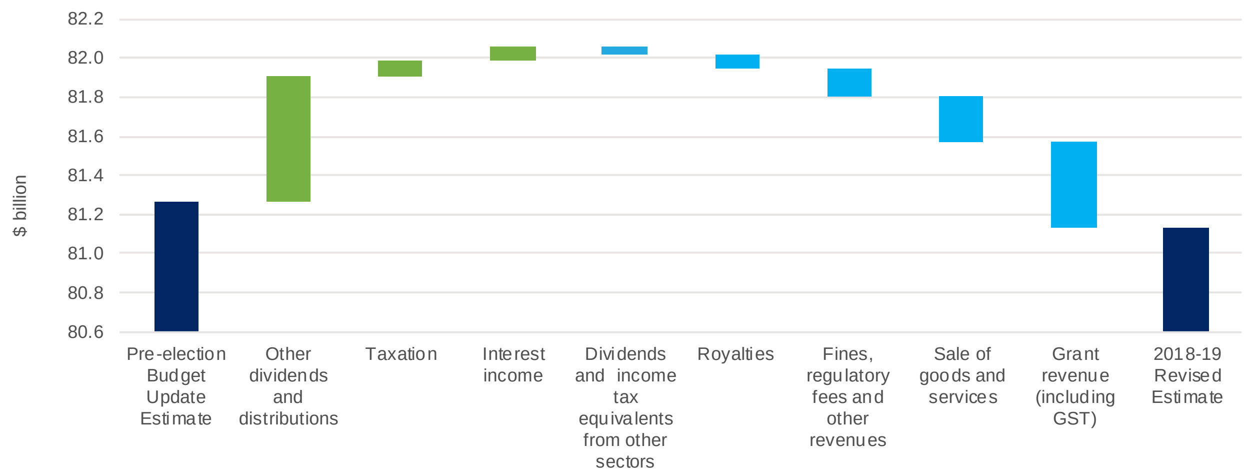
Transfer of the Country Regional Network to RailCorp

From 1 July 2019, the Country Regional Network will move from the general government sector under Transport for NSW to the public non-financial corporations sector under RailCorp. This will increase fee for service revenue by $293.9 million over the four years to 2022-23.

4.3 General government revenue

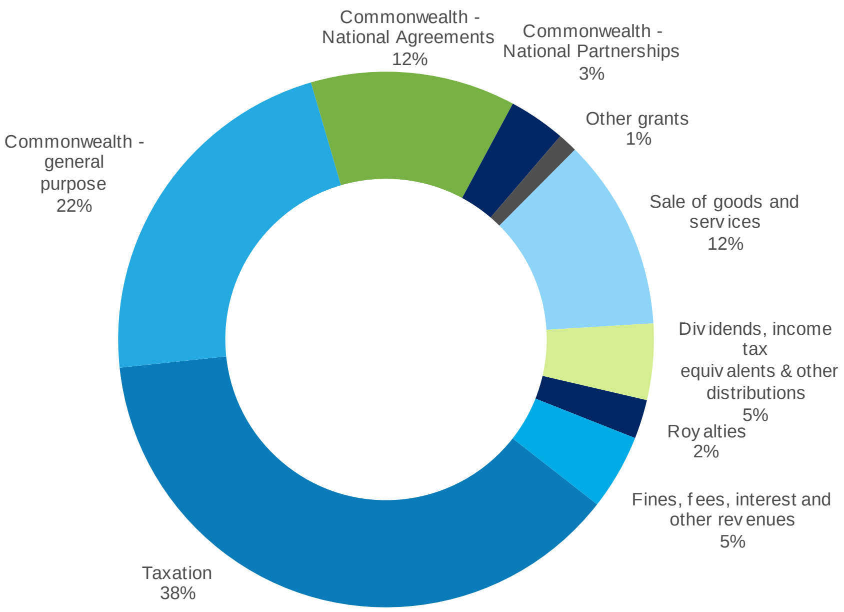
General government revenue is estimated to be $81.1 billion in 2018-19, $137.6 million lower than forecast in the 2019 Pre-election Budget Update (see Chart 4.1). The main drivers of change since the 2019 Pre-election Budget Update are an increase of $639.0 million in other dividends and distributions, which is partially offset by a $290.0 million downward revision in GST revenue and a $173.0 million downward revision in transfer duty.

Chart 4.1: Changes in 2018-19 revenue – 2019 Pre-election Budget Update to 2019-20 Budget



Revenue is forecast to reach $84.3 billion in 2019-20, $3.2 billion higher than revenue in 2018-19. Taxation revenue will account for 37.8 per cent of this total, while Commonwealth grants, including GST, will provide 38.4 per cent (see Chart 4.2).

Chart 4.2: Composition of total revenue, 2019-20



General government revenue is expected to grow at an average annual rate of 3.2 per cent over the four years to 2022-23 (Table 4.2). Taxation revenue is forecast to grow by 4.1 per cent per annum on average over the four years to 2022-23, supported by a recovery in transfer duty. GST revenue is expected to grow at an average annual rate of 4.5 per cent over the four years to 2022-23.

Table 4.2: General government sector - summary of revenue

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	% Average growth p.a. 2018-19 to 2022-23
Revenue from transactions							
Taxation	31,326	31,263	31,841	33,876	35,296	36,665	4.1
Grant revenue (including GST)	31,860	31,857	33,003	34,260	35,953	37,635	4.3
Sale of goods and services	8,508	8,797	9,762	10,421	9,972	8,988	0.5
Interest income	558	531	333	322	288	272	(15.4)
Dividends and income tax equivalents from other sectors	1,578	1,921	1,877	1,359	796	779	(20.2)
Other dividends and distributions	2,114	1,796	2,001	2,002	2,203	2,351	7.0
Royalties	1,763	2,074	1,988	1,967	1,961	1,955	(1.5)
Fines, regulatory fees and other revenues	2,967	2,888	3,510	3,425	3,549	3,363	3.9
Total revenue	**80,672**	**81,128**	**84,316**	**87,632**	**90,018**	**92,009**	**3.2**

The increase in forecast revenue since the 2019 Pre-election Budget Update in the four years to 2021-22 is $675.0 million (Table 4.3). Highlighting the volatility in individual revenue sources, significant revisions include:

- an upward revision of other dividends and distributions of $1.8 billion in part due to strong fund performance in 2019, and changes to expected NSW Generations Fund and Social and Affordable Housing Fund distributions from applying the recently introduced Attribution Managed Investment Trust regime
- a downward revision to forecast GST revenue (including ‘no worse off’ payments) of $2.3 billion, due to revisions of the GST pool

- a reduction in land tax of $328.7 million, reflecting a decline in residential land values[1]
- reduced transfer duty of $232.2 million, as the downturn in residential property transactions in the first half of 2019 was slightly greater than expected[1]
- reduced revenue from fines, fees and other revenue totalling $955.6 million.

Table 4.3: Revenue reconciliation

	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	Four year total $m
Revenue - 2018-19 Budget	**81,081**	**83,709**	**85,728**	**88,668**	**339,186**
Policy measures	(79)	572	871	335	1,699
Parameter and other variations	741	(58)	262	227	1,172
Revenue - 2018-19 Half-Yearly Review	**81,743**	**84,222**	**86,861**	**89,230**	**342,056**
Parameter and other variations	(477)	233	247	360	363
Revenue - Pre-election Budget Update	**81,266**	**84,455**	**87,108**	**89,590**	**342,419**
Policy changes since Pre-election Budget Update					
New policy measures	...	263	830	590	1,683
Parameter changes since Pre-election Budget Update					
Taxation					
Transfer duty	(173)	(119)	(123)	185	(230)
Payroll tax	19	2	62	56	140
Land tax	6	(51)	(108)	(165)	(319)
Other taxes	232	(89)	44	46	233
Grant revenue					
GST	(290)	(521)	(712)	(835)	(2,358)
National Agreement payments	85	(40)	(80)	(116)	(152)
National Partnership payments	(220)	498	127	183	588
Other grant revenue	(22)	(83)	(18)	(12)	(135)
Sale of goods and services	(231)	(315)	238	231	(77)
Interest income	67	9	4	(0)	80
Dividends and income tax equivalents from other sectors	(39)	247	99	35	342
Other dividends and distributions	639	370	356	470	1,835
Royalties	(73)	(22)	34	61	...
Fines, regulatory fees and other revenues	(139)	(288)	(228)	(301)	(956)
Total changes since Pre-election Budget Update	**(138)**	**(139)**	**524**	**428**	**675**
Revenue 2019-20 Budget	**81,128**	**84,316**	**87,632**	**90,018**	**343,094**

[1] Includes both policy and parameter changes

4.4 Taxation revenue

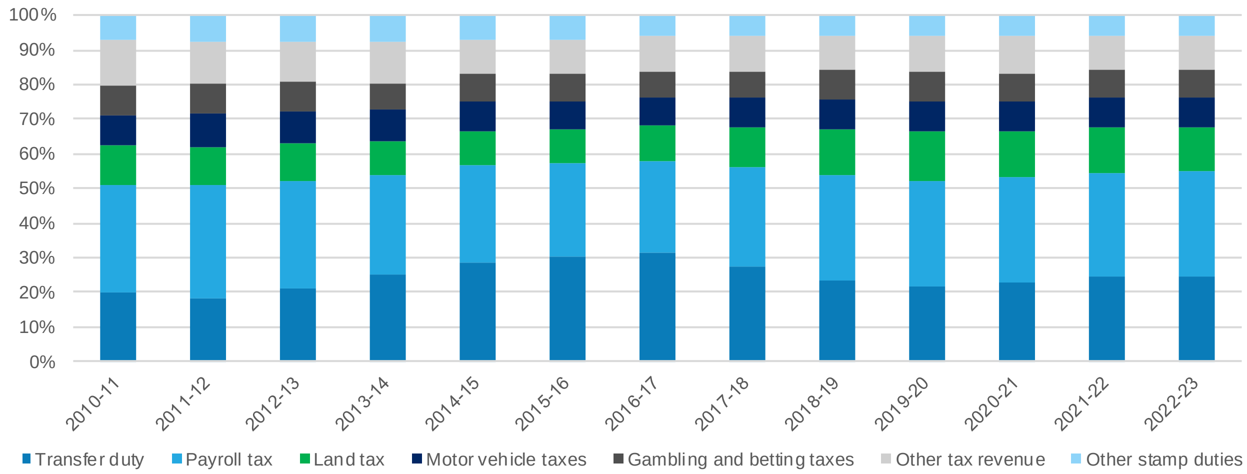
State taxation revenue is forecast to be $31.8 billion in 2019-20 (see Table 4.4). Payroll tax is the largest single source of taxation revenue, accounting for 30.8 per cent in 2019-20 (see Chart 4.3), followed by transfer duty, which is forecast to account for 21.6 per cent. Taxation revenue growth is expected to average 4.1 per cent per annum in the four years to 2022-23.

Table 4.4: General government sector – summary of taxation revenue

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 $m	2022-23 $m	% Average growth p.a. 2018-19 to 2022-23
Stamp duties							
Transfer duty	8,666	7,374	6,887	7,721	8,565	9,038	5.2
Insurance	983	1,013	1,061	1,125	1,166	1,216	4.7
Motor vehicles	834	790	807	818	844	871	2.5
Other	(1)	1	0	0	0	0	…
	10,482	**9,178**	**8,755**	**9,664**	**10,575**	**11,126**	**4.9**
Payroll tax	8,835	9,373	9,796	10,294	10,735	11,212	4.6
Land tax	3,735	4,225	4,538	4,606	4,556	4,578	2.0
Taxes on motor vehicle ownership and operation							
Weight tax	2,242	2,206	2,277	2,404	2,477	2,617	4.4
Vehicle registration and transfer fees	436	444	455	468	475	500	3.0
Other motor vehicle taxes	41	40	42	44	46	48	4.7
	2,719	**2,690**	**2,774**	**2,916**	**2,998**	**3,165**	**4.1**
Gambling and betting taxes							
Racing	112	128	167	154	165	178	8.5
Club gaming devices	779	781	800	824	851	878	3.0
Hotel gaming devices	793	863	898	943	991	1,044	4.9
Lotteries and lotto	356	458	470	492	514	537	4.0
Casino	294	371	281	295	273	286	(6.3)
Other gambling & betting	16	15	15	16	17	18	5.2
	2,350	**2,616**	**2,631**	**2,723**	**2,810**	**2,939**	**3.0**
Other taxes and levies							
Health insurance levy	204	210	214	218	224	231	2.4
Parking space levy	106	110	112	114	116	119	2.0
Emergency services levy contributions	794	785	895	1,094	1,016	1,004	6.3
Emergency services council contributions	124	142	175	162	160	162	3.3
Waste and environment levy	769	772	771	777	788	802	0.9
Government guarantee fee	287	300	336	357	395	443	10.3
Private transport operators levy	23	78	82	85	17	8	(43.9)
Pollution control licences	20	19	21	21	22	22	4.0
Other taxes	877	765	743	842	883	855	2.8
	3,204	**3,181**	**3,347**	**3,671**	**3,621**	**3,645**	**3.5**
Total taxation revenue	**31,326**	**31,263**	**31,841**	**33,876**	**35,296**	**36,665**	**4.1**
Annual change	*1.7%*	*-0.2%*	*1.8%*	*6.4%*	*4.2%*	*3.9%*	

The volatility of transfer duty revenue is a significant fiscal challenge for New South Wales. During the property market boom, transfer duty grew to be the State's largest tax, representing 31.4 per cent of tax revenue in 2016-17 (Chart 4.3). The decline in the property market over the past 18 months has seen forecast transfer duty fall to 21.6 per cent of tax revenue in 2019-20. Since the 2017-18 Budget, the four-year forecast for transfer duty has been reduced by $10.6 billion.

Chart 4.3: Composition of taxation revenue

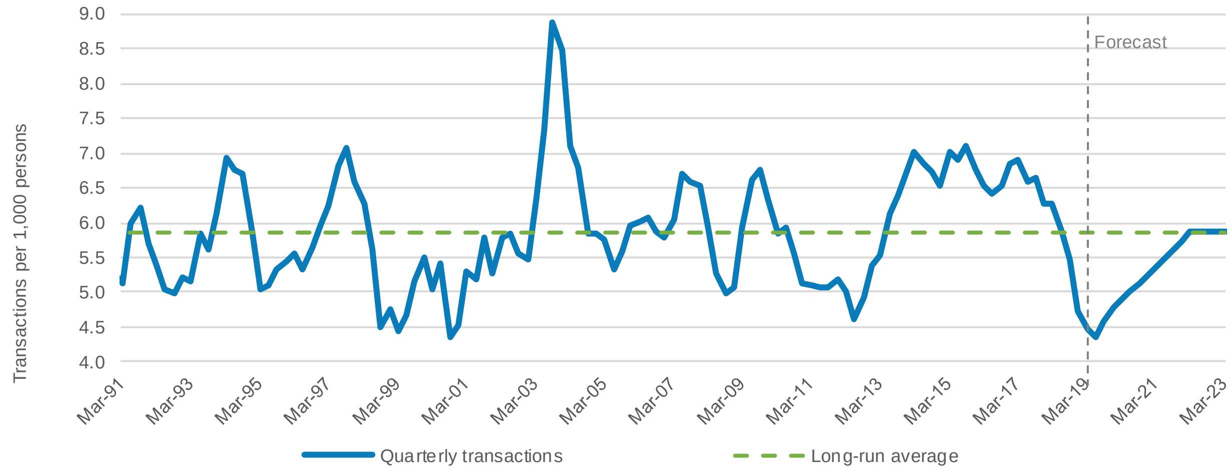


Transfer duty

Transfer duty revenue is expected to be $7.4 billion in 2018-19, $173.0 million lower than forecast at the 2019 Pre-election Budget Update. Excluding the WestConnex transaction, total transfer duty is expected to grow by 1.0 per cent in 2019-20, and at an average annual rate of 7.3 per cent in the four years to 2022-23. Downward revisions in the near term are largely a result of the residential property market. Upward revisions in the outer years of the forecast period incorporate higher forecasts for large non-residential transactions.

Residential transfer duty is expected to grow at an average annual rate of 8.8 per cent over the four years to 2022-23. This forecast is largely driven by the expected return to average transaction volumes. As interest rate cuts and relaxed credit restrictions flow through into increased lending, residential transaction volumes are forecast to rebound strongly from the middle of 2019 (see Chart 4.4). Price growth, however, is expected to be restrained during the forecast period, largely keeping pace with inflation.

Chart 4.4: Residential transaction volumes



Source: Revenue NSW, ABS 3101.0, NSW Treasury

Weakness in the residential property market has been partially offset by the non-residential property market. Setting aside the WestConnex transaction, revenue from transfers of commercial property is expected to grow at an average annual rate of around 4.0 per cent in the four years to 2022-23. The increased share of large commercial transactions during the forecast years is likely to increase volatility of transfer duty revenue.

Other stamp duties

Other stamp duties include insurance duty and motor vehicle registration duty. Revenue from other stamp duties is expected to reach $1.8 billion in 2018-19 – an upward revision of $46.2 million since the 2019 Pre-election Budget Update.

Insurance duty has been higher than expected in 2018-19, resulting in a $33.0 million upward revision in expected revenue. A higher revenue base in 2018-19 contributes to an upward revision of $82.0 million in the subsequent three years to 2021-22, which is partially offset by slightly lower forecasts for the underlying economic drivers.

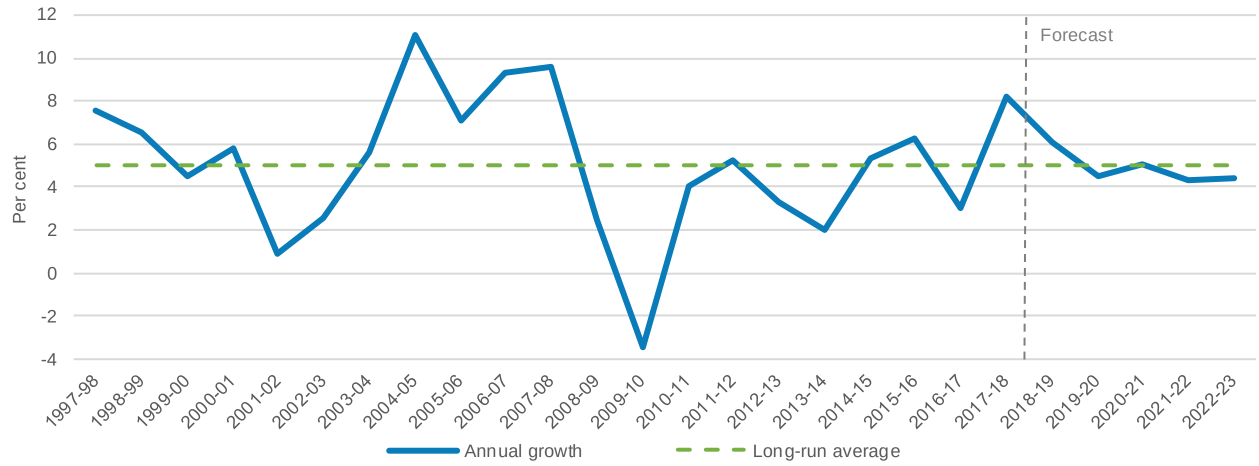
Motor vehicle registration duty in 2018-19 is expected to be $12.0 million higher than forecast at the 2019 Pre-election Budget Update, reflecting slightly higher-than-expected growth of vehicle prices. Motor vehicle registration duty has been revised down by $25.0 million over the three years to 2021-22 reflecting a revised outlook for new vehicle sales.

Payroll tax

Payroll tax is the State's largest source of taxation revenue. Payroll tax revenue in 2018-19 is expected to be $9.4 billion, an upward revision of $222.6 million since the 2018-19 Budget and $19.3 million since the 2019 Pre-election Budget Update. Payroll tax revenue has been stronger than expected since the 2018-19 Budget due to higher-than-expected growth in employment, partially offset by weaker-than-expected growth of wages.

Payroll tax revenue of $9.8 billion is forecast for 2019-20, growing by 4.5 per cent from 2018-19. Payroll tax revenue over the four years to 2022-23 is forecast to grow at an average annual rate of 4.6 per cent. This is slightly below the long-run average of 5.1 per cent (see Chart 4.5), reflecting increases in the tax-free threshold, which reduces the growth in payroll tax revenue. In 2019-20, the threshold will be $900,000, increasing to $1.0 million by 2021-22.

Chart 4.5: Payroll tax growth



Source: NSW Treasury

Box 4.1: Businesses to benefit from streamlined payroll tax system

In November 2018, the Government accepted all 12 recommendations to streamline and modernise the payroll tax system made by a NSW Productivity Commission Review of Payroll Tax Administration. The government has already made good progress in implementing the recommendations to boost business productivity. The changes, which will take effect from 1 July 2019, include:

- monthly returns will be replaced with a single annual return for businesses with payroll tax liabilities up to $20,000 per annum
- pre-set monthly payments will be available for businesses with liabilities between $20,000 and $150,000 per annum, freeing them from the need to prepare detailed calculations every month
- all businesses will have an extra week to submit their annual reconciliation.

Revenue NSW is updating its systems and processes to implement the remaining Review recommendations, including improved materials to support a greater focus on early engagement and education, as well as improvements to its audit process. Through the Board of Treasurers and other relevant interjurisdictional forums, New South Wales is actively leading work to progress recommendations for greater harmonisation across jurisdictions, broadening the productivity benefits of the Review right across the nation.

Land tax

Land tax revenue is expected to be $4.2 billion in 2018-19, in line with the 2019 Pre-election Budget Update. Forecast land tax has been reduced by $334.9 million over the three years to 2021-22.

Residential land values are forecast to decline by 9.0 per cent in 2019, while commercial land values are forecast to rise by 2.0 per cent, reflecting movements in property prices.

Land tax is forecast to grow by 2.0 per cent in the four years to 2022-23.

Taxes on motor vehicle ownership and operation

Motor vehicle taxes are expected to be $7.0 million higher in 2018-19 than at the 2019 Pre-election Budget Update.

Compared to the 2018-19 Budget, motor vehicle taxes are expected to be $63.0 million lower in 2018-19, reflecting slower growth in the vehicle stock. Motor vehicle tax revenue is expected to grow by 4.1 per cent on average each year over the four years to 2022-23.

Gambling and betting taxes

Gambling tax revenue is expected to be $2.6 billion in 2018-19, with an upward revision of $83.9 million since the 2019 Pre-election Budget Update and $168.7 million since the 2018-19 Budget. However, gambling tax revenue has been revised downwards by $178.0 million over the three years to 2021-22 since the 2019 Pre-election Budget Update.

Casino revenue has been revised up by $75.0 million in 2018-19 and down by $202.4 million over the three years to 2021-22 since the 2019 Pre-election Budget Update. Lotteries revenue has been revised up by $100.5 million since the 2019 Pre-election Budget Update over the four years to 2021-22, reflecting an unexpected increase in the number of high lottery jackpots and stronger expectations of growth in lotteries revenue.

Other taxes and levies

Other taxes and levies are expected to provide $3.2 billion in 2018-19, growing at an average annual rate of 3.5 per cent in the four years to 2022-23. Revenue from the Emergency Services Levy (including insurer and council contributions) is forecast to be $1.1 billion in 2019-20 and $4.7 billion over the four years to 2022-23. The increase, relative to the 2018-19 Budget, is largely due to additional contributions to the workers compensation scheme to provide greater care and support for firefighters diagnosed with one of 12 prescribed cancers. This legislative change was approved by Parliament with support from across the major and minor parties and was included in the 2018-19 Half-Yearly Review and the 2019 Pre-election Budget Update.

Revenue from waste and environment levies is forecast to provide $770.8 million in 2019-20 and $3.1 billion over the four years to 2022-23, reflecting revised expectations for volume growth in leviable waste.

In 2019-20, Local Land Services annual rates have been revised down by $50.0 million due to the decision to waive this payment as part of the 2019-20 Drought Relief Package.

4.5 Grant revenue

Grant revenue is comprised primarily of general purpose grants (including GST) and specific purpose revenues in the form of funding under National Agreements and National Partnerships. Total Commonwealth grant revenue is expected to grow by 3.5 per cent to $32.4 billion in 2019-20 and by an average of 4.3 per cent per annum over the four years to 2022-23 (see Table 4.5).

Table 4.5: Grant revenue

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	% Average growth p.a. 2018-19 to 2022-23
Commonwealth - general purpose	17,955	17,888	18,685	19,789	20,953	21,981	5.3
GST revenue	17,911	17,835	18,684	19,789	20,926	21,288	4.5
Other general purpose grants	44	53	1	...	27	693	90.6
Commonwealth - National Agreements	9,844	10,130	10,431	11,046	11,679	12,360	5.1
Commonwealth - National Partnerships	3,129	2,848	2,888	2,359	2,263	2,204	(6.2)
Other Commonwealth payments	444	410	372	440	436	459	2.9
Total Commonwealth grants	**31,372**	**31,275**	**32,376**	**33,635**	**35,331**	**37,004**	**4.3**
Annual change in Commonwealth grants	*2.0%*	*-0.3%*	*3.5%*	*3.9%*	*5.0%*	*4.7%*	
Other grants	487	581	627	625	622	631	2.1
Total grant revenue	**31,860**	**31,857**	**33,003**	**34,260**	**35,953**	**37,635**	**4.3**

General purpose grants

Forecast New South Wales GST revenue (including 'no worse off' payments) has been reduced by $2.3 billion over the four years to 2021-22 compared to the 2019 Pre-election Budget Update. Building on a significant downward revision to the GST pool in the Commonwealth's 2018-19 Mid-Year Economic and Fiscal Outlook (MYEFO), the Commonwealth's 2019-20 Budget further lowered forecasts of the national GST pool by $8.3 billion over the four years to 2021-22. This included a reduction of $1.8 billion in 2019-20.

GST revenue is estimated to be $18.7 billion in 2019-20, 4.8 per cent higher than in 2018-19, with average growth of 4.5 per cent per annum over the four years to 2022-23 (see Table 4.6).

The GST pool is expected to grow at an average of 4.4 per cent per annum in the four years to 2022-23. Over the same period, New South Wales' relativity is forecast to rise, reflecting Western Australia's current strong royalty revenues as well as the recent downturn in the housing market, felt particularly in New South Wales and Victoria.

Downside risks to the national GST pool forecast include weaker household consumption and dwelling investment, and changes in the share of consumption subject to GST. The possibility of elevated iron ore prices beyond 2019 presents an upside risk for New South Wales' share of GST. The potential significance of these risks is considered further in *Appendix B: Fiscal Risks and Budget Sensitivities*.

Table 4.6: GST revenues to New South Wales – reconciliation statement[(a)]

	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22	Four year total
	$m	$m	$m	$m	$m
2018-19 Budget	**18,405**	**18,849**	**19,681**	**20,457**	**77,392**
Change due to:					
2017-18 adjustment	(102)	…	…	…	(102)
Change in population	11	17	…	7	35
Change in pool	(189)	(211)	(244)	(66)	(710)
Change in relativities	…	550	1,064	1,362	2,977
Pre-election Budget Update	**18,125**	**19,205**	**20,501**	**21,761**	**79,592**
Change due to:					
Change in population	(18)	(17)	(11)	2	(44)
Change in pool	(272)	(504)	(731)	(817)	(2,324)
Change in relativities	…	…	30	(20)	10
'No worse off' payments	...	...	...	27	27
2019-20 Budget	**17,835**	**18,684**	**19,789**	**20,953**	**77,261**
Change since 2018-19 Budget	**(570)**	**(165)**	**108**	**496**	**(131)**

(a) The Commonwealth Government will provide separate untied grants between 2021-22 to 2026-27 to ensure states and territories are financially no worse off under changes to the Horizontal Fiscal Equalisation system ('no worse off' payments). These payments are not part of the GST pool and are counted as other general purpose grant revenue.

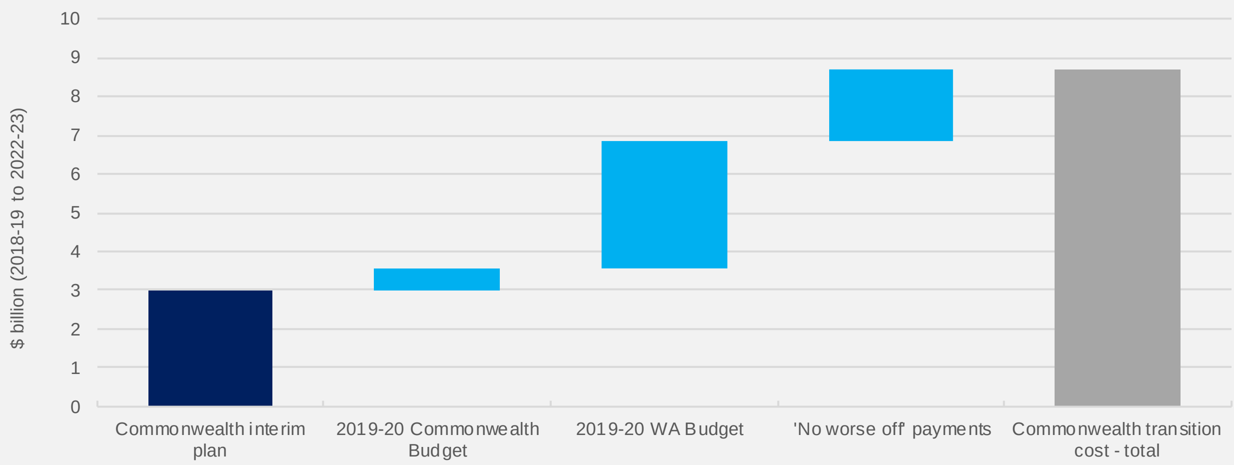
Box 4.2: Transitional costs for the new Horizontal Fiscal Equalisation (HFE) scheme are growing rapidly

The Commonwealth Government legislated changes to HFE in late 2018 as a response to the Productivity Commission inquiry into HFE (the PC inquiry). The changes included a new HFE benchmark and a transition plan to 2026-27.

New South Wales estimates the new HFE system will cost the Commonwealth $8.7 billion in the four years to 2022-23. This is $5.7 billion higher than the Commonwealth estimated in its interim response to the PC inquiry in July 2018 (see Chart 4.6).

Western Australia is projected to receive $7.7 billion in total from 2019-20 to 2022-23 including $4.7 billion to support a Commonwealth-funded 0.70 relativity floor. Payments to Western Australia are now expected to be $5.3 billion higher than the Commonwealth had estimated in its interim response to the PC inquiry.

Chart 4.6: Commonwealth HFE transition costs



The increase in total HFE scheme costs reflects Western Australia's current strong royalty revenues and the Commonwealth Grants Commission's recent assessment that Western Australia's relative wage pressures had decreased substantially. In addition, recent housing market downturns concentrated in New South Wales and Victoria have also increased their relativities – resulting in higher 'no worse off' payments.

New South Wales led efforts through the Board of Treasurers to secure a legislated 'no worse off' guarantee from the Commonwealth.

The Commonwealth's 'no worse off' guarantee is in place over a six-year period to 2026-27. Based on New South Wales projections, the Commonwealth will provide $1.9 billion nationally and $720.0 million to New South Wales in 'no worse off' payments in 2021-22 and 2022-23.

State Treasurers will continue to work together to ensure the Commonwealth's 'no worse off' guarantee is upheld. This includes New South Wales leading on measures through the Board of Treasurers to ensure overall Commonwealth tied funding is not reduced. However, there is a risk to New South Wales' revenue if the Commonwealth does not meet its legislated obligations to ensure states are no worse off as a result of the scheme.

Western Australia's 2019-20 Budget demonstrates how the Commonwealth's new HFE arrangements delivers Western Australia a significant windfall and competitive advantage. Western Australia will now return to surplus in 2018-19, assisted by a $434.0 million prepayment of the Commonwealth funded 0.70 relativity floor. Western Australia can also spend more on services and provide a lower tax burden than other states.

According to Western Australia's 2019-20 Budget, the projected $5.0 billion in Commonwealth GST top up payments to 2021-22 will fund debt reduction and also deliver Western Australia's lowest increase in household tariffs, fees and charges since 2006-07. Western Australia is also now planning to increase targeted investments in key services and job creating initiatives.

National Agreements

National Agreements provide ongoing payments for specific purposes from the Commonwealth to the states.

Revenue from National Agreements is forecast to total $10.4 billion in 2019-20, an increase of 3.0 per cent on 2018-19. This growth will rise to an average annual rate of 5.1 per cent over the four years to 2022-23. Table 4.7 summarises National Agreement payments by key service delivery area.

Since the 2019 Pre-election Budget Update, revenue from National Agreements has fallen by $127.9 million over the four years to 2021-22. This is primarily due to amendments to health activity level assumptions.

Table 4.7: National Agreement payments to New South Wales

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	% Average growth p.a. 2018-19 to 2022-23
Health	6,068	6,741	6,854	7,269	7,704	8,166	4.9
Education	2,270	2,429	2,601	2,784	2,972	3,175	6.9
Skills and workforce development	577	485	492	500	508	517	1.6
Affordable housing	434	476	484	493	494	502	1.3
Disability	494	(0)	...	...	...	...	...
Total National Agreements	**9,844**	**10,130**	**10,431**	**11,046**	**11,679**	**12,360**	**5.1**

National Partnerships

The Commonwealth provides National Partnership payments to support specified projects, ongoing service delivery or service delivery improvements.

New South Wales revenue from National Partnerships is expected to be $2.9 billlion in 2019-20, and is expected to fall by 6.2 per cent per annum on average over the four years to 2022-23. This is primarily due to the DisabilityCare Australia Fund payment profile and the expiry of some National Partnerships during this period.

Transport infrastructure revenue comprises the largest component of total National Partnership revenues, with $1.7 billion expected in 2019-20 and $6.1 billion over the four years to 2022-23 (see Table 4.8).

Table 4.8: National Partnership payments to New South Wales[(a)]

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	% Average growth p.a. 2018-19 to 2022-23
Transport [(b)]	2,415	1,700	1,739	1,358	1,353	1,632	(1.0)
Education and skills	146	224	206	148	88	...	(100.0)
Disability	186	547	607	618	630	350	(10.6)
Health	127	146	109	61	54	98	(9.5)
Housing	30	...	...	...	...	...	...
Environment	127	99	76	86	50	36	(22.4)
Other	97	131	151	88	89	89	(9.3)
Total National Partnership payments	**3,129**	**2,848**	**2,888**	**2,359**	**2,263**	**2,204**	**(6.2)**

(a) The implementation of AASB 15 and 1058 from 2019-20 onwards means it is not possible to compare infrastructure grants with prior years.
(b) Includes Asset Recycling Initiative payments.

Changes to accounting standards affect National Partnership infrastructure grant revenues from 1 July 2019 (see Box 4.3 below).

Since the 2019 Pre-election Budget Update, Commonwealth transport grants have increased by $343.1 million over the four years to 2021-22, primarily due to changes in the accounting standards, additional funding for Urban Congestion Fund projects and other roads funding announced in the Commonwealth's 2019-20 Budget.

National Partnership infrastructure funding provided in the Commonwealth 2019-20 Budget continues New South Wales' funding disadvantage on a per capita basis relative to other states. For example, Queensland is expected to receive more than double New South Wales average per capita allocation of Commonwealth infrastructure funding over the four years from 2018-19.

Since the 2019 Pre-election Budget Update, an additional $97.8 million over the four years to 2021-22 has been provided for Stage 1 of the Sustainable Diversion Limits Adjustment Supply and Constraints Measures in the Murray-Darling Basin. The funding profile of the Project Agreement for Small Business Regulatory Reform has also been adjusted to reflect receipt of $56.9 million from the Commonwealth in 2019-20 rather than 2018-19.

The Commonwealth 2019-20 Budget provided one-year extensions to the National Partnership on Public Dental Services for Adults to 2019-20 and the National Partnership on Universal Access to Early Childhood Education to the end of the 2020 calendar year. These extensions deliver additional funding of $135.4 million to 2020-21. The ad hoc rolling nature of these agreements highlights the need for greater funding certainty and sustainability in areas of national priority and ongoing service delivery by states in partnership with the Commonwealth.

Box 4.3: Budget impacts from the new revenue accounting standards

From 1 July 2019, two new accounting standards affecting revenue will apply: AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-For-Profit Entities*.

AASB 15 and AASB 1058 change the timing of the recognition of revenue to be aligned with the completion of the related performance obligations of the State. This means the payment profile is adjusted regarding Commonwealth tied grants to New South Wales under some infrastructure related National Partnership Agreements. A small component of this impact also applies to long-term licences issued by the State.

The impact on revenue varies across each year of the budget and forward estimates (see Table 4.9 below).

Table 4.9: Impact of AASB 15 and AASB 1058 on general government sector revenue

	2018-19[(a)]	2019-20	2020-21	2021-22	2022-23
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
Total revenue (before impact of AASB 15/1058)	81,128	84,168	87,799	89,810	92,065
Impact of AASB 15 and AASB 1058	...	148	(167)	208	(56)
Total revenue at 2019-20 Budget	**81,128**	**84,316**	**87,632**	**90,018**	**92,009**

(a) The 2018-19 revised estimate is not affected as the new accounting standards are effective from 1 July 2019.

For a full reconciliation of the impact of all new accounting standards applying from 1 July 2019 reflected in the 2019-20 Budget, see Table A2.5 in Appendix A2 *Statement of Significant Accounting Policies and Forecast Assumptions*.

Other Commonwealth payments

Other Commonwealth payments are forecast to be $409.9 million in 2018-19. This represents an $18.9 million downgrade in revenue since the 2019 Pre-election Budget Update. Over the three years to 2021-22, other Commonwealth payments have been revised down by $74.2 million. Downward revisions over the three years mainly reflect revised expectations for Commonwealth funding to the Ministry of Health.

Other grants

Other grants are expected to provide $581.1 million in 2018-19 and grow by 2.1 per cent over the four years to 2022-23. This forecast is broadly unchanged relative to the 2019 Pre-election Budget Update.

4.6 Other revenues

Sale of goods and services

Sale of goods and services is expected to generate revenue of $8.8 billion in 2018-19, and is forecast to grow by 0.5 per cent in the four years to 2022-23.

In 2018-19, sale of goods and services revenue has been revised down by $230.6 million compared to the 2019 Pre-election Budget Update. This is due to lower fee for service revenue associated with the transfer of North West Metro assets from RailCorp to Sydney Metro and lower revenue to Infrastructure NSW associated with offsetting reductions in spending on Walsh Bay Precinct and Western Sydney Stadium projects. This is partially offset by stronger revenue associated with the Highly Specialised Drugs arrangements, under which the Commonwealth provides funding for specialised medicines prescribed by public hospitals.

Over the three years to 2021-22, upward revisions to sale of goods and services revenue include higher revenue from the highly specialised drugs arrangements. Passenger revenue is also higher in the three years to 2021-22 due to recognition of Newcastle and Inner West bus services farebox revenue resulting from new accounting standard AASB 15 *Revenue*. This is partially offset by a reduction in Property NSW rental income due to the new accounting standard AASB 16 *Leases*.

Fee for service revenue has been revised up by $2.0 billion since the 2019 Pre-election Budget Update over the three years to 2021-22 driven by the approval of $1.2 billion for More Trains, More Services Stage 2, which will deliver increased rail services and more resilient infrastructure. Work on the proposed fast rail network will also increase fee for service revenue, paid by Railcorp to Transport for NSW, over the three years to 2021-22.

Table 4.10: Sale of goods and services

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21	2021-22 Forward Estimates	2022-23
	$m	$m	$m	$m	$m	$m
Rents and leases	258	255	224	233	236	244
Fee for service	2,010	2,539	3,557	4,141	3,475	2,440
Entry fees	63	64	48	54	57	58
Patient fees and hospital charges	1,064	1,125	1,170	1,211	1,253	1,298
Department of Veterans' Affairs	299	240	200	188	177	166
Court fees	130	135	138	132	132	132
Road tolls	166	157	160	162	163	164
Other sales of goods and services	4,518	4,283	4,265	4,301	4,480	4,486
Sale of goods and services	**8,508**	**8,797**	**9,762**	**10,421**	**9,972**	**8,988**

Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits, and is expected to be $531.0 million in 2018-19. Forecast increases in 2018-19 are primarily due to higher investments in TCorpIM Funds.

Dividends and income tax equivalents

State-owned corporations pay dividends that provide a commercially appropriate return on government investment. These dividends support investment in essential government services.

Dividends and income tax equivalents have been revised down by $38.7 million in 2018-19 since the 2019 Pre-election Budget Update. This is driven by lower distributions from Landcom due to delayed sales settlements and slowing land sales. In addition, dividends from Sydney Water in 2018-19 will be lower due to the impact of drought-driven costs including the costs of desalination, and conservation and maintenance expenses.

Dividends and income tax equivalents are expected to be $380.8 million higher over the three years to 2021-22 since the 2019 Pre-election Budget Update. The most important contributor to this change is an increased dividend in 2019-20 as part of a capital restructuring that allows TCorp to return previously retained earnings to government.

Other dividends and distributions

Other dividends and distributions are received from entities other than State Owned Corporations and are expected to be $1.8 billion in 2018-19. Since the 2019 Pre-election Budget Update revenue from other dividends and distributions has been revised up by $639.0 million in 2018-19 and $1.2 billion over the three years to 2021-22.

The upward revision in 2018-19 reflects a rebound in financial markets since the start of 2019, resulting in higher distributions from the Government's investment funds. Upward revisions beyond 2018-19 are due to the application of the recently introduced Attribution Managed Investment Trust (AMIT) regime changing the reported expected distributions for the NSW Generations Fund and the Social and Affordable Housing Fund. This has been partially offset by a reduction in forecast distributions from the Government's retained interests in Ausgrid and Endeavour, attributable to the Australian Energy Regulator's recent determination of regulated revenues from each business for the 2019-2024 period.

Royalties

Changes in the forecasts for mineral royalties since the 2019 Pre-election Budget Update reflect the offsetting influence of two forces. Lower expectations for the exchange rate will increase the expected Australian dollar value of royalty revenue, while lower export prices for coal are expected to lower revenue. In 2018-19, the effect of lower coal prices is expected to dominate, lowering revenue by $73.0 million since the 2019 Pre-election Budget Update. In the three years to 2021-22, a lower exchange rate is expected to dominate.

Lower expectations for coal prices reflect the influence of various factors, including increased domestic production and reduced import demand in China, competition from Russian coal in key markets of South Korea and China, and cheaper LNG prices leading to substitution away from coal by some electricity generators. Export volumes and domestic sales are expected to be largely unchanged during the forecast period.

Fines, regulatory fees, licences and other revenue

Total revenue from fines, regulatory fees, licences and other revenue is expected to be $2.9 billion for 2018-19 and is forecast to grow at an average annual rate of 3.9 per cent over the four years to 2022-23.

Fines revenue will be $646.8 million in 2018-19, an $88.0 million downward revision since the 2019 Pre-election Budget Update, largely reflecting lower-than-expected motor traffic fines.

Revenue from regulatory fees has been revised down over the four years to 2021-22 due to lower-than-expected electoral fines, and lower Special Infrastructure Contributions (SIC) reflecting changed timing for the declaration of new SIC areas.

Other revenues are forecast to grow at an average annual rate of 2.6 per cent over the four years to 2022-23. The greatest contribution to this growth arises from the accounting recognition of non-cash revenue received in 2022-23 relating to the NorthConnex and WestConnex motorways.

Table 4.11: Fines, regulatory fees, licences and other revenues

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21	2021-22 Forward Estimates	2022-23
	$m	$m	$m	$m	$m	$m
Fines	648	647	810	812	848	868
Regulatory fees	159	122	174	177	181	192
Licences	204	235	245	266	213	218
Other revenues	1,955	1,885	2,281	2,170	2,307	2,085
Total fines, regulatory fees, licences and other revenues	**2,967**	**2,888**	**3,510**	**3,425**	**3,549**	**3,363**

5. EXPENDITURE

- The 2019-20 Budget is delivering on the Government's election commitments.
- This Budget also includes additional investment across regional New South Wales to support drought-affected communities and deliver state-building infrastructure through the Snowy Hydro Legacy Fund.
- The 2019-20 Budget prioritises investment in frontline service areas, delivering an additional 8,300 frontline health staff, including nurses, midwives, doctors and allied health workers, 4,600 public school teachers, as well as 1,500 police.
- The Government is continuing to invest record levels in infrastructure, with $93.0 billion committed over the budget and forward estimates (including $71.7 billion within the general government sector). The infrastructure program will provide new and upgraded schools and hospitals, more TAFE campuses, more Service NSW service centres and improved roads and public transport infrastructure.
- As part of the Government's ongoing disciplined fiscal management, and to align with machinery of government changes, this Budget includes new savings and reform measures of $3.2 billion over four years to 2022-23 to support streamlined service delivery and strengthen the State's fiscal position. As a result, expenses are forecast to grow at 2.7 per cent per annum on average over the budget and forward estimates. This is lower than the average annual revenue growth rate of 3.2 per cent.

5.1 General government recurrent expenses

The 2019-20 Budget maintains the Government's commitment to fiscal discipline and responsible expenditure management. This fiscal discipline has enabled the Government to deliver on its election commitments, provide drought relief to regional New South Wales (see Box 5.1) and invest in a range of other priority areas.

The Government's election commitments provide high-quality services, reduce cost of living pressures and deliver transformative infrastructure across New South Wales. The Government is also undertaking a range of public sector reforms and reviews to drive more streamlined and effective service delivery and strengthen the fiscal position of the State.

General government sector (GGS) recurrent expenses in 2018-19 are expected to be $80.3 billion[1], which is $0.7 billion higher than forecast at the 2018-19 Budget. This increase is due to expenditure on new policy proposals, including the Emergency Drought Relief Package and investment to better support and protect New South Wales firefighters following amendments to workers compensation legislation. Also contributing to the increase are higher expenses associated with actuarial revaluations of long service leave and insurance claim liabilities, and depreciation expenses related to asset revaluations and the transfer of transport assets into the GGS. These increases are partially offset by the reprofiling of grants to local councils for infrastructure projects, to align with the revised service delivery schedules as advised by councils.

[1] GGS recurrent expenses include the costs of delivering services such as education, health, public transport and other frontline services. Recurrent expenses include salaries and wages, grants and subsidies, depreciation, and other operating expenses.

Expenses in 2019-20 are forecast to be $83.3 billion, which is 3.7 per cent higher than 2018-19. The increase is primarily due to new investments, including the Government's election commitments, the implementation of accounting standards changes, and higher depreciation expenses associated with the record infrastructure program.

Annual expense growth in 2018-19 and over the budget and forward estimates is expected to remain below long-term average revenue growth of 5.6 per cent. This is consistent with the Government's commitments outlined in the *Fiscal Responsibility Act 2012* (FRA).

Box 5.1: Providing drought relief to regional communities

The Government is using its fiscal position to deliver to those communities in need. A budget in surplus allows the Government to respond to drought conditions. This Budget commits almost $800 million for drought assistance, including a package of drought relief measures to reduce cost of living pressures. New initiatives in this package include:

- $70.0 million to continue to rebate transport costs for fodder, stock and water, up to a cap of $40,000 in 2019-20 per farming enterprise
- $50.0 million to provide one-year relief from Local Land Services annual rates
- $30.0 million to waive the fixed charge component for NSW Water License holders
- $15.0 million for emergency water carting and work to secure town and household water supplies
- $10.0 million to remove interest payments on Farm Innovation Fund loans in 2019-20.

In addition, this Budget continues existing drought programs, including:

- $8.3 million to improve access to and delivery of mental health services
- $7.0 million for exemptions from registration fees for agricultural vehicles
- $5.2 million to support preschool children and their families facing hardship.

The Government is also providing infrastructure to drought affected communities, including establishing a reservation of $170.0 million for the Drought Infrastructure Package and injecting an additional $350.0 million into the Farm Innovation Fund, taking the total available in the Fund to $1.0 billion. For further information on infrastructure initiatives aimed at supporting drought affected communities, see Box 2.9 in Budget Paper No. 2 *Infrastructure Statement*.

Table 5.1 provides a reconciliation of the variations in expenses between the 2018-19 and 2019-20 Budgets.

Table 5.1: Expense reconciliation since the 2018-19 Budget

	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m
Expenses – 2018-19 Budget	**79,656**	**82,181**	**84,316**	**86,814**	**n.a.**
Policy measures	454	688	919	802	n.a.
Parameter and other budget variations	310	443	424	357	n.a.
Expenses – 2019 Pre-election Budget Update	**80,419**	**83,312**	**85,659**	**87,974**	**n.a.**
Election commitments[(a)]	(8)	301	496	490	523
Other policy measures	(3)	455	527	264	(151)
Parameter and other budget variations	(83)	(464)	538	244	n.a.
Reforms, savings and offsets	...	(304)	(816)	(956)	(1,109)
Expenses – 2019-20 Budget	**80,326**	**83,300**	**86,405**	**88,016**	**89,410**

(a) *Reducing Procurement Spending, Saving Taxpayer Dollars* election commitment is included under reforms, savings and offsets.

Expenses have increased by $0.7 billion between the 2019 Pre-election Budget Update and the 2019-20 Budget from 2018-19 to 2021-22. Over the four years to 2022-23, changes to expenses are primarily due to:

- $1.8 billion to deliver the Government's election commitments. These include investments to repair regional roads and bridges, reduce the cost of travel for seniors living in regional communities, and provide grants to local councils and non-government organisations across New South Wales to support local communities, tourism and sporting organisations
- $1.1 billion in other new policy proposals, including providing drought relief to farmers and regional communities, and further expenditure on infrastructure as part of the More Trains, More Services Program[2], to provide increased services to the Illawarra and the South Coast, as well as the Airport Line
- parameter and other budget variations associated with the implementation of new accounting standards, actuarial adjustments, and the reprofiling of expenditure to align with updated program delivery schedules
- $3.2 billion in reform, savings and offset measures, which help manage expense growth and provide a buffer to revenue volatility (see Box 5.2).

[2] This measure also has associated revenue impacts.

Continuing fiscal discipline through budget reform

Delivering services as effectively as possible is at the core of the Government's agenda, as it ensures value for money in the use of NSW taxpayer dollars. This is demonstrated in the 2019-20 Budget through the inclusion of a range of savings, reform, and offset measures totalling $3.2 billion over the budget and forward estimates. As a result, expenses are expected to grow by an average of 2.7 per cent per annum over the four years to 2022-23, which is lower than forecast average annual revenue growth and is in line with the Government's commitments under the FRA. Box 5.2 provides further details on these savings and reform measures.

Box 5.2: Budget reform to drive more efficient spending

The savings and reform measures in this Budget address immediate fiscal pressures, enabling the Government to deliver its election promises while continuing to grow frontline services. This approach reflects the Government's commitment to manage expenditure growth sustainably in the face of economic volatility.

Savings and budget reform measures in the 2019-20 Budget include:

- whole-of-government administrative and procurement savings of $731.4 million across the budget and forward estimates for the *Reducing Procurement Spending, Saving Taxpayer Dollars* election commitment. This election commitment targets back-office savings, including reducing expenditure on advertising, travel, consultants, procurement, IT, legal services, and public service senior executives
- $2.5 billion other savings, reform, and offset measures, in line with machinery of government changes to streamline the public service. This includes a reduction in employee and contractor expenditure across the GGS, including reductions in back-office employee numbers, lower expenditure on the contingent workforce, and the abolition of public service senior executive discretionary pay
- consolidating the public service from 10 to 8 clusters and amalgamating agencies. These changes support the savings outlined above, by reducing duplication and realigning the public service so it can more effectively provide services to the people of New South Wales
- extended and long service leave policy reform, to reduce the rate of leave accrued for public sector employees who commence after 1 July 2019. After 10 years of service, new employees' accruals will be reduced from five to three months for each subsequent period of 10 years' service. This long-term reform, which applies to new employees only, will generate savings outside the budget and forward estimates and better aligns the entitlement with other jurisdictions, including the Victorian, Queensland and Commonwealth public service
- establishing the Digital Restart Fund, with seed funding of $100.0 million over the next two years, to fund a whole-of-government digital transformation that will enhance customer experiences. This transformation will include promoting the adoption of common platforms across government to remove duplication and increase efficiency
- initiating targeted outcome and expenditure reviews across a range of clusters and developing cluster outcome and business plans. These reviews will promote evidence-informed decision making and improve outcomes for the people of New South Wales.

Table 5.2 outlines the reform, savings and offset measures implemented in this Budget. These measures reduce expenditure by $3.2 billion over the budget and forward estimates and are pivotal to the Government's effective management of expense growth and delivering budget surpluses.

Table 5.2: Reform, savings and offset measures

	2018-19 Revised	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	Total
	$m	$m	$m	$m	$m	$m
Reducing Procurement Spending, Saving Taxpayer Dollars	...	122	176	206	227	**731**
Other reform, savings and offset measures	...	183	639	750	882	**2,454**
Long service leave reforms [(a)]	...	...	...	...	...	...
Total reform, savings and offset measures	**...**	**304**	**816**	**956**	**1,109**	**3,185**

(a) The long service leave savings reform measure will generate savings to the budget beyond the four years to 2022-23.

New policy measures

The Government is delivering on its election commitments in the 2019-20 Budget, with additional expenditure of $1.8 billion committed over the budget and forward estimates. This includes providing world-class hospitals, schools and public transport, as well as more and better services to regional New South Wales.

These new policy measures will improve outcomes for citizens across New South Wales, including:

- improving health care outcomes by providing more nurses, doctors and other frontline health workers, and delivering new and upgraded hospitals
- more teachers, additional education support services, and new and upgraded schools, to ensure children get the best start in life
- accessible, safe and reliable public transport
- investing in people by building skills across the workforce, including free courses for job-seekers taking on traineeships and free TAFE places for mature-aged workers
- continuing investment in regional communities (see Box 5.3)
- supporting drought affected communities in regional New South Wales (see Box 5.1)
- easing cost of living pressures on families and individuals
- protecting and supporting vulnerable members of the community
- preserving our environmental heritage
- providing more police to protect New South Wales communities.

Further information on election commitments is provided in the accompanying *Election Commitments* publication.

Box 5.3: Investing in regional communities through the Snowy Hydro Legacy Fund

The Snowy Hydro Legacy Fund was established in June 2018 to enable $4.2 billion in proceeds from the State's share of the sale of Snowy Hydro to be spent on state-building infrastructure across regional New South Wales.

This Budget includes new funding to progress priority areas, including:

- $400.0 million over four years for the Regional Digital Connectivity program[3], which will provide mobile black spot towers and data centres to improve internet connectivity, speeds and reliability in the State's regions
- $20.0 million in 2019-20 to investigate and plan for further Special Activation Precincts
- $3.0 million in 2019-20 to progress sites identified in the International Air Freight Pre-Feasibility Study, which is investigating options for improved international air freight connectivity in regional New South Wales.

The 2018-19 Budget also provided $40.0 million for scoping studies. These studies are investigating improved water security in priority catchments, and faster and better rail projects, and are progressing regional New South Wales' first Special Activation Precinct around the Parkes National Logistic Hub.

The Government has also committed $32.0 million over three years to develop a business case to upgrade the Wyangala Dam.

Parameter and other budget variations

Parameter and other budget variations are the result of changes to the cost and timing of service delivery that are largely outside Government control. These include changes to economic conditions, growth in population or demand, variations to Commonwealth Government grants, accounting and technical adjustments (including accounting standard changes), and actuarial variations.

Major parameter and other budget variations that increase expenses across the budget and forward estimates, relative to the 2019 Pre-election Budget Update, include:

- $359.8 million for the continued delivery of bus services in Newcastle and some areas of Sydney[4]
- $286.5 million associated with the implementation of new accounting standards for AASB 16 *Leases*
- depreciation and amortisation expenses associated with the Government's infrastructure program, including $222.3 million related to the delivery of schools and ICT works within the Education cluster, and $52.0 million for the transfer of State Transit Authority assets into the GGS
- $262.4 million increased expenditure for high cost drugs, which is offset by revenue from the Commonwealth Government
- $168.1 million related to changes to long service leave actuarial assumptions
- additional expenses associated with the reprofiling of expenditure across the budget and forward estimates, to better align with planned service and project delivery schedules.

The above parameter and other budget variations are partially offset by a decrease in defined benefit superannuation costs of $1.1 billion over the budget and forward estimates, largely due to lower interest rates used to calculate the interest expense on superannuation liabilities.

[3] This Budget includes an additional $118.8 million in recurrent expenditure for this program, funded outside the Snowy Hydro Legacy Fund.

[4] The expenditure for this measure is offset by a corresponding increase in revenue.

Trends and outlook – expenses

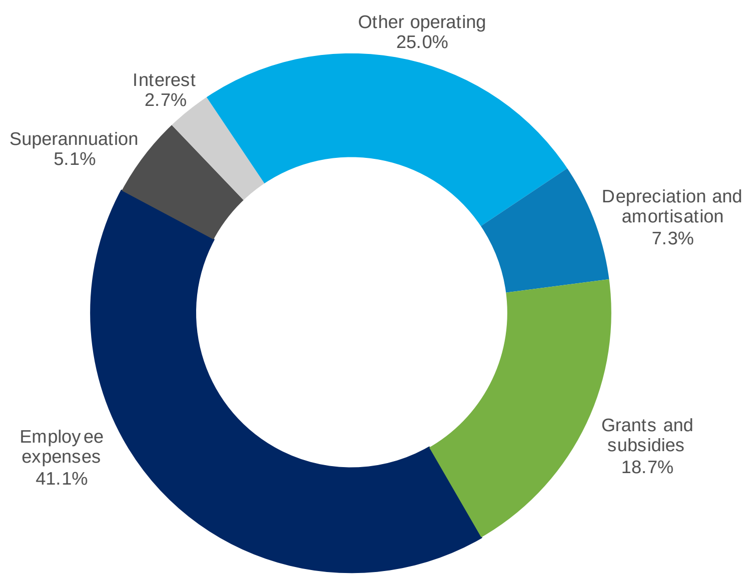
This section summarises GGS expenses by major operating statement category, as outlined in Table 5.3.

Table 5.3: General government sector expenses

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21	2021-22 Forward Estimates	2022-23	% Four year average growth 2018-19 to 2022-23
	$m	$m	$m	$m	$m	$m	
Total Employee-Related Expenses	36,111	37,353	38,496	38,913	41,075	43,900	4.1
Employee Expenses	*31,644*	*32,789*	*34,266*	*34,784*	*36,829*	*39,442*	*4.7*
Superannuation	*4,467*	*4,564*	*4,230*	*4,130*	*4,246*	*4,458*	*(0.6)*
Other Operating	19,652	21,478	20,815	21,900	21,462	19,907	(1.9)
Depreciation and Amortisation	4,873	5,321	6,110	6,491	6,623	6,795	6.3
Grants and Subsidies	13,862	14,324	15,602	16,453	16,089	15,862	2.6
Interest	1,994	1,850	2,278	2,648	2,768	2,946	12.3
Total Expenses	**76,491**	**80,326**	**83,300**	**86,405**	**88,016**	**89,410**	**2.7**
Annual change	*5.4%*	*5.0%*	*3.7%*	*3.7%*	*1.9%*	*1.6%*	

Chart 5.1 shows the composition of expenses in 2019-20 by operating category. Employee-related expenses (including superannuation) are the largest category and account for 46.2 per cent of total 2019-20 expenses. Other operating expenses are the second largest category (25.0 per cent), followed by grants and subsidies (18.7 per cent), depreciation and amortisation (7.3 per cent) and interest expenses (2.7 per cent).

Chart 5.1: Composition of 2019-20 expenses



Employee expenses

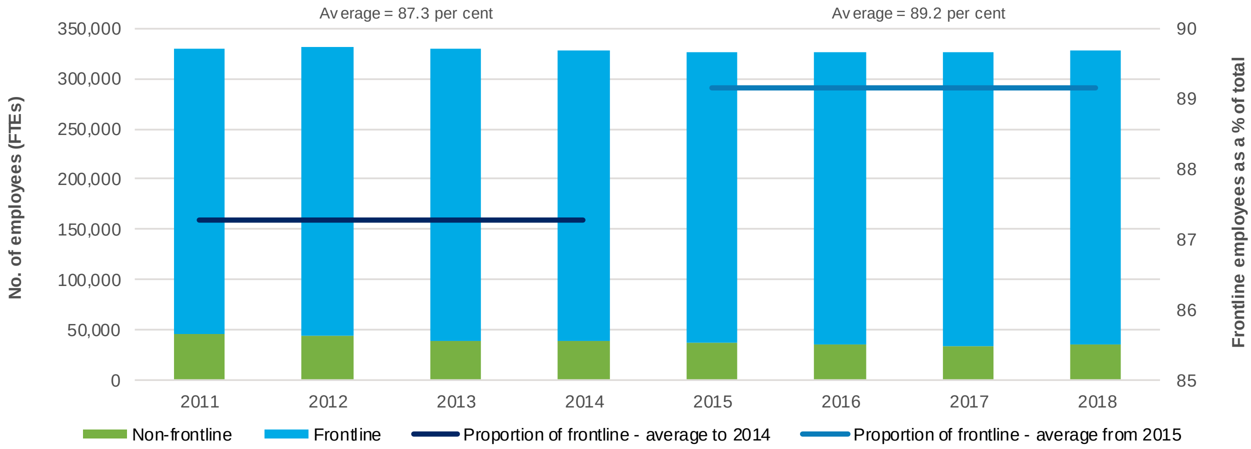
Employee expenses (excluding superannuation) are forecast to be $34.3 billion in 2019-20 and comprise 41.1 per cent of total expenses. This represents the Government's commitment to delivering essential services, including boosting frontline staff such as teachers, nurses and police.

Employee expenses are expected to increase by an average of 4.7 per cent per year over the budget and forward estimates. This increase is primarily driven by additional investment in education as part of the Government's commitment to needs-based funding for public schools under the National Education Schools Reform (Gonski 2.0), higher employee numbers to deliver critical health and police services, and wages growth.

The NSW Public Sector Wages Policy, alongside the measures outlined in Box 5.2, has supported the Government in managing employee expense growth and enabled further investment in critical service areas and frontline staff.

The Government continues to invest in frontline staff to deliver high-quality services. Frontline numbers have increased as a proportion of the total New South Wales public sector from 2011 to 2018, comprising 89.2 per cent of the public sector on average over the four years to 2018 (see Chart 5.2).[5] From 2011 to 2018, frontline staff increased by 9,375 full-time equivalents (FTEs), while non-frontline staff numbers fell by 10,389 FTEs. Frontline staff continued to grow in 2018, despite the transition of workers to private providers under the National Disability Insurance Scheme (NDIS), with continued investments in more teachers, nurses, and police.

Chart 5.2: Proportion of frontline and non-frontline staff from 2011 to 2018



5 This data is sourced from the annual workforce profile census conducted by the Public Service Commission and identifies frontline roles as those that primarily deliver established services to external customers, where external customers can be other State Government agencies as well as members of the general public. Figures for 2017 and 2018 incorporate estimates for the NSW Police Force, which are based on a three-year average ratio of frontline to non-frontline staff from 2014 to 2016.

Over the next four years, the Government will continue to prioritise investment in frontline services, including providing funding for:

- 8,300 frontline health staff, with 45 per cent located in regional New South Wales
- an extra 221 paramedics and call centre staff in 2019-20 to improve response times and reduce paramedic fatigue
- 4,600 additional teachers in government schools across New South Wales, delivering the highest number of teachers in government schools in the State's history
- 100 additional school counsellors or psychologists and an additional 350 student support officers, as well as dedicated services for rural and remote students
- 1,500 new police to continue to keep the community safe
- five additional District Court judges and support staff, as well as additional funding to the Office of the Director of Public Prosecutions and Legal Aid NSW
- 45 Child Protection Helpline workers and 66 case support workers
- an additional 300 School Crossing Supervisors across New South Wales primary schools to help children get to and from school safely each day.

Superannuation expenses

Superannuation expenses are $4.2 billion in 2019-20 and comprise 5.1 per cent of total expenses. These expenses are associated with defined benefit and defined contribution plans, and are forecast to remain relatively stable, falling by 0.6 per cent over the budget and forward estimates.

The decrease over the budget and forward estimates is largely due to lower interest rates used to calculate the interest expense on superannuation liabilities, and a decline in defined benefit superannuation liabilities across the forward estimates as a result of lower numbers of contributors. Defined benefit superannuation liabilities are expected to be fully funded by 2030, consistent with the Government's FRA commitment.[6]

Lower defined benefit superannuation expenses are partially offset by increased defined contribution superannuation expenses across the budget and forward estimates, primarily associated with additional frontline education and health employee costs.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs and comprise 25.0 per cent of total expenses in 2019-20.

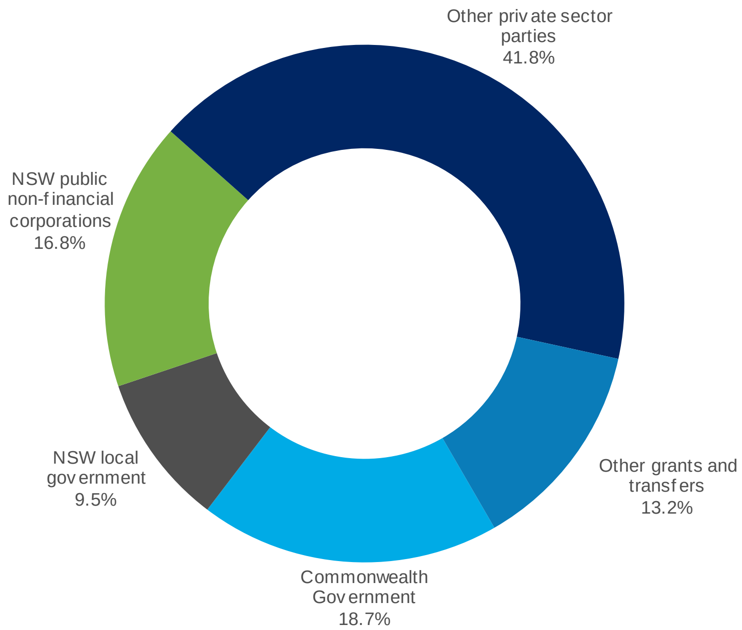
In 2019-20, other operating expenses are forecast to decrease by 3.1 per cent from 2018-19 to $20.8 billion and by 1.9 per cent over the budget and forward estimates. This decrease is primarily driven by a reduction in operating lease expenses related to the implementation of AASB 16 *Leases,* and lower expenses associated with the application of back-office savings, including lower contractor, consultant, legal, advertising and other procurement savings. Lower costs across the forward estimates are also due to the completion of major transport infrastructure projects being delivered in the public non-financial corporations sector.

[6] For reporting purposes, superannuation liabilities are calculated in accordance with AASB 119 *Employee Benefits*. For funding purposes, AASB 1056 *Superannuation Entities* is used. Further information is provided in Chapter 6 of this *Budget Statement*.

Grants, subsidies and other transfer expenses

Grants and subsidies include payments to other government sectors, local government, community groups and non-profit organisations for the delivery of services and infrastructure projects. Grants and subsidies are forecast to be $15.6 billion in 2019-20 and comprise 18.7 per cent of total expenses. Chart 5.3 below outlines the composition of grants and subsidies in 2019-20 by recipient.

Chart 5.3: Composition of grants and subsidies in 2019-20 by recipient



Grants and subsidies are expected to increase by an average of 2.6 per cent annually over the budget and forward estimates, largely driven by higher grants and transfers to other private sector parties and the Commonwealth Government. These increases reflect the roll-out of the National Disability Insurance Scheme (NDIS) and additional grants to support non-government schools.

Grants to local governments and councils increase to $1.5 billion in 2019-20, and comprise 9.5 per cent of grants and subsidies. These payments include Restart NSW grants and support local councils to deliver infrastructure and services that provide targeted benefits to local communities, including repairing and upgrading local roads and airports, and providing sporting facilities and parks.

Depreciation and amortisation

Depreciation and amortisation expenses are projected to be $6.1 billion in 2019-20, comprising 7.3 per cent of total expenses. These expenses are forecast to grow by 14.8 per cent in 2019-20 and 6.3 per cent over the budget and forward estimates. This increase is partially due to the implementation of AASB 16 *Leases*, which brings lease arrangements previously classified as operating leases onto the balance sheet. The assets now recognised under these leases are subsequently depreciated over the life of the lease. Operating lease rental expenses have been replaced by depreciation expenses associated with the recognition of the asset and interest expenses for the lease obligation.

The Government's record infrastructure program is also contributing to the increase, with higher depreciation expenses associated with the delivery of more schools, hospitals, transport projects and ICT works.

Interest

Interest expenses in 2019-20 are forecast to be $2.3 billion (2.7 per cent of total expenses) and increase by an average of 12.3 per cent annually over the budget and forward estimates. This increase is largely related to funding the State's unprecedented infrastructure investment and the impact of accounting standards changes associated with the recognition of new lease liabilities. This is partially offset by lower borrowing costs associated with a reduction in interest rates, including the 0.25 percentage point reduction announced by the Reserve Bank of Australia on 4 June 2019.

Interest revenues are shown in section 4.6 of this *Budget Statement*.

5.2 General government capital expenditure

Table 5.4 below provides a reconciliation of the changes in GGS capital expenditure from the 2018-19 Budget to the 2019-20 Budget.

Table 5.4: Capital expenditure reconciliation

	2018-19	2019-20	2020-21	2021-22	2022-23
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
Capital - 2018-19 Budget	**17,329**	**17,329**	**16,585**	**14,463**	**n.a.**
Policy measures	777	1,330	655	317	n.a.
Parameter and other variations	75	407	25	(70)	n.a.
Capital - 2019 Pre-election Budget Update	**18,182**	**19,065**	**17,265**	**14,710**	**n.a.**
Policy measures	19	898	1,287	2,711	2,388
Parameter and other variations	(336)	2,382	(802)	(174)	n.a.
Capital - 2019-20 Budget	**17,864**	**22,345**	**17,750**	**17,247**	**14,349**

GGS capital expenditure includes the capital investment program of general government agencies and excludes public non-financial corporations such as Railcorp/Transport Asset Holding Entity, Sydney Opera House Trust and the Sydney Olympic Park Authority.

GGS capital expenditure is forecast to be $22.3 billion for 2019-20, an increase of 25.1 per cent from 2018-19. The variation in capital expenditure from 2018-19 to 2019-20 largely reflects the recognition of the soon to be completed Public Private Partnership for the CBD and South East Light Rail and a record infrastructure spend in health and education.

GGS capital expenditure is expected to be $71.7 billion over the four years to 2022-23. The increase in capital expenditure between the 2019 Pre-election Budget Update and the 2019-20 Budget, over the four years to 2022-23, is driven by election commitments and new investments in public transport and roads. These election commitments include:

- Sydney Metro West – a new underground metro railway connecting the Greater Parramatta and Eastern Sydney Central Business Districts ($6.4 billion over four years)
- 40 new and upgraded schools, including those in Bangalow, Epping, Milton, and Milperra ($917.4 million over four years)
- the redevelopment of the Children's Hospital at Westmead (estimated total cost $619.0 million)
- the Regional Digital Connectivity program, providing mobile black spot towers and data centres to improve internet connectivity, speeds and reliability in regional areas ($400.0 million over four years).[7]

Total non-financial public sector capital expenditure is expected to be $93.0 billion over the four years to 2022-23. Further details on the infrastructure program is provided at Box 5.4.

Box 5.4: Continuing record levels of infrastructure investment

The 2019-20 Budget allocates $93.0 billion over four years to 2022-23 for the capital program, including $71.7 billion in the GGS, to meet the needs of a growing population and support economic growth.

The Government's record infrastructure program provides funding over four years to 2022-23 across a wide range of areas, including:

- record investment in health infrastructure of $10.1 billion[8], including for the planning and development of over 40 new and upgraded hospital builds
- record investment in education and skills infrastructure of $7.3 billion, including to support the planning or delivery of over 190 new and upgraded schools as well as TAFE connected learning centres
- record investment in public transport and roads of $55.6 billion, including funding to accelerate Sydney Metro West and to restore bridges and roads across New South Wales
- $3.2 billion to build stronger communities by renewing our criminal justice and emergency services infrastructure.

A number of major infrastructure projects are now complete or nearing completion, including North West Metro, which commenced services in May 2019 as Australia's first fully-automated metro rail system, and the Western Sydney Stadium, which opened in April 2019.

For further information on capital expenditure, refer to Budget Paper No. 2 *Infrastructure Statement.*

[7] The Regional Digital Connectivity program includes both recurrent and capital expenditure. The $400.0 million is the capital expenditure component.

[8] Health capital expenditure includes capital expensing amounts and leases following a change in accounting standards.

General government capital expenditure as a share of GSP increased from 1.3 per cent in 2011-12 to 3.2 per cent[9] in 2019-20 (Chart 5.4), reflecting the Government's continued commitment to infrastructure investment.

Chart 5.4: General government sector capital spending relative to GSP[(a)]

(a) General government sector – purchases of non-financial assets per the cash flow statement, percentage of GSP. For consistency with other states, assets acquired through finance leases are excluded.

Source: ABS cat no. 5220.0 and 5512.0 for years 2002-03 to 2017-18. State Budget papers and NSW Treasury calculations for 2018-19 and 2019-20.

5.3 Expenses by functional categorisation (COFOG-A)

The Classification of the Functions of Government – Australia (COFOG-A) allows for a comparison of expenses by functional classification across jurisdictions and countries. COFOG-A is an international standard that classifies government expenditure into standardised functional/activity categories that align to the purpose of the expenditure. The following section provides information on the GGS total expenditure by the COFOG-A expenditure data.

The COFOG-A classification is a separate reporting approach to the New South Wales State Outcomes budgeting framework for the entire budget spend in Budget Paper No. 3 *Budget Estimates*. The State Outcomes framework requires agencies to align and allocate their resources and service delivery toward achievement of the suite of State Outcomes (see Budget Paper No. 3 *Budget Estimates* for further details on State Outcomes).

Due to differences in reporting classifications and consolidation, the COFOG-A expenditure data discussed in this section will differ from the data presented on a cluster and State Outcome basis in Budget Paper No. 3 *Budget Estimates*.

Chart 5.5 shows the largest recurrent expenditure COFOG-A groups for 2019-20 are health, education, transport and public order and safety, which together account for 73.6 per cent of total expenses. Recurrent expenditure has grown from $80.3 billion in 2018-19 to $83.3 billion in 2019-20, an increase of 3.7 per cent. This increase is largely driven by additional investments in frontline services, primarily within health, police, and education. Additionally, transport expenses have increased in line with further expenditure on infrastructure as part of the More Trains, More Services Program.[10]

9 Calculated as purchases of non-financial assets per the cash flow statement. For consistency with other states, assets acquired through finance leases are excluded.

10 This expenditure has offsetting revenue impacts.

Chart 5.5: Composition of total 2019-20 recurrent COFOG-A expenditure

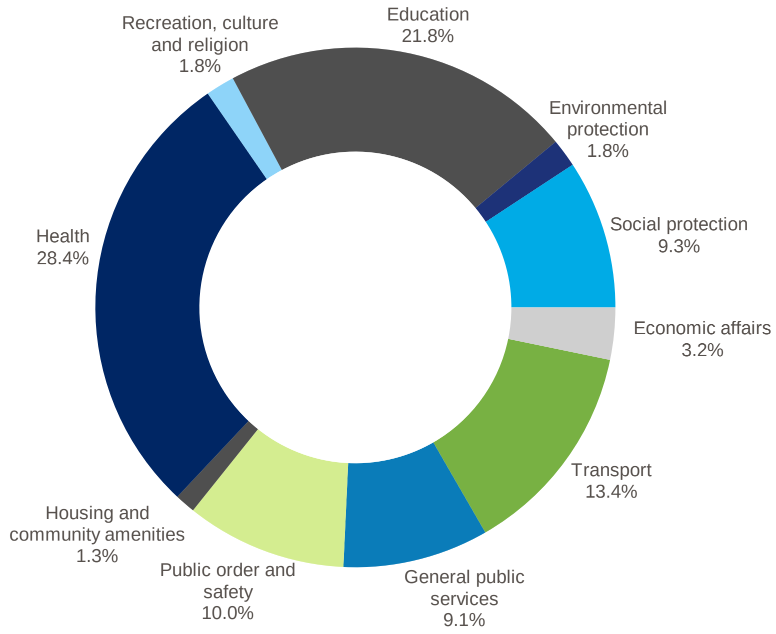
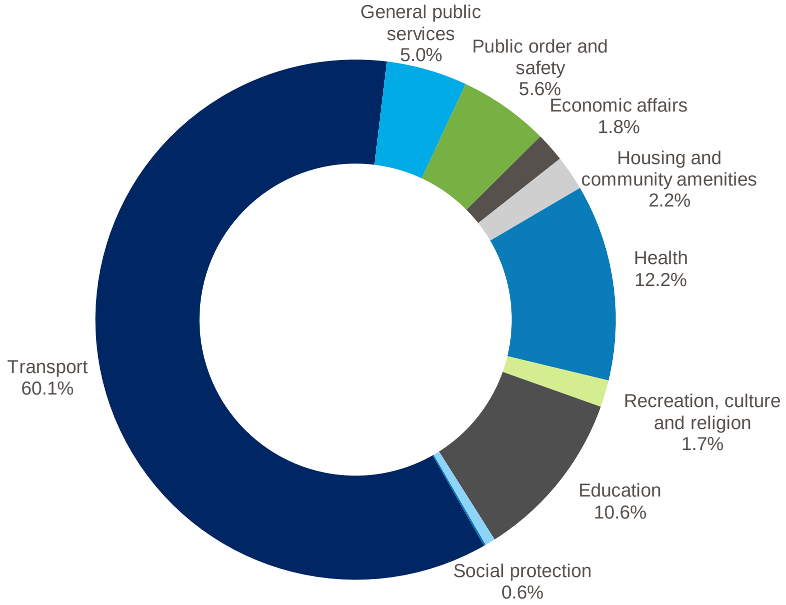


Chart 5.6 shows the 2019-20 split of capital expenditure by functional area. Transport, health and education represent 82.9 per cent of total capital expenditure. Capital expenditure has grown from $17.9 billion in 2018-19 to $22.3 billion in 2019-20, an increase of 25.1 per cent. This increase is largely driven by additional capital investment in transport infrastructure relative to 2018-19, largely associated with the delivery of Sydney Metro City and Southwest, Pacific Highway Woolgoolga to Ballina, CBD and South East Light Rail, and WestConnex, including the Rozelle Interchange.

For further information on the Government's infrastructure program, refer to Budget Paper No. 2 *Infrastructure Statement*.

Chart 5.6: Composition of total 2019-20 capital COFOG-A expenditure



Key areas under Classification of the Functions of Government - Australia

Health

Recurrent health function expenses for 2019-20 are expected to be $23.6 billion, comprising 28.4 per cent of total recurrent expenses. Health sector expenditure is designed to get the best health outcomes for the people of New South Wales by delivering improvements in service levels in hospitals, ambulance and emergency health services, as well as enhanced patient services. The 2019-20 projection represents a $993.7 million increase from 2018-19, which is attributable to the 4.5 per cent expense growth rate for core health services.

Capital expenditure for health in 2019-20 is $2.7 billion, or 12.2 per cent of total 2019-20 GGS capital expenditure. This is an increase of $504.8 million since 2018-19, which is largely attributable to the continued delivery and commencement of works to upgrade and build hospital and health facility projects.

Education

Budgeted expenses for education COFOG-A functions in 2019-20 are expected to be $18.2 billion, or 21.8 per cent of total recurrent expenses. This covers investments in pre-primary, primary, secondary, technical and tertiary education and teacher training.

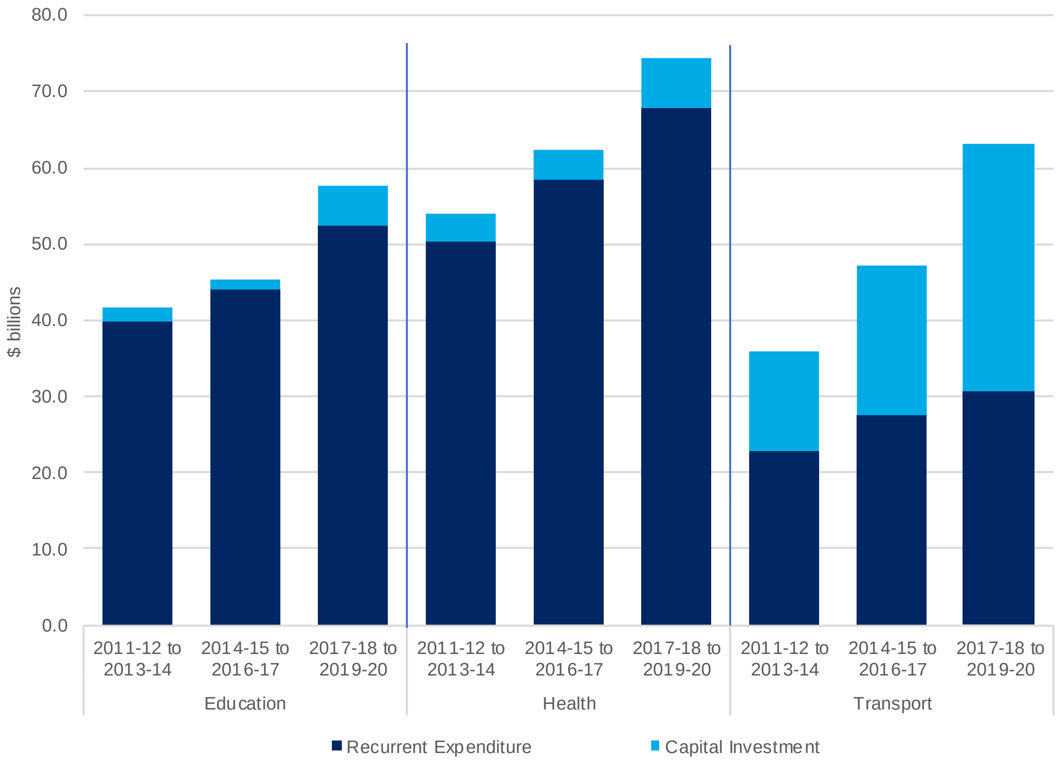
Education capital expenditure for 2019-20 is expected to be $2.4 billion, representing 10.6 per cent of total GGS capital expenditure. This significant investment continues the Government's record schools infrastructure program, which includes the planning and delivery of 40 new and upgraded schools to begin in 2019-20.

Transport

Recurrent expenditure on transport COFOG-A functions is expected to make up 13.4 per cent of total expenditure in 2019-20 at $11.2 billion. This is an increase of $928.3 million over 2018-19. This investment focuses on providing efficient public transport services for commuters and safe, decongested and efficient roads across the State.

Capital expenditure on transport in 2019-20 is forecast to be $13.4 billion, or 60.1 per cent of total capital expenditure. This expenditure will ensure the continued delivery of major capital transport projects including the final stages of WestConnex (the M4-M5 link tunnels and Rozelle Interchange), Sydney Metro City and Southwest linking Chatswood and Bankstown, the Pacific Highway upgrade program (continuing construction between Woolgoolga and Ballina and planning and preconstruction activities for the Coffs Harbour bypass), upgrades to support the new Western Sydney Airport at Badgerys Creek (including The Northern Road between Narellan and Penrith and the M12 Motorway), continuation of the Princes Highway upgrades and completion of the CBD and South East Light Rail.

Chart 5.7: Three-year aggregate of general government recurrent expenditure and capital investment by function(a)(b)



(a) The COFOG-A framework has replaced the former Government Purpose Classification framework under the new ABS GFS Manual. This was implemented for the first time in the 2017-18 Budget. Appendix A1 of this Budget Paper provides further information on the Uniform Presentation Framework and COFOG-A functions.

(b) 2017-18 actuals, 2018-19 revised and 2019-20 Budget forecast.

Chart 5.7 illustrates the Government's focus on core service delivery areas within the education, health and transport policy areas, with an additional $389.4 billion invested in recurrent services and infrastructure since 2011-12. From 2011-12 to 2014-15, the Government spent an average of $45.2 billion per annum on the key areas of education, health and transport. This increased to an average of $57.2 billion per annum from 2015-16 to 2018-19 and is forecast to increase in 2019-20 to $71.5 billion.

General public services

The Government will spend an estimated $7.6 billion in 2019-20 on recurrent services within general public services, representing a decrease of $804.2 million from 2018-19.

Capital investment in general public services is $1.1 billion in 2019-20 and has increased by $789.7 million. This increase is largely attributable to the transfer of assets across COFOG-A classifications and reservations under Restart NSW that are yet to be allocated to clusters. Further information on Restart NSW is provided in Budget Paper No. 2 *Infrastructure Statement*.

Public order and safety

Police, civil and fire protection services, prisons and law courts all work together to support safer communities for the people of New South Wales and ensure the effective functioning of our justice system.

In 2019-20, recurrent expenditure on the public order and safety government function is expected to be $8.3 billion, making up 10.0 per cent of total recurrent expenditure. This is an increase of $275.1 million from 2018-19. The increase in expenditure is largely attributable to the first phase of the Government's commitment to invest in an additional 1,500 new police.

Capital spending on public order and safety is forecast to be $1.3 billion, or 5.6 per cent of total 2019-20 capital expenditure. This is largely attributable to the continuation of the Prison Bed Capacity Program and the delivery of further new and upgraded police stations across the State.

Social protection

The Government is committed to protecting the vulnerable, breaking the cycles of disadvantage and supporting people with disabilities. The 2019-20 Budget includes a total investment of $7.7 billion in recurrent expenses on COFOG-A social protection services, representing 9.3 per cent of total GGS expenditure, an increase of $67.6 million from 2018-19.

Capital expenditure in 2019-20 is $143.2 million.

Economic affairs

The Government will spend an estimated $2.7 billion in recurrent expenses in 2019-20 on economic affairs and a further $405.0 million in capital. This functional classification includes expenditure in the following areas:

- commercial and labour affairs
- agriculture, forestry, fishing and hunting
- fuel and energy
- mining, manufacturing and construction
- communication
- other industries
- research and development.

This represents a $260.4 million increase in recurrent expenses from 2018-19 or 10.7 per cent, and a $217.2 million increase in capital expenses from 2018-19.

5.4 Recurrent expense measures statement

The Government is continuing to deliver on its promises and investing in initiatives aimed at improving the lives of New South Wales residents across the regions as well as metropolitan areas. It is also reviewing and reforming service delivery in the State, aimed at delivering value for taxpayer dollars.

Table 5.5 shows the impact of new policy measures (including election commitments) by cluster. The table displays the expense impact of these measures and does not include associated revenue or capital expenditure.

Further detail on the Government's election commitments is provided within the accompanying *Election Commitments* publication.

Table 5.5: New recurrent policy measures since the 2019 Pre-election Budget Update[(a)(b)(c)]

	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	Four year Total	Description of key initiatives
	$m	$m	$m	$m	$m	
Customer Service	54.6	9.2	13.7	30.2	**107.6**	• Expanding service delivery with the roll out of 10 new Service NSW service centres. • Equipping Service NSW for continued growth across the State. • Increasing the number of services available through Service NSW on behalf of other agencies including the IVF Rebate.
Education	165.0	28.0	33.9	114.6	**341.5**	• Vocational education initiatives including: - 70,000 fee-free courses for job-seekers taking on traineeships - 30,000 free TAFE places for mature-aged workers seeking to retrain or re-enter the workforce - staffing and other recurrent expenses associated with two new vocational high schools, two new Productivity Bootcamps, the Western Sydney Construction Hub and eight new TAFE campuses in rural and regional locations - assisting women to start their own business. • Grants to non-government schools for essential infrastructure.
Health	…	…	…	…	**…**	• Prioritising growth funding to deliver key election commitments including: - delivering an additional 5,000 nurses and midwives - providing free dental checks for primary school children - improving access to IVF - enhancing the regional health services workforce.
Planning, Industry and Environment	229.5	118.7	140.3	148.6	**637.1**	• Further drought assistance programs including transport rebates for fodder, stock and water, waiving fixed charges for water licence holders and providing emergency water carting to secure town water supplies. • Reducing the digital divide with the Regional Digital Connectivity program. • Strengthening regional communities through grants supporting local tourism and economies. • Roads to Home program delivering local road upgrades in collaboration with Local Aboriginal Land Councils in remote communities to improve access and increase economic opportunities.
Premier & Cabinet	27.2	27.4	25.2	25.5	**105.3**	• Boosting screen production in NSW through the Made in NSW program.

	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	Four year Total	Description of key initiatives
	$m	$m	$m	$m	$m	
Stronger Communities	140.5	65.9	55.8	32.3	**294.5**	• Faster resolution of legal matters through the District Court Backlog Program, which includes five additional District Court judges and support staff as well as additional support for the Office of the Director of Public Prosecutions and Legal Aid NSW. • Strengthening community safety through enhanced electronic monitoring of sex offenders. • Invigorating communities with grants for various sports centres and clubs in NSW. • Providing support for multicultural aged care facilities across the State. • Increasing grants to the NSW Volunteer Rescue Association to enable acquisition of 30 new rescue vehicles.
The Legislature	0.2	0.1	0.2	0.2	**0.7**	• Expenses associated with capital upgrades including ceiling replacement, disability access and roof membrane replacement.
Transport	160.5	780.3	511.5	62.7	**1,515.0**(d)	• Progressing the More Trains, More Services Program designed to overhaul the rail network to provide increased services to the Illawarra and the South Coast, as well as the Airport Line. • Investing in the Fast Rail Network. • Fixing local roads in regional NSW to improve travel times and freight productivity. • Over 14,000 extra weekly bus services from 2019-20 throughout Sydney, Illawarra, Central Coast and the Lower Hunter, as well as funding to improve bus services across 15 regional towns. • Reduction in the Opal Weekly Travel cap by approximately 20 per cent to $50 a week from 1 July 2019 for all train, bus, ferry and light rail customers. • Providing a $250 regional Seniors Transport Card for aged pensioners living in regional NSW to put towards fuel, taxi travel or NSW TrainLink tickets.
Treasury	5.5	…	3.5	…	**9.0**	• Restart NSW grants to local governments, community organisations and other sectors.
Other	(26.7)	(6.6)	(29.9)	(42.4)	**(105.6)**	• Establishing the Digital Restart Fund, offset by matching cluster expense reductions, to ensure the Government is equipped to keep pace with the digital age. • Other movements reflect whole-of-government measures that cannot be attributed to individual clusters, as well as the transfer of Restart NSW commitments into agency budgets.
Reform, Savings and Offsets	(304.4)	(815.8)	(955.9)	(1,109.3)	**(3,185.5)**	• Saving taxpayer dollars through reductions in procurement and employee expenses, plus other reform, savings and offset measures.

(a) A positive figure increases expenses, a negative figure decreases expenses.
(b) These figures represent the net expense impact for new policy measures.
(c) A number of election commitment measures are not reflected in this table as the recurrent expenses have been met from within existing budget estimates. Refer to the accompanying *Election Commitments* publication for further information on election commitments.
(d) Offset by an increase of $1,206.8 million in revenue as part of the More Trains, More Services Program.

6. MANAGING THE STATE'S ASSETS AND LIABILITIES

- The State's balance sheet remains strong, with net debt projected to be negative for the fourth consecutive year (negative $8.8 billion as at June 2019). This is the lowest of all States and Territories across Australia.
- New South Wales' net worth surpassed a quarter of a trillion dollars in June 2018 and is expected to reach $311.0 billion by June 2023 – the largest among all States and Territories by a significant margin.
- New South Wales is the only Australian state with a dedicated debt retirement fund, the NSW Generations Fund, which has delivered returns of 8.5 per cent since its inception in November 2018 with a balance of $10.8 billion at April 2019.
- The Government also has $18.1 billion invested in the New South Wales Infrastructure Future Fund, which enables the Government to get more from its asset recycling proceeds by investing them until they are required. The Fund has delivered returns of 4.6 per cent for the 10 months to April 2019. The Government made its first drawdown of $2.3 billion in 2018-19 to fund Restart NSW infrastructure projects.
- As the Government continues its record infrastructure program, non-financial assets are projected to grow to $289.5 billion by June 2023. This has been funded through a mix of budget surpluses, asset recycling proceeds and manageable levels of borrowing.
- This Budget builds on the Government's balance sheet reform agenda to continue supporting the State's triple-A credit rating and further optimise the use and mix of State assets and liabilities.

6.1 Reforming the State's balance sheet

The Government is continuing its strategy of balance sheet reform, following the successful creation of specific purpose funds such as the NSW Generations Fund (NGF), the NSW Infrastructure Future Fund (NIFF) and the Social Affordable Housing Fund (SAHF). These reforms of the State's financial assets are complemented by further improvements in the management of the State's borrowings, cash balances and associated financial risks. The Government's reform agenda aims to increase balance sheet resilience, further improve financial risk management and ensure New South Wales remains well positioned into the future. Key balance sheet reforms include:

- diversification of funding sources. The Government issued its first green bond in November 2018 raising $1.8 billion in funding. This was the largest green bond issuance in Australia, providing funding towards projects such as Sydney Water's Lower South Creek Treatment Program
- implementing a new whole-of-government cash management policy, which complements the whole-of-government foreign exchange risk management policy

- enacting the *Government Sector Finance Act 2018* which supports balance sheet reforms, including a centralised approach to cash management. Building on $3.6 billion in cash centralised to date, Treasury aims to establish a new cash management framework in 2019-20 to facilitate further cash management reform
- entering into a multi-provider banking services contract that covers all Government transactions including payments, receipts, cross-border banking and purchasing cards.

Overview of key changes since the 2019 Pre-election Budget Update

Key balance sheet movements since the 2019 Pre-election Budget Update (see Table 6.1) include:

- a decrease in estimated net debt as at June 2019 from negative $8.0 billion at the 2019 Pre-election Budget Update to negative $8.8 billion. This has been driven by better than anticipated market returns
- a decrease in estimated net worth as at June 2019 from $270.7 billion at the 2019 Pre-election Budget Update to an estimated $262.0 billion in this budget. This reduction is primarily due to an increase in the valuation of unfunded defined benefit superannuation liabilities resulting from a lower Commonwealth Bond rate (which is used to discount these liabilities under AASB 119 *Employee Benefits*). By June 2023, the superannuation liabilities are projected to reduce to $40.9 billion (see Box 6.4 for more details).

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

	June 2018	June 2019	June 2019	June 2020	June 2021	June 2022	June 2023
	Actual	PEBU	Revised	Budget		Forward Estimates	
Total Assets ($m)	383,564	402,327	403,925	420,280	435,854	451,205	470,419
Financial Assets ($m)	173,228	174,011	168,935	169,454	170,493	172,367	180,902
Non-Financial Assets ($m)	210,336	228,315	234,990	250,826	265,361	278,838	289,518
Total Liabilities ($m)	129,385	131,627	141,903	153,334	155,038	157,705	159,406
Net Worth ($m)	254,180	270,700	262,022	266,946	280,816	293,500	311,013
Net Worth as a per cent of GSP[(a)]	42.1	43.2	41.8	41.1	41.4	41.3	41.7
Net Debt ($m)	(11,195)	(7,966)	(8,818)	12,354	22,973	32,884	38,640
Net Debt as a per cent of GSP	(1.9)	(1.3)	(1.4)	1.9	3.4	4.6	5.2

(a) Gross State Product (GSP) for NSW from 2018-19 to 2022-23 is forecast by NSW Treasury

6.2 Net debt remains low despite changing accounting standards

New South Wales' general government net debt remains the lowest of all States and Territories. This is due to the Government's successful asset recycling program and strong fiscal management. Changes in accounting standards relating to leases will result in a one-off increase in the State's reported borrowings and net debt. However, these are reporting changes and do not reflect an underlying change in the State's fiscal position (see Box 6.3).

Net debt is projected to grow as asset recycling proceeds (which are recognised as financial assets on the State's balance sheet) are invested in the State's record infrastructure program. The program is also being funded by budget surpluses and manageable increases in borrowings.

Box 6.1: Whole-of-Government balance sheet management strategy

NSW Generations Fund (NGF)

The NGF was established in late 2018 as a $10 billion sovereign wealth fund to help maintain debt at sustainable levels. The NGF had a balance of approximately $10.8 billion as at 30 April 2019, performing well above expectation since its establishment in November 2018. The total NGF balance is treated as an offset to the State's gross debt by Moody's and S&P Global in their credit rating assessments. Therefore, the NGF plays an important role in supporting the State's triple-A credit rating and sustainable debt position. The funds held in the NGF grow as returns are generated. The growth in the value of the fund is also used to offset debt and has a compounding effect over time. In this way, the NGF is a highly effective balance sheet management tool, reducing debt balances over a time.

NSW Infrastructure Future Fund (NIFF)

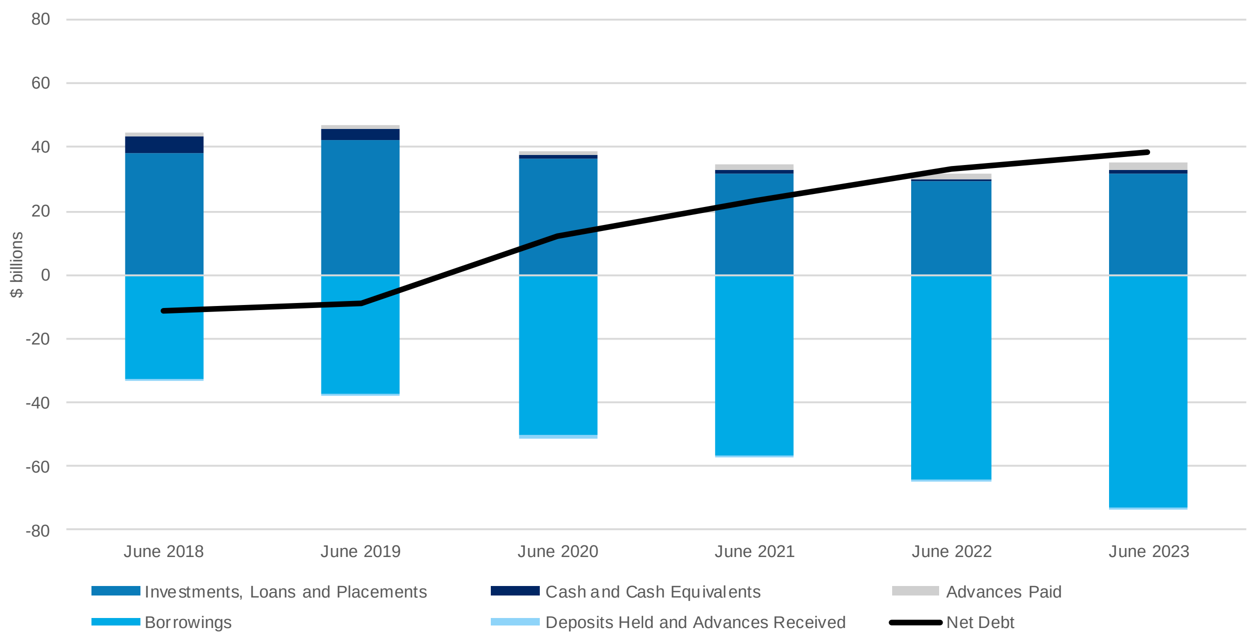
The NSW Government established the NIFF in December 2016 as a vehicle to invest the net proceeds from its successful asset recycling program.

The NIFF generated a return of 4.6 per cent for the 10 months from July 2018 and had a balance of approximately $18.1 billion as at 30 April 2019.

Investments within the NIFF are aligned to the required spending profile of Restart NSW infrastructure projects. $2.3 billion was drawn from the NIFF during 2018-19 to fund Restart NSW projects (see Budget Paper No. 2 *Infrastructure Statement*).

Financial assets included in the calculation of net debt[1] are projected to be $46.8 billion at June 2019 (see Chart 6.1). These assets primarily consist of the NIFF, NGF, SAHF and the Treasury Managed Fund (the Government's self-insurance fund). Balances held in the NIFF are projected to fall to $6.7 billion over the forward estimates in line with scheduled drawdowns for infrastructure projects. Funds held in the NGF are forecast to increase to $16.5 billion over the forward estimates in line with projected investment returns (see Box 6.1).

Chart 6.1: General government sector net debt



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

Liabilities included in the calculation of net debt[2] are projected to be $38.0 billion at June 2019 (see Chart 6.1), broadly in line with 2019 Pre-election Budget Update estimates. Over the four years to June 2023, these liabilities are projected to increase to $73.9 billion driven by the adoption of AASB 16 and a manageable increase in borrowings to fund infrastructure investment.

The Government is taking advantage of the historically low interest rate environment to lengthen its debt maturity profile. The average debt maturity is now eight years, reducing interest rate risk and refinancing risk for the State (see Box 6.2).

Box 6.2: Helping fund infrastructure at record low interest rates

The strength of New South Wales' credit rating and the global economic environment led to yields on NSW (TCorp) ten-year bonds trading below 2.0 per cent for the first time in history in May 2019 – see Chart 6.2 below.

Chart 6.2: NSW bond yields are at historic lows

In an environment of record low interest rates, the State has been lengthening the maturity profile of its debt portfolio to approximately eight years in order to lock in these low rates throughout the forward estimates period and beyond. While State governments borrow at higher rates than the Commonwealth, the New South Wales triple-A credit rating and disciplined approach to financial management (including its liabilities) ensures this spread is as tight as possible.

Beyond accessing funds through traditional debt capital markets, the Government is actively seeking to broaden its range of domestic and international investors through innovative offerings such as the Sustainability Bond Programme.

[2] The liability side of net debt calculations consists of the sum of deposits held, advances received, loans and other borrowings.

Box 6.3: Balance sheet impact of new lease accounting standard

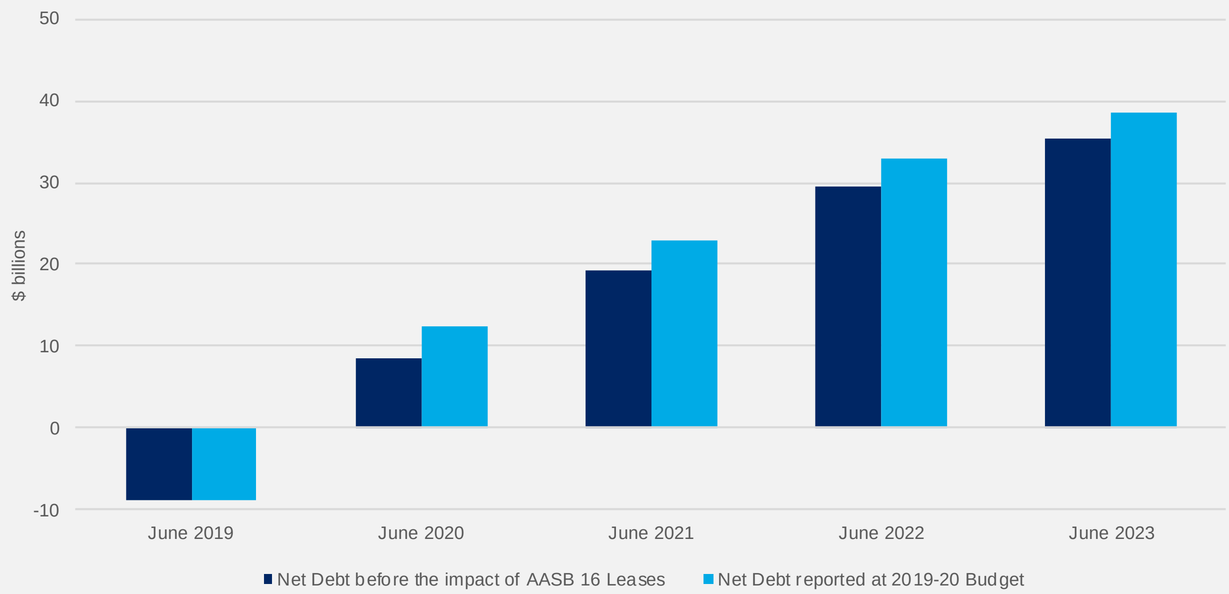
The Australian Accounting Standards Board (AASB) released AASB 16 *Leases* as a new accounting standard to apply from 1 July 2019.

AASB 16 sees most operating leases, except short-term and low-value leases, now recognised as finance leases (i.e. borrowings) on the Government's balance sheet. This has had a significant impact on net debt, see Chart 6.3 below.

The vast majority of leases relate to office space, which were previously recognised as an expense on the operating statement. The introduction of new accounting standards for leases will increase reported borrowings by $3.2 billion by June 2023.

For a full reconciliation of all the accounting standards impacting the 2019-20 Budget, see Table A2.5 in Appendix A2 *Statement of Significant Acounting Policies and Forecast Assumptions*.

Chart 6.3: General government sector net debt before and after impact of AASB 16 Leases

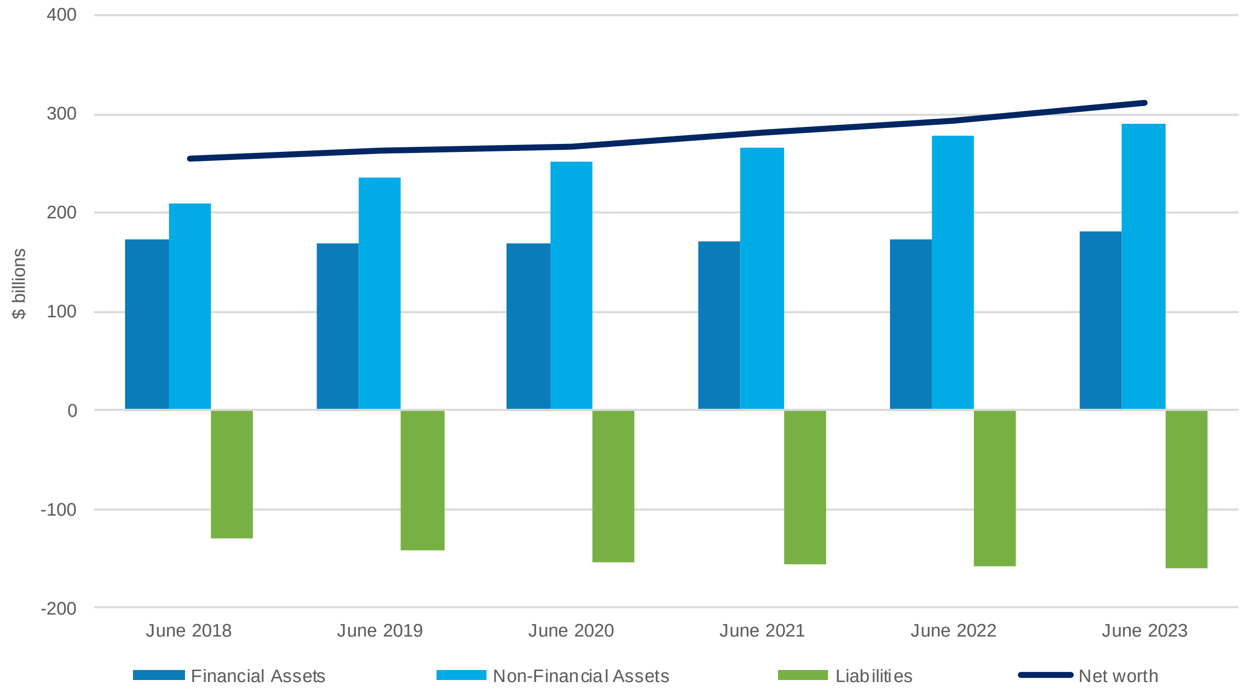


6.3 Highest net worth of all States and Territories

The net worth of the general government sector has surpassed a quarter of a trillion dollars and is expected to reach $262.0 billion as at June 2019 (see Chart 6.4). Net worth is forecast to continue to grow to $311.0 billion by June 2023, even with the Government's asset recycling program. The State's net worth is the highest of the States and Territories and around $100.0 billion higher than the next largest State (see Chart 6.5)[3].

[3] Net worth measures the overall wealth of the State and is calculated by taking the difference between total assets and total liabilities.

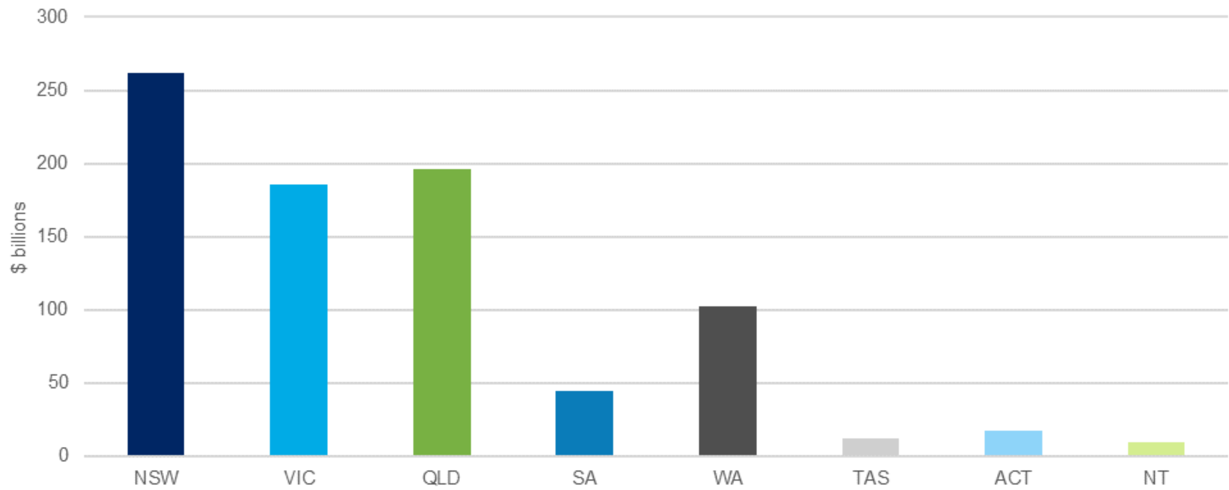
Chart 6.4: NSW general government sector net worth to increase by $49.0 billion over the next four years



New South Wales' net worth is projected to increase further over the forward estimates, driven by growth in the State's non-financial assets. Most notably:

- the value of property, plant and equipment is expected to grow from $224.8 billion at June 2019 to $274.8 billion at June 2023, due to the Government investing net operating cash into infrastructure, asset recycling and asset revaluations
- the Government's equity investments are expected to increase from $113.2 billion at June 2019 to $135.5 billion by June 2023, driven by strong growth in the public non-financial corporations sector (see Chapter 7)
- the expected $35.8 billion increase in borrowings over the four years to June 2023 to fund the Government's record infrastructure investment is largely offset by a $20.1 billion reduction in projected superannuation liabilities. The State is making annual contributions to ensure it meets its commitment to fully fund its superannuation liabilities by 2030 (see Box 6.4 for more details).

Chart 6.5: General government sector net worth of Australian States and Territories in 2018-19[(a)]

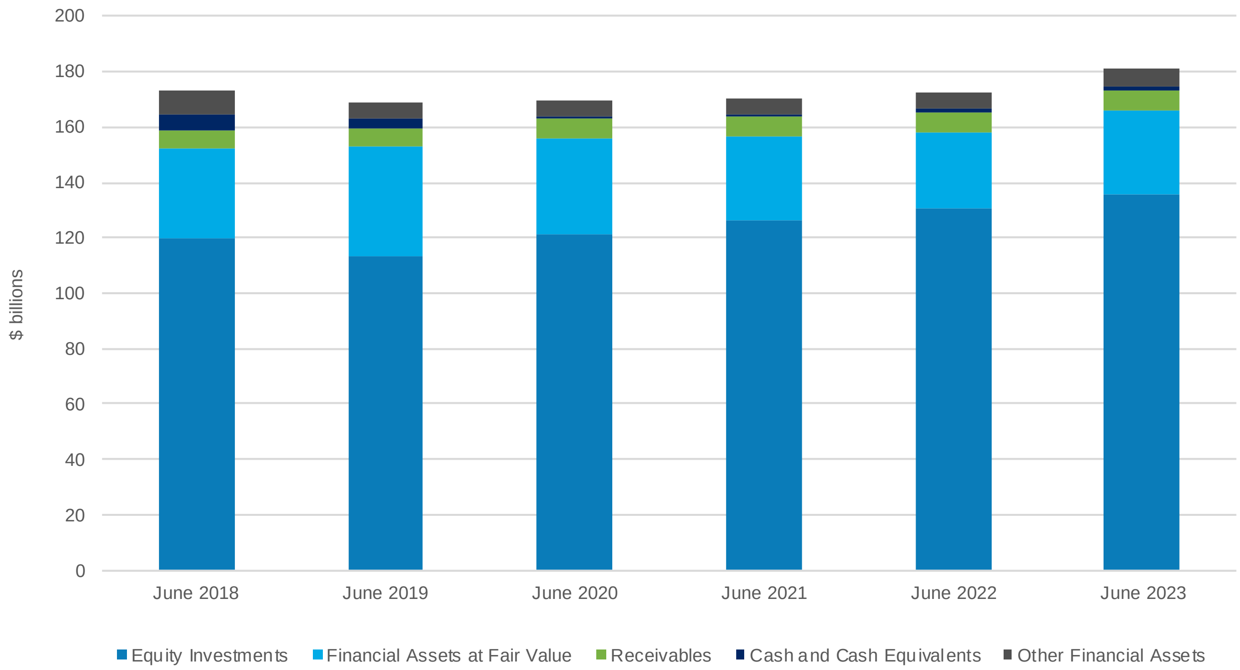


(a) Net worth for SA at 2018-19 Mid-year Budget Update and all other States and Territories at 2019-20 Budget

Financial assets

The State's total financial assets are projected to be $168.9 billion at June 2019, increasing to $180.9 billion by June 2023 (see Chart 6.6). Growth in the value of the State's equity investments partially offsets the gradual reduction in the NIFF balance, as scheduled payments are drawn to fund infrastructure projects.

Chart 6.6: General government sector financial assets reflect asset divestments and cash management reforms



The State's equity investments in other public-sector entities[4] make up the majority of financial assets held by the State, and have decreased by $6.6 billion relative to the 2019 Pre-election Budget Update estimate as assets were transferred between sectors. This decrease was offset by strong investment returns increasing financial assets at fair value, resulting in a $5.1 billion decrease in the total financial assets at June 2019 compared to the 2019 Pre-election Budget Update estimate.

Non-financial assets

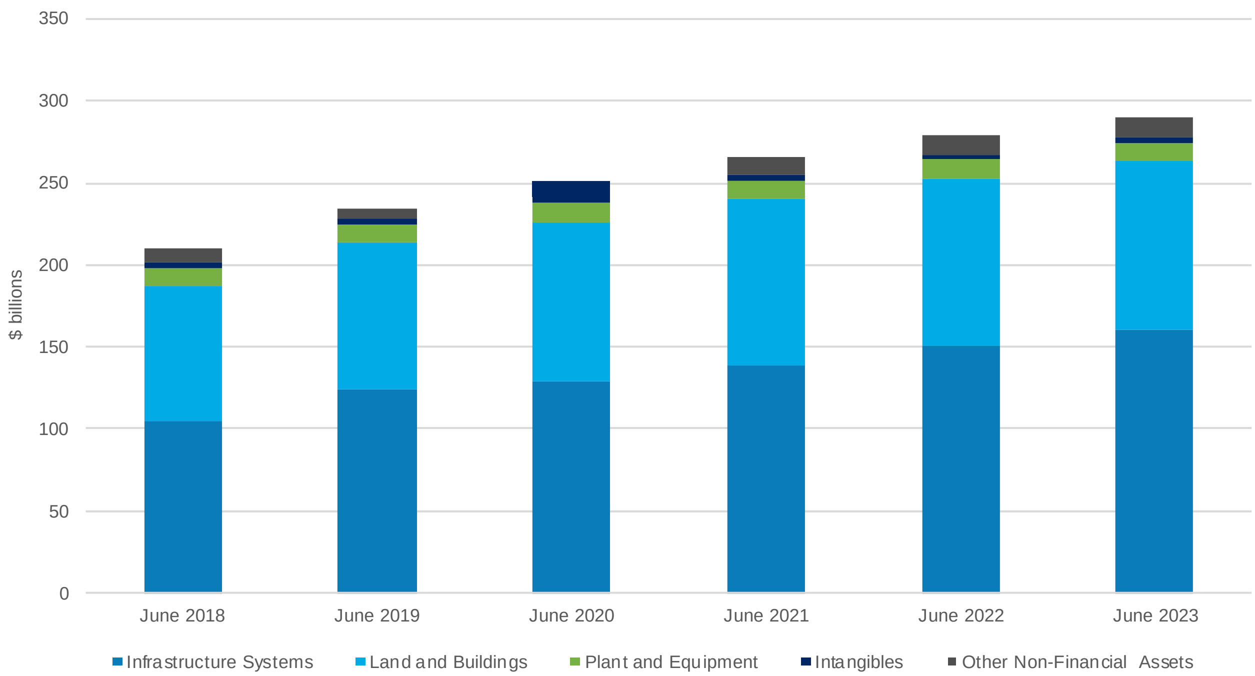
The State's non-financial assets are projected to reach $235.0 billion at June 2019, a $6.7 billion increase relative to the 2019 Pre-election Budget Update. This is largely driven by a transfer between sectors. This figure is expected to further increase to $289.5 billion by June 2023, due to the Government's ongoing infrastructure investment and asset revaluations (see Chart 6.7).

Investment in infrastructure systems (e.g. public transport infrastructure) is forecast to increase over the forward estimates from $123.7 billion at June 2019 to $160.3 billion in June 2023 as a number of high profile infrastructure projects are delivered during this period.

To ensure continued effectiveness and value of the procurement and delivery of the Government's infrastructure program, the Government has released the NSW Government Action Plan (see Box 4.1 in Budget Paper No. 2 *Infrastructure Statement*).

Land and building assets are projected to grow from an expected $89.7 billion at June 2019 to $103.1 billion in June 2023, driven by the Government's record investment in schools and hospitals, as well as asset revaluations in the education sector.

Chart 6.7: General government sector non-financial assets increasing over time

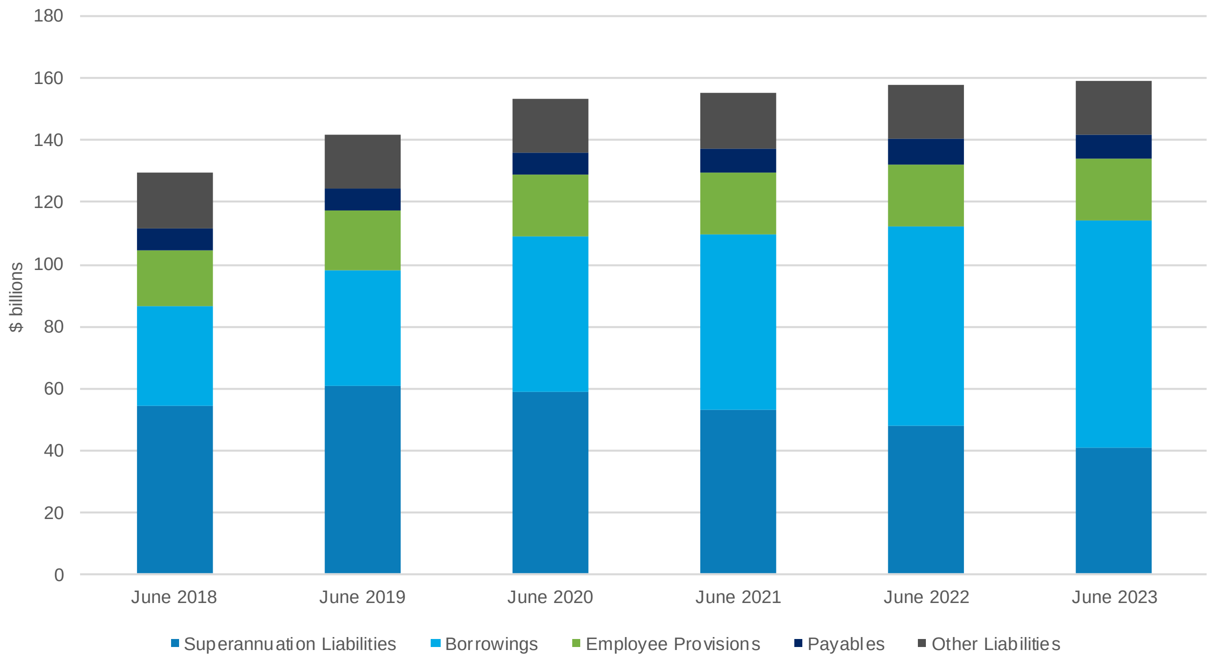


4 Equity investments in other public-sector entities represents the general government sector's interest in the public non-financial corporation and public financial corporation sectors reflecting, in the absence of fair value, the carrying amount of net assets of those sectors (before consolidation adjustments), in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Liabilities

Total liabilities are projected to be $141.9 billion at June 2019, and are expected to increase to $159.4 billion by June 2023 (see Chart 6.8). This revision is mostly driven by a decrease in unfunded superannuation liabilities that have been offset by an increase in borrowings as the State progresses its record infrastructure program.

Chart 6.8: Liabilities stable over the forward estimates



Unfunded superannuation liabilities remain the largest category of liability on the general government sector balance sheet at June 2019, but are forecast to decrease from $61.0 billion at June 2019 to $40.9 billion at June 2023 as the Government makes progress on its commitment to fully fund superannuation liabilities by 2030 (see Box 6.4).

Employee provisions, including long service leave, are projected to increase slightly over the forward estimates from $19.4 billion in June 2019 to $20.1 billion in June 2023.

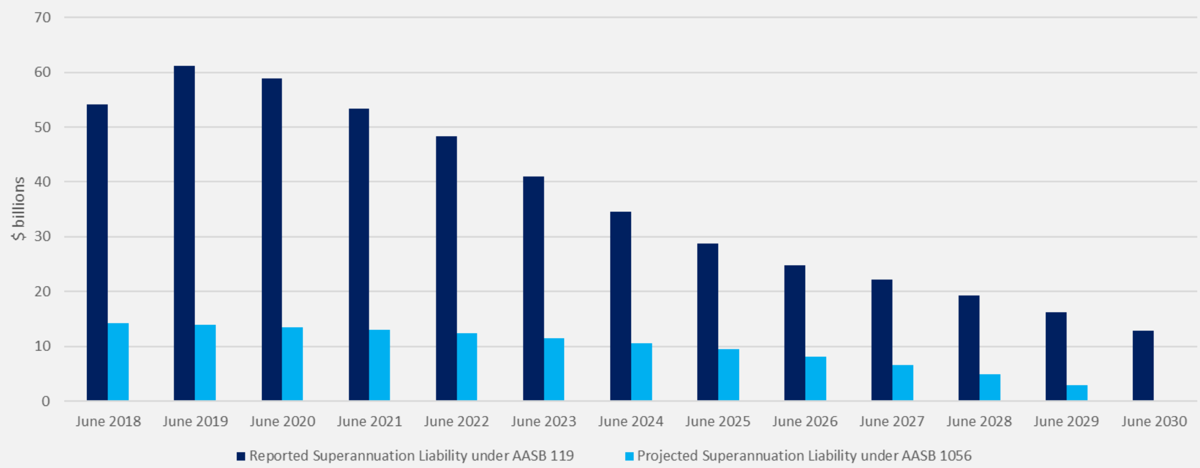
Box 6.4: On track to fully fund the State's unfunded superannuation liabilities

The Government remains committed to fully funding its superannuation liabilities by June 2030, consistent with the *Fiscal Responsibility Act 2012*. To achieve this, the long-term funding program involves an annual contribution – $1.7 billion in the 2019-20 financial year – increasing by 5 per cent per annum until 2030.

Management of the State's superannuation liability undergoes a triennial review, which takes into account demographic changes and economic drivers such as inflation and investment returns. The most recent triennial review, completed in October 2018 by an independent actuary (PwC Australia), concluded that the Government's current contribution plan is appropriate to deliver full funding by 2030.

The superannuation liability reported on the State's balance sheet is the unfunded part of the liability and is governed by AASB 119 *Employee Benefits.* AASB 119 reports a much more volitile and larger liability[5] than under AASB 1056 *Superannuation Entities*[6] which is used for determining funding of the superannuation liability towards the 2030 target. Chart 6.9 below shows the difference between the two accounting standards.

Chart 6.9: General government superannuation liabilities – AASB 119 vs AASB 1056



5 AASB 119 requires the reported superannuation liabilty to be calculated using the ten-year Commonwealth bond rate as the discount rate to determine the present value of future payments. This approach can result in large fluctuations in the reported value of the liability: e.g. the decrease in this bond rate from approximately 2.6 per cent to approximately 1.7 per cent over the past eleven months has resulted in reported unfunded liability increasing from $53.9 billion at June 2018 at the 2019 Pre-election Budget Update to $61.2 billion at June 2019 in the Budget.

6 For funding purposes, AASB 1056 Superannuation Entities allows the expected long-term return on the fund's assets to be used as the discount rate, resulting in a more appropriate measure of the present value of future payments. On this basis, the unfunded liability is estimated to be $13.9 billion at June 2019 and is projected to decrease to $11.5 billion by June 2023. The FRA target of fully funding the State's superannuation liabilities by 2030 is determined on the AASB 1056 basis.

7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

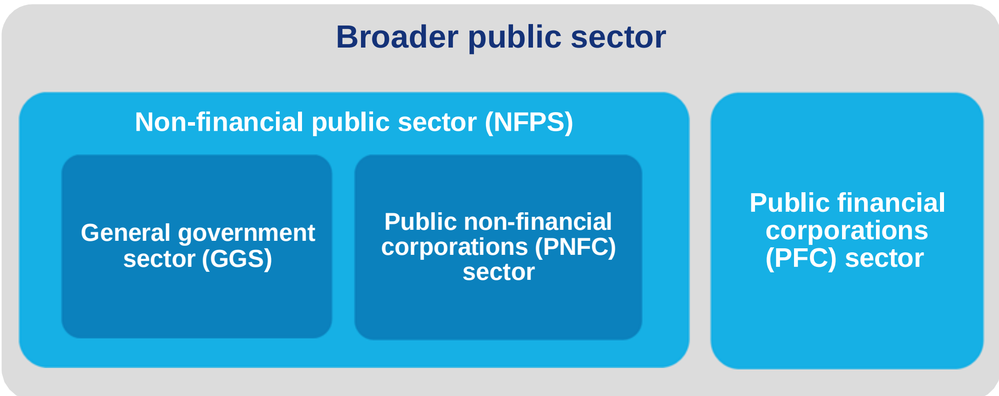
- The broader public sector comprises the total state government in New South Wales and includes the general government sector (GGS), public non-financial corporations (PNFC) sector and public financial corporations (PFC) sector.
- The PNFC and PFC sectors are guided by a Commercial Policy Framework (the Framework), which aims to replicate within government businesses the disciplines and incentives that lead private sector businesses toward efficient and commercial outcomes. The NSW Government continues to align the Framework with best practice.
- The total dividends and tax equivalent payments received by the GGS from the PNFC and PFC sectors in 2018-19 are $1.9 billion, which is $97.7 million higher than projected at the 2018-19 Budget. This result is largely due to the one-off dividend paid by Sydney Motorway Corporation prior to the successful WestConnex transaction in August 2018.

7.1 Overview of the broader public sector

The broader public sector is made up of entities within the public financial corporations (PFC) sector and non-financial public sector (NFPS). The NFPS is comprised of the general government sector (GGS) and the public non-financial corporations (PNFC) sector:

- entities within the GGS are funded mainly by taxation revenue and provide services such as health, education and emergency services
- entities within the PNFC sector operate on a more commercial basis and are able to recover most of their costs by charging for services such as transport, water and electricity distribution
- entities in the PNFC sector include State Owned Corporations (SOCs) set up under the *State Owned Corporations Act 1989* to operate with a greater degree of commerciality and autonomy than entities in the GGS
- the PFC sector provides financial management services to the government and insurance services to the people of New South Wales.

A full list of New South Wales public sector entities according to their classification as a GGS, PNFC or PFC entity is provided at Appendix A3 of this *Budget Statement*.



7.2 Reforms and initiatives of government businesses

The Commercial Policy Framework

The Commercial Policy Framework (the Framework) is a suite of policies that set expectations for government businesses in the PNFC and PFC sectors in order to drive better outcomes for the citizens of New South Wales. The Framework aims to replicate in government businesses the drivers and characteristics of an efficient private sector business. Importantly, it supports the efficient use of the State's capital, helps put downward pressure on cost of living expenses and contributes to the growth of the NSW economy.

The Framework is continuously reviewed and updated to ensure it reflects developments in government policy, changes in regulation and current best practice.

The following changes were made to the Framework in 2018-19:

- The release of Guidelines for Board Appointments managed by Treasury on behalf of the Shareholding Ministers. The guidelines introduce contemporary governance practices as well as improving transparency, consistency and engagement with candidates during the assessment process
- The release of the Guidelines for Community Services Obligations (CSO). The guidelines improve the transparency and consistency of CSO arrangements by establishing a framework to ensure the government's community service policy objectives are met without impacting on the commercial performance of businesses.

These initiatives support the accountable, commercial and transparent operation of government businesses.

Water

Sydney Water, WaterNSW and Hunter Water play a key role in supplying water to metropolitan and regional areas, including responding to drought and promoting water conservation.

Box 7.1: Addressing the drought in metropolitan Sydney

In accordance with the Metropolitan Water Plan, Sydney Water and WaterNSW have jointly established a dedicated team to coordinate delivery of drought response activities and improve system resilience.

Initiatives and programs to manage the impacts of drought include:

- Implementation of Level 1 water restrictions for Greater Sydney
- Supporting the re-start procedures for the Sydney Desalination Plant, which at full production can supply Sydney Water with around 15 per cent of Sydney's daily water use
- Delivering community awareness campaigns such as Sydney Water's "Love water, don't waste it"
- Delivering water efficiency programs to help residential customers save water, including Sydney Water's successful WaterFix program, which will receive a $5.8 million boost from the NSW Climate Change Fund
- Additional investment in Sydney Water's Active Leak Reduction Program, estimated to be saving over 2 billion litres of water a year.

Water and wastewater customers in Sydney have gone from paying among the highest annual bills of any major city in Australia to the lowest, as a result of the NSW Government's strong financial management, prudent investment decision-making and focus on operational efficiency.

Consistent with the Greater Sydney Commission's vision for a growing Sydney, Sydney Water is investing in infrastructure projects particularly in the north-west and south-west growth centres. Major projects include significant upgrades to wastewater treatment plants in Riverstone and Quakers Hill/St Marys which are expected to be completed in 2019 and 2021 respectively.

Sydney Water also continues to improve water quality and protect public health with projects such as Refresh Vaucluse Diamond Bay that will improve the wastewater system on the South Head Peninsula by redirecting wastewater to the Bondi Wastewater Treatment Plant.

In addition, Sydney Water continues its focus on the customer with the roll out of the Customer Hub to all regions to enable early notification of faults, improved diagnosis and planning for infrastructure repairs, and more communication channels for customers. Its Customer Experience Platform (CxP), an information technology project delivering a new billing and data management system to improve customer experience, is also nearing completion.

Hunter Water is continuing to build on the success of its 'Love Water' community conservation campaign while exploring innovative ways to ensure it meets supply requirements. Hunter Water also continues to invest in reducing leakage and other water losses, building on work in recent years which has reduced losses by at least 17 per cent. Active leak detection is now deployed across all 5,000 kilometres of its water network in the Hunter Region every year.

Major infrastructure investments by Hunter Water include delivery of the Wyee Sewer Scheme, replacement of the aboveground pipeline between Duckenfield and Tarro, and growth-driven upgrades to numerous water and wastewater treatment plants.

Box 7.2: Investing in regional water security

The Government is committed to improving water security and building drought resistance in regional and rural New South Wales.

Work is being undertaken to improve water security and flood management for the Lachlan Valley region, including feasibility studies into upgrading Wyangala Dam. The Government and WaterNSW are also continuing to investigate water security investment opportunities in other priority regions including the Hunter River, Gwydir River and Macquarie River.

The Government has established a secure long-term water supply for Broken Hill following the completion of the 270 kilometre pipeline from the Murray River to Broken Hill. The pipeline became operational in April 2019 and will be funded from Restart NSW.

Additionally, the Government has committed to ensure that local customers do not see their water bills increase during the next pricing period as a result of construction of the pipeline. This was confirmed in the Independent Pricing and Regulatory Tribunal's final pricing determination in May 2019.

The Safe and Secure Water program continues to provide funding to a wide range of regional water and sewerage projects managed by both State Owned Corporations and council-run utilities.

Energy

The Electricity Price Guarantee, overseen by the NSW Electricity Price Commissioner, ensures that total network charges for the leased electricity network businesses will be lower in the year ending 30 June 2019 than for the financial year ended 30 June 2014. This is one of the reforms implemented to reduce network charges, a key component of electricity bills.

Based on the Australian Energy Regulator's (AER) 2019-24 regulatory determinations for Ausgrid, Endeavour Energy and Essential Energy, network charges will continue to fall in real terms until 30 June 2024 for typical residential and small business customers.

Essential Energy operates and maintains one of Australia's largest electricity networks delivering electricity network services across rural and regional New South Wales.

In April 2019 the AER released its final determination for Essential Energy for the 2019 to 2024 regulatory period. By 2024, the end of the next regulatory determination period, a typical residential network charge will be 43 per cent lower than in 2014 (in real terms). Holding all other components of the bill constant, a typical residential customer will pay $56 less per annum by 2024 compared to 1 July 2018.

Essential Energy continues to streamline its operations and invest in innovative and enabling technologies to deliver a safe, reliable and efficient electricity network to its customers which continues to put downward pressure on prices. Despite electricity generation, wholesale and retail price increases, greater electricity network efficiencies in recent years have significantly moderated the overall price increases.

Box 7.3: Customers at the centre of service delivery

The Australian Energy Regulator (AER) commended Essential Energy on its high level of customer engagement in relation to investments it will make to deliver network charge reductions and increased choice for customers in rural and regional New South Wales.

The AER also importantly commended Essential Energy for its efficiency gains to date, with network expenditure at some of its lowest levels in 20 years.

Essential Energy's stewardship of its 2019-24 regulatory proposal is a clear example of the value of a comprehensively designed and well-implemented consumer engagement program for network service providers. This led to successful passage through the regulatory determination process with a high degree of support from its stakeholders. Essential Energy's efforts were also recognised by Energy Networks Australia as winner of its 2018 Energy Network Consumer Engagement Award.

Tourism

The Government continues to extend tourism opportunities with the Sydney Opera House progressing the $202 million upgrade for Stage 1 Renewal works, as funded by Restart NSW. The Concert Hall upgrades will modernise the Opera House's largest and most popular venue. It will greatly improve acoustics, theatre machinery systems and wheelchair accessible seating, as well as extending and automating stage configuration. These improvements will enrich the experience for the eight million tourists who visit the global icon each year, as well as enhancing services for the citizens of New South Wales.

The Government is proud to have recently completed the Yallamundi Rooms, a new function centre at the north-eastern end of the Sydney Opera House. Named in recognition of the original custodians of Bennelong Point, the Rooms allow visitors to enjoy this world-class venue with one of the world's best views.

Property

Landcom works in collaboration with other parts of government to achieve urban management objectives by improving the supply, diversity and affordability of new housing with a clear focus on sustainability.

Landcom has achieved its key target of supplying 20,000 home sites over the four years to March 2019, with 12,000 homes developed in Western Sydney alone. It has also met its goals of releasing 500 first home buyer lots and delivering 5-10 per cent affordable housing on all new projects.

Forestry

The Forestry Corporation of NSW (FCNSW) is investing in new timber plantations, funded from $24.0 million provided in the 2018-19 Budget. Over 350 hectares of land have been added to date near Bathurst and Tumut. FCNSW has purchased over 7,000 hectares of radiata pine plantations near Oberon, Tumut and Tumbarumba over the past few years as part of expanding its existing private plantation. Expanding state-owned plantations is in line with the goal of the NSW Government's Forestry Industry Roadmap to increase softwood plantation and drive industry growth.

FCNSW replants every harvested plantation with another crop of trees in order to sustainably produce the local timber required by the community well into the future. FCNSW will hand-plant nine million seedlings in 2019 over an area the equivalent of 8,000 football fields.

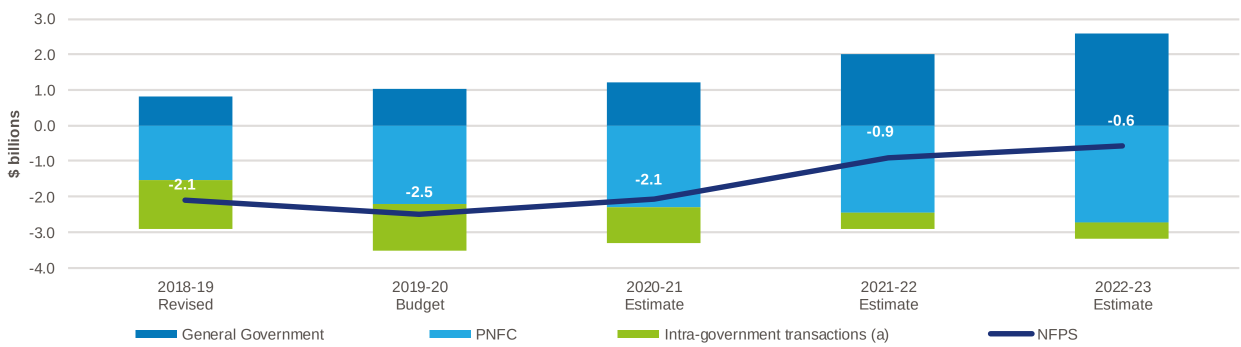
Operations in public native forests in NSW are regulated by Integrated Forestry Operations Approvals (IFOAs), which integrate the regulatory regimes for environmental planning and assessment, protection of the environment, and biodiversity conservation. The Coastal IFOA commenced in November 2018, replacing four separate IFOAs for the Upper North East, Lower North East, Southern and Eden regions.

7.3 Non-financial public sector

For the NFPS, the negative $2.1 billion net operating balance in 2018-19 is $258.0 million lower than forecast in the 2018-19 Budget resulting from lower performance in the GGS sector which was partially offset by stronger performance in the PNFC sector. The NFPS net operating balance over the budget and forward estimates is lower than forecast in the 2018-19 Budget. This is driven by lower revenue forecasts in the PNFC sector.

Further details on GGS performance are in Chapters 5 and 6 of this *Budget Statement*.

Chart 7.1: Components of the non-financial public sector net operating balance



Capital expenditure

In 2018-19 capital expenditure within the PNFC sector is forecast to $5.3 billion, which is $1.8 billion lower than forecast at the time of the 2018-19 Budget. This result was primarily driven by the de-consolidation of the WestConnex project from the State's accounts following the sale of a 51 per cent stake in August 2018 and a reprofiling of a number of RailCorp projects.

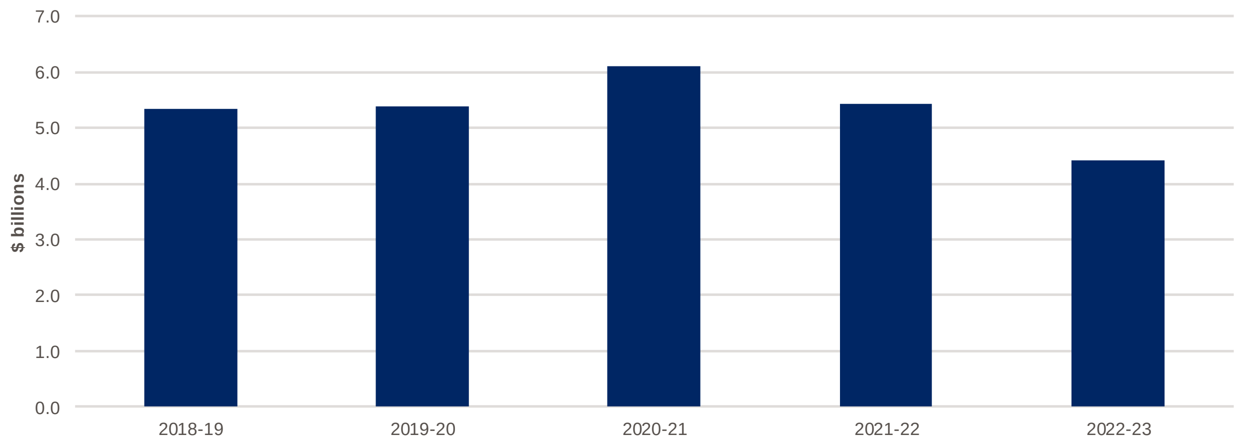
Capital expenditure within the PNFC sector over the budget and forward estimates will be $21.3 billion. This is $158.3 million lower than the comparative forecast in the 2018-19 Budget. Key movements between budgets include:

- $2.1 billion higher spend by RailCorp for the delivery of new intercity and Waratah trains under the More Trains, More Services program, a commitment to provide more express trains for Western Sydney, and funding for the Fast Rail Program
- $1.2 billion higher expenditure by Sydney Water on growth works, new and upgraded wastewater infrastructure to cater for forecast increases in population and development
- De-consolidation of the WestConnex projects, accounting for a $2.4 billion reduction over 2018-19 and 2019-20
- $440.5 million reduction in Land and Housing Corporation's property acquisition spend due to a softening property market, reducing the forecast asset sales available for reinvestment.

Chart 7.2 shows capital expenditure in the PNFC sector from 2018-19 to 2022-23.

Further details on the Government's capital expenditure strategy is provided in Budget Paper No.2: *Infrastructure Statement*.

Chart 7.2: Capital expenditure of the public non-financial corporations' sector



Capital expenditure is expected to reach $6.1 billion in 2020-21 driven by the timing of various RailCorp and Sydney Water projects. Capital expenditure is forecast to fall to $4.4 billion in 2022-23 as projects are completed.

7.4 Public financial corporation sector

The PFC sector includes NSW Treasury Corporation (TCorp) and Insurance and Care NSW (icare).

TCorp is the State's central financing authority and funds management agency. TCorp continues to manage financial risks for the State by providing foreign exchange, commodity and interest rate hedging services with $2.4 billion of transactions executed over the past year to 31 May 2019.

Box 7.4: Sustainability Bond Programme launched with Australia's largest Green Bond

In the last year, TCorp has issued the State's first Green Bond under the newly established Sustainability Bond Programme. The Sustainability Bond Programme enables investors to contribute capital to assets and projects that deliver measurable environmental and social benefits to New South Wales and contribute to the United Nations Sustainable Development Goals. These bonds will complement existing general-purpose bonds and provide the State with diversification of its investor base.

The 10-year bond successfully raised an historic $1.8 billion in funding, the largest green bond issued in Australian dollars in the market. The projects to receive financing from the issuance include Sydney Metro Northwest, Newcastle Light Rail and the Lower South Creek Treatment Programme being delivered by Sydney Water.

Building on the success of the first bond, the NSW Government will continue to lead the nation on the social and environmental investment front by issuing a new Sustainability and Social Bond later this year. Sustainability and social bonds provide institutions with opportunities to invest in programs that have positive environmental and social impacts on communities and which serve the needs of women, children, the elderly, people with disabilities and those in vulnerable situations.

TCorp manages funds on behalf of Insurance and Care NSW (icare), SAS Trustee Corporation, the NSW Generations (Debt Retirement) Fund (NGF) and the NSW Infrastructure Future Fund (NIFF), among others. TCorp's total funds under management have increased by $10.8 billion to $104.6 billion over the past year to 31 May 2019, exceeding $100 billion for the first time, largely due to investment growth and new funds flowing into the NGF.

icare is the Government's social insurer with the purpose to protect, insure and care for the State's people, businesses and assets.

Over the past 12 months, icare has delivered over $100 million in workers compensation premium discounts. icare will provide a further $300 million in premium discounts over the next three years for 280,000 employers, delivering an average discount of 8 per cent and a maximum of 12.5 per cent for employers with the safest workplaces.

icare launched a new single website, aggregating documents and information into an easy-to-use and transparent online portal. icare also redesigned and simplified the application and eligibility process for people with a dust disease as well as their family members.

Through the Medical Support Panel, icare has reduced average treatment approval times for injured workers from six weeks to five days and assessed 2,400 cases.

7.5 Dividends and tax equivalent payments

Dividends received by the GGS from PNFCs and PFCs are based on the operating performance of those businesses. Tax equivalent payments and debt neutrality charges (government guarantee fees) are also paid by PNFCs and PFCs to ensure competitive neutrality with private sector businesses. For 2018-19, the dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at $1.9 billion and Government guarantee fees to be $299.7 million. Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $4.8 billion.

Dividends and tax equivalent payments from the electricity sector over the budget and forward estimates are forecast to be $195.3 million, $57.4 million lower than the comparative estimate at the 2018-19 Budget. This is primarily driven by lower earnings for Essential Energy as a result of new regulatory determinations. Of this total amount, $156.7 million are tax equivalent payments fulfilling the Government's competitive neutrality obligations.

A recent capital structure optimisation initiative by Sydney Water has supported higher relative distribution levels from the PNFC water sector, with distributions in 2019-20 forecast to be $1.2 billion. Distribution levels are expected to reduce over the three years to 2022-23 with estimated distributions over the budget and forward estimates of $3.0 billion being 23 per cent lower compared to the 2018-19 Budget.

Distributions from the property and resources sector are forecast at $797.9 million over the budget and forward estimates. This is $114.9 million lower than forecast in the 2018-19 Budget and is driven largely by Landcom reaching the end of their multi-year plan to return historic profits to Government.

The Port Authority estimated dividend and tax equivalent payments of $156.6 million over the budget and forward estimates, an increase of around 30 per cent from the 2018-19 Budget.

The PFC sector's distributions over the budget and forward estimates years are $705.7 million, an increase of $282.1 million from the 2018-19 Budget, largely resulting from an expected increase in dividends from T-Corp in 2019-20 as part of a capital restructuring that allows them to return previously retained earnings to Government. TCorp's capital requirements will be met via an equity contribution from the Crown Finance Entity.

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

	2018-19	2019-20	2020-21	2021-22	2022-23
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
Electricity	62	32	50	52	61
Water	1,282	1,195	858	467	435
Property and Resources	265	310	290	97	101
Ports	11	12	41	50	55
Public Financial Corporations	301	329	121	129	128
Total Dividends and Tax Equivalent Payments	1,921	1,877	1,359	796	779

8. NSW: BETTER LIVES, BETTER FUTURES

8.1 Four pillars to improve the lives of citizens, now and into the future

The Government's fiscal and economic policies, combined with record infrastructure investment, have transformed New South Wales into the economic engine room of Australia. In the four years to June 2018 the New South Wales economy experienced the fastest per capita growth of any state in Australia.

The Government's investment decisions have dramatically improved the quality and level of service that citizens receive from government, leading the way with the Service NSW network. While improving services for today, the Government has maintained a clear focus on the future, initiating and leading the largest infrastructure program in the State's history.

The Government's ambitious agenda – including the election commitment package funded through this Budget – is being sustainably delivered due to disciplined financial management. The Government is keeping debt at sustainable levels, and retaining a triple-A credit rating.

The State has managed through recent global and local challenges, growing the economy and maintaining budget surpluses, without raising taxes. However, the Government is not taking its past success for granted and is planning for the future. The Government is implementing four policy pillars to support continued prosperity for New South Wales.

The first pillar is an Economic Blueprint for the future of New South Wales (the Blueprint). It will present long-term strategies to deliver the next phase of economic growth. The Government established the NSW Productivity Commission in 2018 to identify reform priorities for the economy, to support business investment and innovation, and improve lives. The Blueprint will complement this.

The second pillar is managing a balance sheet that lowers the financial burden for future generations. In the 2018-19 Budget, New South Wales became the first state or territory in Australia to establish a sovereign wealth fund, the NSW Generations Fund (NGF). Seeded with an initial investment of $10.0 billion in late 2018, the NGF is projected to grow to more than $28.0 billion over the next decade. This initiative will help the Government maintain sustainable debt levels consistent with a triple-A credit rating, helping support current and future generations.

The third pillar is re-examining federal financial relations from a state perspective. As the NSW economy continues to grow and evolve, the Government will need to maintain a stable and reliable revenue base to fund essential services and infrastructure. The Government is therefore undertaking a review of the State's revenue system as it relates to federal funding and its interactions with the state tax system. The Government wants the people of New South Wales to join in the conversation on how the revenue system can work better for all, including better integration between state and federal taxes.

The fourth and final pillar is ensuring government is focused on delivering better outcomes, not bigger government. The Government is continuing its move to outcomes budgeting. At the same time, it is announcing the Digital Restart Fund and is consolidating public sector agencies, so the State's public administration is streamlined, effective and citizen focused.

8.2 The Government wants New South Wales to be a great place to live, work, run a business and raise a family

The Government is looking at how it can best support future growth and prosperity. Key strategies include:

- ensuring the State budget is sustainable, with inter-generational measures like the NGF
- having the fiscal capacity to tap into innovation opportunities (such as the Digital Restart Fund) and to quickly respond to economic challenges (such as drought assistance)
- ensuring government is agile and nimble in the face of disruption and technological change
- readying the State's workforce and education system for the jobs of the future
- supporting the State's most vulnerable citizens.

New South Wales' fiscal and economic strengths

Since coming into office in 2011, the Government has built up the State's fiscal and economic capacity.

Under the Government's stewardship the New South Wales economy has been able to adapt from the end of the mining boom to service-driven growth, lifting skills and jobs growth across all regions. A positive indicator of the economy's transition is the State's trend unemployment rate, which is near a 40 year low. In an encouraging sign for the future, the State's workforce participation rate is the highest on record, with female participation a particular standout.

Fiscal discipline has been a core tenet of this Government's leadership. It has built a reputation for being a world leader in asset recycling – ensuring the State's balance sheet is optimised and capital is being employed in the most productive way possible. On the operating side, expense management has been pivotal in getting the State's finances on a sustainable footing. Through these measures, the Government has funded a record infrastructure program while minimising reliance on borrowings. It has delivered a meaningful and lasting legacy – the next generation will benefit from the infrastructure being built now, without the need to repay excessive debt.

More is needed to overcome the challenges of tomorrow

While New South Wales has enjoyed an historically long period of economic growth without recession, and the NSW Government has successfully managed recent headwinds, the State will face new challenges into the future. Both short and long-term risks could affect the Government's capacity to deliver the infrastructure and services that citizens need.

Short-term risks centre around the global economy, the local housing market, persistent drought conditions and subdued household income growth. Although the outlook for the global economy remains generally favourable, global institutions have recently pared back growth expectations. Any disruption to global trade could impact New South Wales, particularly through commodity and service exports and their multiplier effects on the local economy.

Beyond the immediate horizon, New South Wales is expected to face economic and fiscal challenges. The ageing of the population will place ongoing pressure on state-delivered services (such as health care). Lifting customer service expectations and emerging technologies could disrupt traditional government service delivery models. While these longer trends unfold, growth in revenues is unlikely to keep pace.

8.3 Setting up New South Wales for future success

Pillar one: The Economic Blueprint

New South Wales' economic transition

The New South Wales economy has powered national economic performance in recent years. In the four years to 2017-18, New South Wales:

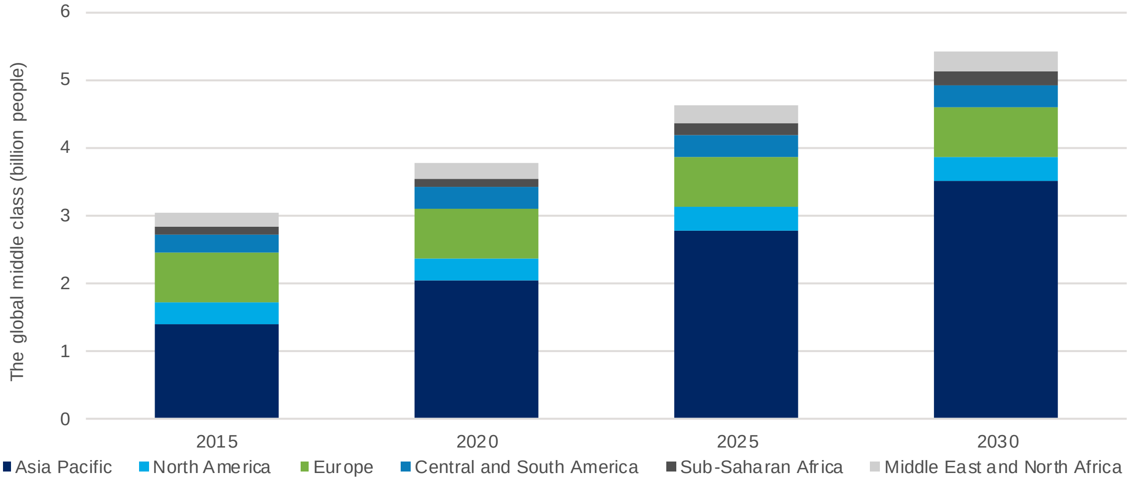
- delivered nearly 40 per cent of growth in national output and new jobs, well above the State's population share of 32 per cent
- had 64 per cent of national public investment growth
- recorded more than half the nation's dwelling commencements.

In the last year alone, New South Wales attracted 37 per cent of Australia's overseas tourists and 38 per cent of international students coming to Australia. Both these sectors account for a significant share of New South Wales' service exports.

New South Wales has abundant natural resources, a pristine environment, enviable living standards and a well-educated and highly-skilled workforce. It boasts popular tourist destinations, stable and reliable government and institutions, highly sought-after education facilities, a world-leading service sector, and highly competitive industries, particularly in advanced manufacturing.

New South Wales is already expanding trade into Asian markets. The State's top four merchandise export destinations are Japan, China, South Korea and Taiwan. The extraordinary growth in the number of middle-class citizens in Asia has the potential to drive economic growth in New South Wales for decades to come. As household incomes and living standards improve in many regional economies (see Chart 8.1), there will be significant and untapped trade opportunities for New South Wales industries.

Chart 8.1: China and India have significant potential as export destinations



Source: Brookings Institute and NSW Treasury

The Government is developing a new trade and investment strategy for New South Wales to respond to these trends. The strategy will focus efforts to attract international investment, facilitate exports, create jobs and grow the economy.

Changes to the economy are on the horizon. The disruption of advancing automation and robotics is already occurring, changing the nature of workplaces, lifestyles and jobs. While this technology has enormous potential to improve living standards and create new jobs, there are also transitional challenges that will weigh on parts of the economy.

The future economy must also continue to support individual freedom and aspiration – providing all people with a fair opportunity to work, make a living and support their families. The Government is well advanced into preparing a blueprint to take account of these challenges and opportunities, and lay out a long-term vision for New South Wales.

An Economic Blueprint for tomorrow

The Blueprint will build on the significant achievements of the Government since it was elected in 2011. The Government has established place-based strategic precincts and technology hubs that build on competitive advantages and nurture innovation and ideas. Previously neglected non-urban connectivity and infrastructure are renewed areas of focus, to help revitalise regions. To spark productivity growth in New South Wales, the Government established the NSW Productivity Commission in 2018 which has re-energised the productivity and reform agenda. A Productivity White Paper will be published later this year.

The Blueprint will draw on extensive future-focused work to date, both inside and outside government. It will gather fresh insights from an extensive consultation process that is already underway. The Blueprint will knit together this knowledge and provide an over-arching strategic framework from which other forward-looking plans (for example for regional growth, productivity, transport, innovation and small business) can build.

The Blueprint will target emerging growth industries of the future, and how these may affect the State's economic composition. There could be long-lasting implications for the way in which we educate and prepare the workforce of tomorrow. Indeed, the skills these people will need to prosper may be very different to those of today.

New South Wales has several current advantages – for example financial and professional services, advanced manufacturing and food production. There will be other areas of advantage in the future and while the Government may not be able to identify them all today, it can forge an environment that encourages investment and growth.

The Blueprint will identify likely major trading partners in the decades to come. In doing all of this, it will lay out long-term strategies that will help deliver the next phase of the State's economic growth. The Blueprint will be comprehensive, and it will be forward-looking. It will lay the foundations for a stronger economic and financial future.

Pillar two: Managing a balance sheet that lowers the burden for future generations

The NSW Generations Fund (NGF)

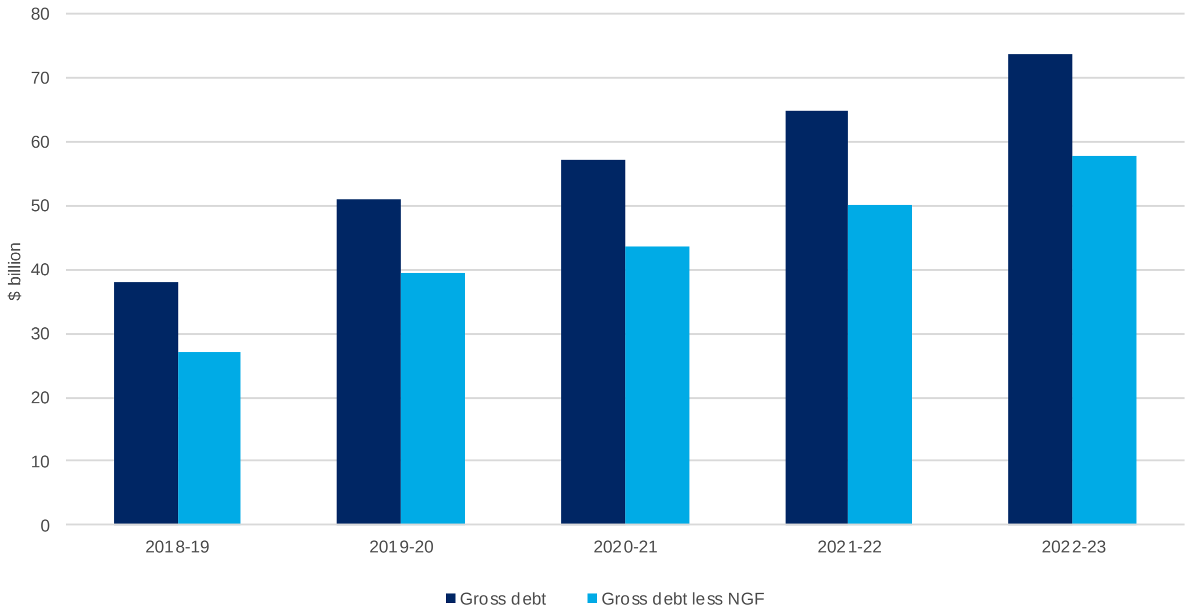
To avoid constraining future generations with substantial debt, the Government has established a dedicated debt retirement fund – the NGF. This sustainable approach to debt reduction is made possible by the Government's strong financial management and innovative reform, helping unlock the potential of the State's balance sheet. The NGF was seeded with an initial investment of $10 billion in late 2018. Over the next decade, the NGF is projected to grow to more than $28 billion.

By ring-fencing the NGF through the *NSW Generations Funds Act 2018*, it safeguards the NGF's assets for debt retirement and prevents the NGF from being misused by future governments. Enshrining the NGF in legislation has supported both major credit ratings agencies recognising the NGF as an offset to State debt (Chart 8.2). This innovative approach allows the NGF to support the triple-A credit rating in a way that other States' investment funds cannot.

The State's minority interest in WestConnex is also included in the NGF. This approach helps ensure that the WestConnex minority interest does not become a 'lazy asset' on the State's balance sheet and continues to help benefit the people of New South Wales now and into the future.

This active approach to balance sheet management will support the Government's infrastructure program without burdening future generations with unmanageable debt.

Chart 8.2: General government gross debt – with and without the NGF debt offset



Pillar three: Re-examining federal financial relations from a state perspective

Current state of federal financial relations

Under Australia's federal system, states have primary responsibility for delivering frontline government services and infrastructure. Yet, states also have some constraints on access to efficient, stable revenue sources to fully fund this expenditure and investment.

This means the states rely heavily on Commonwealth funding to deliver essential services. In 2019-20, the Commonwealth will provide New South Wales with around $32.4 billion (38.4 per cent of the State's revenue). This includes $18.7 billion of GST payments and $13.3 billion in tied payments flowing from National Agreements, National Partnerships and Project Agreements.

Over time the Commonwealth funding system has evolved into one that is complex, uncertain and discourages state reform. The distribution of GST revenue and Commonwealth funding agreements weigh on the future stability of the State's revenue base and affect budget flexibility.

Federal financial arrangements require reform if states are to address long-term revenue and expenditure challenges and provide citizens with value for money in return for their taxes. A federal system that recognises the sovereign role of states and provides appropriate incentives for economic reform is fundamental.

In light of these challenges, it is time to review our federal financial relations system – from a state perspective – to ensure it delivers fair and stable revenue to New South Wales and positions the State to meet future challenges.

Why the federal financial relations system requires examining

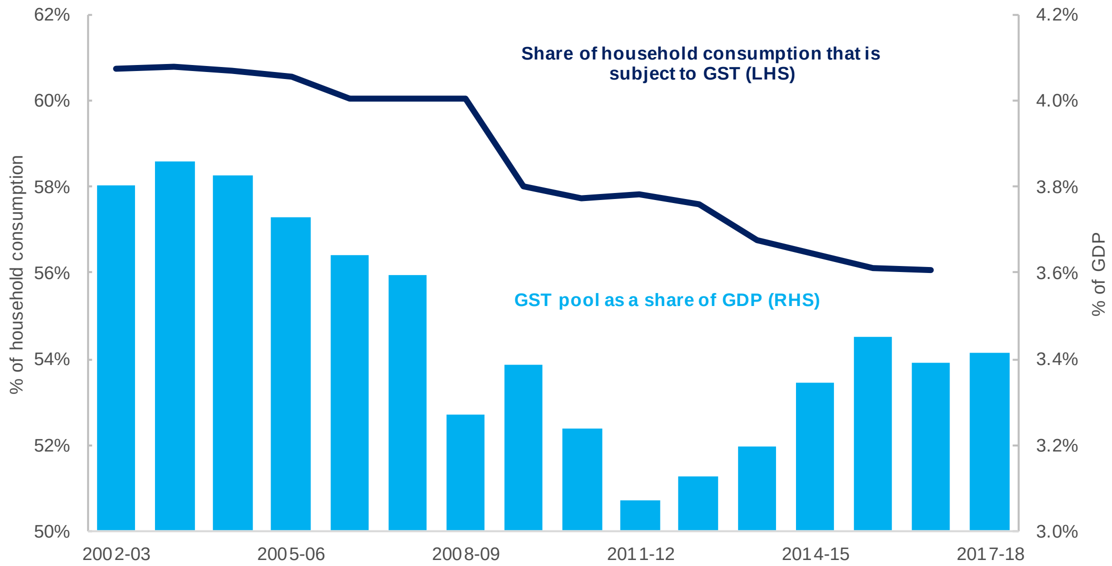
Although the current model for federal financial relations was established on a principle of collaboration, over time these arrangements have become complex and highly restrictive.

The current system of GST revenue allocation – known as Horizontal Fiscal Equalisation – is complex, discourages productivity-enhancing reform, and penalises states with responsible fiscal policies and strong economies.

At the same time, limited visibility on expected trends and growth in GST receipts means that states are exposed to sudden write-downs in revenue. In its 2019-20 Budget, the Commonwealth downgraded its forecast for the GST pool by $8.3 billion over four years from its mid-year budget update. This is consistent with historic volatility, in which the GST pool has annually grown by up to 9 per cent and fallen by up to 2.7 per cent.

Over the long-term, GST payments could also become supressed by a shift in household spending towards goods and services that are not subject to GST (including health care, education, financial services and residential rent) and weak inflation for retail goods (Chart 8.3).

Chart 8.3: An eroding GST base raises further risks to NSW revenue

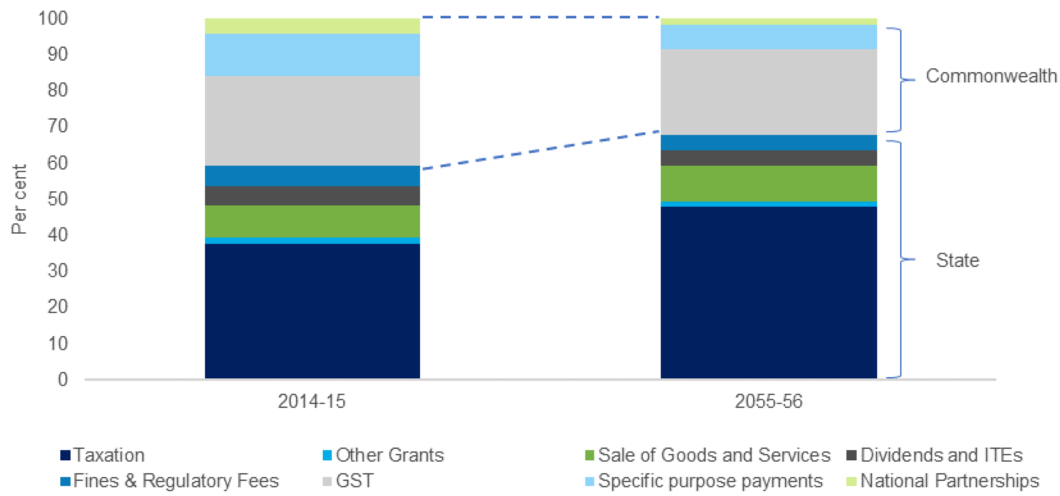


Source: ABS 5206.0 and Commonwealth Parliamentary Budget Office

In addition to GST payments, New South Wales also relies on four National Agreements and more than 40 National Partnerships and Project Agreements with the Commonwealth. The complexity and excessive conditions in these agreements hinder the ability to fund and deliver services efficiently and in line with community needs. These agreements erode state sovereignty by restricting state flexibility to allocate funding to the most critical areas. Commonwealth funding is also unlikely to match future growth in demand for services, requiring states to lift their share of the funding. Yet the states' ability to do this is also constrained by current federal financial arrangements.

Over the long term, the Commonwealth's own fiscal pressures may weigh on grant funding. The New South Wales 2016 Intergenerational Report projects that Commonwealth funding could fall to around 32 per cent of State revenue by 2055-56, shifting the State's financing burden back towards its own sources of revenue (Chart 8.4).

Chart 8.4: Commonwealth funding is falling as a share of total revenue



Source: NSW Intergenerational Report 2016

Interactions with the New South Wales' tax system

New South Wales relies on a range of state taxes that can be volatile and costly to the State economy. Yet, incentives to undertake tax reform can be affected by potential implications for the State's share of Commonwealth funding.

Lower taxes are important because all taxation creates economic costs over and above the direct financial costs on taxpayers. Taxes can deter productive activities by reducing the rewards for effort and work. They can also discourage individuals from making economic decisions that would benefit themselves, their families and the wider community. Major Commonwealth taxes, including the GST and personal income tax, impose relatively lower economic costs. Some state taxes, on the other hand, have relatively high economic costs.

The volatility of some taxes also makes it difficult for governments to plan ahead and manage their finances. Property transfer duty and minerals royalties, for example, are volatile revenue streams. New South Wales has become more reliant on transfer duties in recent years, which rose from $3.8 billion in 2011-12 to $9.7 billion at its peak in 2016-17. Since the 2017-18 Budget a softening of the housing market has resulted in a write down of more than $10 billion in forecast transfer duty.

New South Wales' review of federal financial relations

The NSW Government is committed to managing fiscal pressures through strong fiscal management, controlling expenditure and cutting government waste. However, part of the challenge is to ensure New South Wales revenue is steady and predictable.

The NSW Government will ask a diverse and independent panel of experts to review how we can improve the federal financial relations system. The Panel will also consider how the Commonwealth funding system interacts with state taxes. The Panel will consult with the community and recommend options to improve the revenue system and encourage a more reliable system of Commonwealth funding.

The Government also recognises these revenue challenges are not unique to New South Wales. While this review is an opportunity for New South Wales to demonstrate initiative, the cooperative involvement of all states and territories through the Board of Treasurers will be critical to achieving meaningful and enduring reform.

Pillar four: Ensuring governments are focused on delivering outcomes

Delivering outcomes is what matters most and this will continue to be the first priority for the Government. New South Wales is leading the way in shifting government thinking around outcome budgeting and performance accountability.

Under outcome budgeting, funding discussions move away from traditional outputs (for example a new school) and towards the outcome that citizens care about (giving our children the best chance of success). Outcome budgeting embeds richer policy discussions, leading to better decisions, before funding is then allocated through the Budget process.

Outcome budgeting is not just about improving new policy decisions. It drives a discussion on what is being achieved with the total $83.3 billion annual recurrent spend. When sustained over years to come, outcome budgeting will change how the Government plans, funds and delivers results for the people of New South Wales.

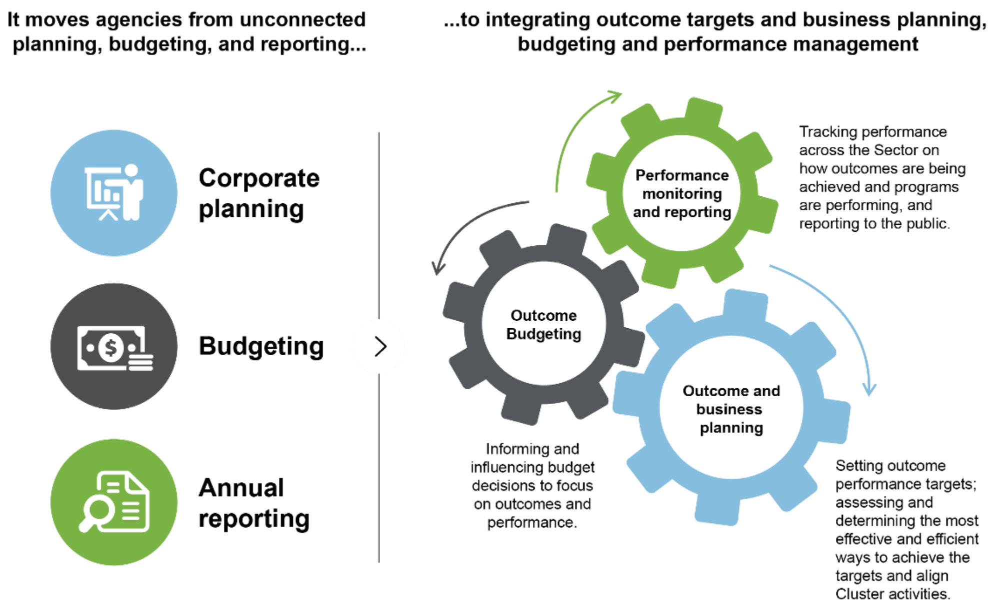
Designing a system that delivers better outcomes

The Government has established 38 State Outcomes (see Budget Paper No 3. *Budget Estimates*) to assist with investment decision making.

The Government has recently reorganised the public sector into eight clusters (down from 10) to streamline how it operates and to improve collaboration. This reorganisation has coincided with the establishment of the State Outcomes, which are fit for purpose to the new model.

The Government takes performance seriously and this means setting targets for each State Outcome to deliver. Now that a suite of 38 State Outcomes has been established for the new machinery of government structure, attention is turning to setting measures that will drive a performance-based culture across the public sector (Diagram 8.1). This is important to get right and will be a feature of future releases of Budget Paper No.3 *Budget Estimates*, just as it was a feature in the 2018-19 Budget under the previous machinery of government structure.

Figure 8.1: Outcome budgeting encompasses and integrates the three aspects of performance accountability



Supporting the State's education system to deliver outcomes

Since 2011 the Government has made record investments in schools, including through substantial extra funding to public schools through the Gonski 2.0 agreement. This includes more than $6.4 billion additional funding to 2027 for public schools across New South Wales from next year.

This spend is not the end in itself. Driving better outcomes for children is what matters. The NSW Department of Education is the first department to make a significant shift to outcome budgeting. It is established a plan to ensure the Government's record investment provides young people with the best educational outcomes in Australia.

Every cluster in the NSW Government will be following the Department of Education with outcome-focussed plans that provide a clear roadmap to delivering results.

Remaining Australia's economic driving force well into the future

Together, these four pillars build on the State's strong foundations to ensure the economy remains strong, resilient to shocks and responsive to new opportunities. These strategies will position New South Wales to remain Australia's driving force well into the future. More importantly, meeting the needs of citizens will be at the centre of every government decision, so that New South Wales continues to be a great place to live work, run a business and raise a family.

A1. STATEMENT OF FINANCES

This appendix presents the financial aggregates for the 2019-20 Budget.

Financial aggregates in this appendix are prepared in line with:

- the Uniform Presentation Framework (UPF) administered by the Council on Federal Financial Relations (CFFR)
- Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised Government Finance Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) reporting basis.

UPF Tables also include disclosures that identify 'convergence' differences as explained on pages A1-4 and A1-5.

A six-year time series is provided from 2017-18 to 2022-23 for the general government sector (GGS), public non-financial corporations (PNFC) sector, and consolidated non-financial public sector (NFPS).

An analysis of general government expenses is presented in Chapter 5: Expenditure, and looks at each element of expenses by COFOG-A category.

Appendix A2 outlines the accounting policies and forecast assumptions adopted in the Budget. The Operating Statements as per Table A1.1, Table A1.9 and Table A1.12 quantifies the impact on the forward estimates from 2019-20 to 2022-23. These forecasts include the impact from the adoption of new accounting standards from 2019-20 in accordance with:

- AASB 15 *Revenue from Contracts with Customers* (AASB 15),
- AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and
- AASB 16 *Leases* (AASB 16)

A.1 Introduction

This appendix presents financial aggregates for the GGS, PNFC sector and NFPS. These aggregates are prepared in line with the revised UPF agreed by the Council on Federal Financial Relations in February 2019.

The revisions to the framework in 2019 largely reflect the 2015 update to the Australian System of Government Financial Statistics (GFS) framework. The update of the Australian GFS aims to better align with the International Monetary Fund's GFS 2014 framework and the System of National Accounts 2008. The revised UPF also removes the Loan Council Allocation reporting requirements.

The objective of the UPF is to facilitate a better understanding of individual government's budget papers and provide for more meaningful comparisons of each government's financial results and projections.

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

The UPF financial aggregates:

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

A.2 Uniform Presentation Framework

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

Framework

The UPF tables are in line with AASB 1049 which:

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

Due to differences in reporting classifications, GFS financial aggregates released by the ABS will differ from UPF aggregates. These 'convergence' differences are not generally material for New South Wales, apart from GFS's treatment of prepayments and the exclusion of deferred tax, settlement provisions and obligation payments. For more information on other differences, see the primary financial statements later in this appendix. For details and amounts of the key 2017-18 convergence differences, see pages 7-141 to 7-146 of the 2017-18 *Report on State Finances*.

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

Historical Series

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

Fiscal measures

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

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

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

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

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

A.3 Primary Financial Statements

UPF Presentation

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

Operating Statement

The operating statement:

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

The operating statement also reports three major fiscal measures:

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

Convergence differences in the Operating Statement

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

- the harmonised aggregates exclude selected Australian Government transfer payment revenues and expenses that pass through the State's accounts. The ABS requires such payments to be grossed up in GFS reports. However, they are excluded from the AASB 1049 UPF reports as the NSW Government has no control over them. For information on the gross value of these grants see footnotes to the grants revenue and expense Table A1.5
- grants are recognised when the State gains control over the assets. Control is normally obtained when the cash is received
- dividends paid by the PNFC and PFC sectors to the GGS are recognised as an expense in GFS (in the PNFC and PFC sector operating statements), but they are treated as an equity transaction for AASB 1049
- GFS may treat a transaction as a repayment of equity in circumstances where accounting standards would record a dividend payment
- a liability is recognised in the UPF balance sheet for prepaid licence concession receipts. Income is subsequently recognised from amortising the prepaid licence over the concession period. GFS treats this as a sale of a non-produced intangible asset in the period that the prepayment is received.

Balance Sheet

The balance sheet:

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

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

Convergence differences in the Balance Sheet

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

- allowance for doubtful debts is recognised and reported in the UPF balance sheet, but is excluded from the GFS balance sheet, as GFS does not recognise an economic event has occurred
- a prepaid income liability is recognised in the UPF balance sheets for unamortised prepaid licences. This liability is excluded from the GFS balance sheet, which treats the prepaid income as an upfront sale of a non-produced intangible asset
- GFS balance sheets exclude deferred tax assets and deferred tax liabilities, but they are reported in accounting balance sheets. The convergence difference only affects GGS, PNFC and PFC sector balance sheets, as the assets and liabilities are eliminated for the consolidated non-financial public sector and Total Public Sector balance sheets
- GFS balance sheets also do not recognise other settlement provisions and obligation payments as there is no present counterparty to the transactions
- net financial worth and net financial liabilities aggregates are affected by the differing treatments for prepayments. Prepayments are treated in GFS as a receivable (financial asset), but in the UPF they are classified as a non-financial asset under AASB 1049. While this difference affects net financial liabilities and net financial worth, it does not affect net debt and net worth aggregates
- the ABS GFS Manual presents debt in a matrix format, with no single net debt aggregate identified. In this publication net debt is reported in accordance with the current UPF as the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements
- by definition, GFS net worth for the PNFC and PFC sectors will always be zero, as owner's equity is classified as equivalent to a liability. However, under the UPF, liabilities exclude owner's equity.

Cash Flow Statement

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

This statement requires cash flows to be categorised into:

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

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

The cash flow statement reports two fiscal measures:

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

New South Wales uses the AASB 1049 cash result as its headline cash result.

Institutional sectors

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

A.4 Uniform Presentation Tables

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

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

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

Table A1.1: General government sector operating statement

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Taxation	31,326	31,263	31,841	33,876	35,296	36,665
Grants and Subsidies						
- Commonwealth General Purpose	17,955	17,888	18,685	19,789	20,953	21,981
- Commonwealth Specific Purpose Payments	9,844	10,130	10,431	11,046	11,679	12,360
- Commonwealth National Partnership Payments	3,129	2,848	2,888	2,359	2,263	2,204
- Other Commonwealth Payments	444	410	372	440	436	459
- Other Grants and Subsidies	487	581	627	625	622	631
Sale of Goods and Services	8,508	8,797	9,762	10,421	9,972	8,988
Interest	558	531	333	322	288	272
Dividend and Income Tax Equivalents from Other Sectors	1,578	1,921	1,877	1,359	796	779
Other Dividends and Distributions	2,114	1,796	2,001	2,002	2,203	2,351
Fines, Regulatory Fees and Other	4,730	4,962	5,498	5,392	5,510	5,318
Total Revenue from Transactions	**80,672**	**81,128**	**84,316**	**87,632**	**90,018**	**92,009**
Expenses from Transactions						
Employee	31,644	32,789	34,266	34,784	36,829	39,442
Superannuation						
- Superannuation Interest Cost	1,458	1,426	1,079	1,040	1,083	1,101
- Other Superannuation	3,009	3,138	3,151	3,090	3,163	3,357
Depreciation and Amortisation	4,873	5,321	6,110	6,491	6,623	6,795
Interest	1,994	1,850	2,278	2,648	2,768	2,946
Other Operating	19,652	21,478	20,815	21,900	21,462	19,907
Grants, Subsidies and Other Transfer Expenses	13,862	14,324	15,602	16,453	16,089	15,862
Total Expenses from Transactions	**76,491**	**80,326**	**83,300**	**86,405**	**88,016**	**89,410**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**4,181**	**802**	**1,016**	**1,227**	**2,002**	**2,599**

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

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 $m	2022-23 $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(231)	(829)	11	250	247	464
Other Net Gains/(Losses)	71	13,796	435	983	769	417
Share of Earnings from Associates (excluding Dividends)	160	...	...	...	...	...
Dividends from Asset Sale Proceeds	(0)	0	(0)	(0)	...	...
Allowance for Impairment of Receivables	(83)	(59)	(38)	(38)	(36)	(36)
Deferred Income Tax from Other Sectors	(17)	(15)	15	37	39	37
Other	83	84	78	78	78	75
Other Economic Flows - included in Operating Result	**(16)**	**12,976**	**501**	**1,310**	**1,096**	**958**
Operating Result	**4,165**	**13,778**	**1,517**	**2,538**	**3,099**	**3,556**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**20,057**	**(5,844)**	**3,503**	**11,354**	**9,617**	**13,964**
Revaluations	17,588	6,831	2,811	3,844	3,371	3,512
Share of Earnings from Associates from Revaluations	(42)	(33)	...	...	...	...
Superannuation Actuarial Gain/(Loss)	2,416	(6,643)	1,953	4,950	4,504	6,496
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	...	(6,016)	(1,346)	2,457	1,592	3,774
Deferred Tax Adjustment through Equity	96	17	85	105	150	181
Items that may be Reclassified Subsequently to Operating Result	**6,312**	**(92)**	**(97)**	**(22)**	**(33)**	**(7)**
Net Gain/(Loss) on Available for Sale Financial Assets	6,296	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	2	...	...	...	...	...
Other	15	(92)	(97)	(22)	(33)	(7)
Income	**26,369**	**(5,936)**	**3,406**	**11,333**	**9,585**	**13,957**
Comprehensive Result - Total Change in Net Worth	**30,534**	**7,843**	**4,923**	**13,870**	**12,683**	**17,513**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**30,534**	**7,843**	**4,923**	**13,870**	**12,683**	**17,513**
Less: Net Other Economic Flows	(26,353)	(7,040)	(3,907)	(12,643)	(10,681)	(14,915)
Equals: Budget Result - Net Operating Balance	**4,181**	**802**	**1,016**	**1,227**	**2,002**	**2,599**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets	11,969	16,017	19,855	17,216	16,701	13,851
Sales of Non-Financial Assets	(437)	(502)	(1,031)	(1,803)	(1,518)	(1,126)
Less: Depreciation	(4,873)	(5,321)	(6,110)	(6,491)	(6,623)	(6,795)
Plus: Change in Inventories	6	(2)	(17)	(32)	(45)	0
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases	152	1,847	2,490	534	545	498
- Other	126	214	336	407	556	567
Equals: Total Net Acquisition of Non-Financial Assets	**6,943**	**12,253**	**15,523**	**9,831**	**9,618**	**6,995**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(2,762)**	**(11,451)**	**(14,507)**	**(8,604)**	**(7,615)**	**(4,396)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(a)]	12,121	17,864	22,345	17,750	17,247	14,349

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

Table A1.2: General government sector balance sheet

	June 2018 Actual $m	June 2019 Revised $m	June 2020 Budget $m	June 2021 Forward Estimates $m	June 2022 $m	June 2023 $m
Assets						
Financial Assets						
Cash and Cash Equivalents	5,417	3,438	1,050	1,072	1,019	1,074
Receivables	6,721	6,622	7,069	7,151	7,251	7,319
Tax Equivalents Receivable	128	50	29	24	37	36
Investments, Loans and Placements						
Financial Assets at Fair Value	32,578	39,727	34,618	29,953	27,767	30,556
Other Financial Assets	5,556	2,617	1,827	2,004	1,435	1,417
Advances Paid	1,017	1,041	1,265	1,381	1,748	2,181
Deferred Tax Equivalent Assets	2,192	2,197	2,294	2,427	2,608	2,819
Equity						
Investments in Other Public Sector Entities	112,911	100,646	108,612	114,505	118,383	123,296
Investments in Associates	5,987	12,598	12,689	11,976	12,119	12,203
Other Equity Investments	722	0	0	0	0	0
Total Financial Assets	**173,228**	**168,935**	**169,454**	**170,493**	**172,367**	**180,902**
Non-Financial Assets						
Inventories	327	315	298	267	222	222
Forestry Stock and Other Biological Assets	9	9	9	9	9	9
Assets Classified as Held for Sale	320	200	276	121	119	117
Investment Properties	...	...	...	...	(0)	(0)
Property, Plant and Equipment						
Land and Buildings	83,390	89,660	96,897	101,135	102,534	103,112
Plant and Equipment	10,941	11,470	11,692	11,850	11,736	11,379
Infrastructure Systems	104,232	123,695	129,273	138,749	150,428	160,293
Intangibles	3,691	3,411	3,446	3,193	2,918	2,601
Other Non-Financial Assets	7,426	6,229	8,936	10,035	10,871	11,785
Total Non-Financial Assets	**210,336**	**234,990**	**250,826**	**265,361**	**278,838**	**289,518**
Total Assets	**383,564**	**403,925**	**420,280**	**435,854**	**451,205**	**470,419**
Liabilities						
Deposits Held	130	92	93	98	104	109
Payables	7,251	7,025	7,273	7,740	8,068	7,955
Tax Equivalents Payable	3	6	15	8	(0)	...
Borrowings and Derivatives at Fair Value	5	154	147	138	128	116
Borrowings at Amortised Cost	32,441	37,007	50,091	56,323	63,813	72,859
Advances Received	797	751	783	824	809	785
Employee Provisions	18,015	19,365	19,820	20,051	20,172	20,067
Superannuation Provision[(a)]	54,200	61,019	58,731	53,273	48,150	40,922
Deferred Tax Equivalent Provision	112	119	122	121	119	119
Other Provisions	10,210	10,482	10,556	10,698	10,880	11,053
Other Liabilities	6,223	5,881	5,701	5,764	5,464	5,421
Total Liabilities	**129,385**	**141,903**	**153,334**	**155,038**	**157,705**	**159,406**
NET ASSETS	**254,179**	**262,022**	**266,946**	**280,816**	**293,500**	**311,013**
NET WORTH						
Accumulated Funds	77,300	84,579	87,986	95,495	103,098	113,151
Reserves	176,879	177,444	178,960	185,321	190,401	197,862
TOTAL NET WORTH	**254,179**	**262,022**	**266,946**	**280,816**	**293,500**	**311,013**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**(11,195)**	**(8,818)**	**12,354**	**22,973**	**32,884**	**38,640**
Net Financial Liabilities[(c)]	**69,068**	**73,614**	**92,493**	**99,050**	**103,722**	**101,800**
Net Financial Worth[(d)]	**44,001**	**27,032**	**16,119**	**15,455**	**14,662**	**21,496**

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

Table A1.3: General government sector cash flow statement

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 $m	2022-23 $m
Cash Receipts from Operating Activities						
Taxes Received	31,218	31,269	31,954	34,022	35,430	36,792
Receipts from Sales of Goods and Services	9,334	9,039	10,249	11,059	10,518	9,444
Grant and Subsidies Received	31,852	31,847	32,859	34,406	35,726	37,663
Interest Receipts	457	545	235	214	195	202
Dividends and Income Tax Equivalents	1,031	2,001	1,714	1,470	859	615
Other Receipts	12,113	9,612	10,283	9,202	8,535	8,343
Total Cash Receipts from Operating Activities	**86,006**	**84,313**	**87,295**	**90,373**	**91,262**	**93,059**
Cash Payments from Operating Activities						
Payments for Employees	(30,693)	(32,242)	(33,794)	(34,393)	(36,570)	(39,194)
Payments for Superannuation	(4,262)	(4,376)	(4,567)	(4,623)	(4,866)	(5,190)
Payments for Goods and Services	(20,027)	(21,703)	(20,661)	(22,078)	(21,224)	(19,725)
Grants and Subsidies Paid	(13,221)	(13,869)	(14,997)	(15,923)	(15,700)	(15,481)
Interest Paid	(1,508)	(1,477)	(1,868)	(2,266)	(2,423)	(2,569)
Other Payments	(5,588)	(4,752)	(4,714)	(3,805)	(2,859)	(2,961)
Total Cash Payments from Operating Activities	**(75,300)**	**(78,418)**	**(80,602)**	**(83,088)**	**(83,641)**	**(85,119)**
Net Cash Flows from Operating Activities	**10,706**	**5,894**	**6,693**	**7,284**	**7,621**	**7,940**
Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	521	573	1,120	1,804	1,519	1,131
Purchases of Non-Financial Assets	(13,323)	(16,057)	(20,525)	(16,800)	(15,823)	(14,122)
Net Cash Flows from Investments in Non-Financial Assets	**(12,802)**	**(15,484)**	**(19,404)**	**(14,996)**	**(14,305)**	**(12,991)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	808	17,906	158	1,184	148	46
Payments	(1,382)	(2,329)	(3,190)	(3,757)	(2,752)	(1,587)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(574)**	**15,577**	**(3,032)**	**(2,572)**	**(2,604)**	**(1,541)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	9,471	18,322	9,145	6,586	3,529	409
Payments for the Purchase of Investments	(8,988)	(29,139)	(2,727)	(1,523)	(399)	(2,777)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**482**	**(10,817)**	**6,417**	**5,063**	**3,130**	**(2,368)**
Net Cash Flows from Investing Activities	**(12,894)**	**(10,724)**	**(16,019)**	**(12,505)**	**(13,779)**	**(16,899)**
Cash Flows from Financing Activities						
Advances Received	30	204	170	164	11	29
Advances Repaid	(70)	(154)	(203)	(162)	(44)	(60)
Proceeds from Borrowings	957	4,102	8,192	6,749	8,214	9,972
Repayment of Borrowings	(1,773)	(1,271)	(1,323)	(1,625)	(2,219)	(1,163)
Deposits Received - Net	24	(38)	2	4	6	6
Other Financing Receipts/(Payments)	94	(1)	85	105	150	182
Net Cash Flows from Financing Activities	**(738)**	**2,842**	**6,923**	**5,236**	**6,119**	**8,965**
Net Increase/(Decrease) in Cash Held	**(2,925)**	**(1,988)**	**(2,403)**	**15**	**(39)**	**5**
Derivation of Cash Result						
Net Cash Flows From Operating Activities	10,706	5,894	6,693	7,284	7,621	7,940
Net Cash Flows from Investments in Non-Financial Assets	(12,802)	(15,484)	(19,404)	(14,996)	(14,305)	(12,991)
Cash Surplus/(Deficit)	**(2,096)**	**(9,590)**	**(12,711)**	**(7,712)**	**(6,684)**	**(5,051)**

Table A1.4: General government sector taxes

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m
Taxes on Employers' Payroll and Labour Force	**9,030**	**9,577**	**10,008**
Taxes on Property			
Land Taxes	3,735	4,225	4,538
Other	284	121	128
Total Taxes on Property	**4,020**	**4,346**	**4,666**
Taxes on the Provision of Goods and Services			
Excises and Levies	...	...	...
Taxes on Gambling	2,350	2,616	2,631
Taxes on Insurance	2,566	2,648	2,822
Stamp Duties on Financial and Capital Transactions	8,952	7,675	7,223
Total Taxes on the Provision of Goods and Services	**13,868**	**12,939**	**12,675**
Taxes on Use of Goods and Performance of Activities			
Motor Vehicle Taxes	3,576	3,487	3,588
Franchise Taxes	16	24	5
Other	816	890	899
Total Taxes on Use of Goods and Performance of Activities	**4,408**	**4,401**	**4,492**
Total Taxation Revenue	**31,326**	**31,263**	**31,841**

Table A1.5: General government sector grant revenue and expense[(a)]

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m
Current Grants and Subsidies			
Current Grants from the Commonwealth[(a)]			
General Purpose Grants	17,955	17,888	18,685
Specific Purpose Payments	9,844	10,130	10,431
National Partnership Payments	738	1,167	1,169
Other Commonwealth Payments	444	410	372
Total	**28,981**	**29,595**	**30,657**
Other Grants and Subsidies	426	566	573
Total Current Grants and Subsidies Revenue	**29,406**	**30,161**	**31,230**
Capital Grants and Subsidies			
Capital Grants from the Commonwealth[(a)]			
General Purpose Payments	...	...	...
Specific Purpose Payments	...	...	...
National Partnership Payments	2,392	1,680	1,719
Total	**2,392**	**1,680**	**1,719**
Other Grants and Subsidies	62	15	54
Total Capital Grants and Subsidies Revenue	**2,454**	**1,696**	**1,773**
Total Grants and Subsidies Revenue	**31,860**	**31,857**	**33,003**
Current Grants, Subsidies and Transfer Payments Expense to:			
State/Territory Government	12	0	0
Local Government[(a)]	1,008	1,084	1,353
Private and Not-for-Profit Sector[(a)]	7,372	6,949	7,933
Other Sectors of Government	4,516	5,683	5,543
Total Current Grants, Subsidies and Transfer Payments Expense	**12,908**	**13,717**	**14,829**
Capital Grants, Subsidies and Transfer Payments to:			
State/Territory Government	0	0	0
Local Government[(a)]	289	266	215
Private and Not-for-Profit Sector[(a)]	210	189	515
Other Sectors of Government	455	152	43
Total Capital Grants, Subsidies and Transfer Payments Expense	**955**	**607**	**773**
Total Grants and Subsidies Expense	**13,862**	**14,324**	**15,602**

(a) Grant revenue and expenses above exclude the following transfer payments from the Commonwealth government that New South Wales passes on to third parties. They are not recorded as New South Wales revenue and expense as the State has no control over the amounts that it passes on.

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m
Transfer Receipts and Payments from the Commonwealth Government on-passed by New South Wales to Third Parties			
Transfer Receipts			
Current Transfer Receipts for Specific Purposes	4,557	4,442	4,308
Capital Transfer Receipts for Specific Purposes	...	...	...
Total Receipts	**4,557**	**4,442**	**4,308**
Current Transfer Payments to:			
Local Government	749	382	396
Private and Not-For-Profit Sector	3,808	4,060	3,912
Capital Transfer Payments to:			
Local Government	...	...	...
Private and Not-For-Profit Sector	...	...	...
Total Payments	**4,557**	**4,442**	**4,308**

Table A1.6: General government sector dividend and income tax equivalent income

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m
Dividend and Income Tax Revenue from the PNFC Sector	1,551	1,620	1,549
Dividend and Income Tax Revenue from the PFC Sector	27	301	329
Other Dividend Income	2,114	1,796	2,001
Total Dividend and Income Tax Equivalent Income	**3,692**	**3,717**	**3,878**

Table A1.7: General government sector expenses by function

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m
General Public Services[(a)]	8,585	8,358	7,554
Defence	...	...	...
Public Order and Safety	7,470	8,057	8,332
Economic Affairs	2,432	2,440	2,700
Environmental Protection	1,015	1,093	1,459
Housing and Community Amenities	886	975	1,060
Health	21,496	22,646	23,640
Recreation, Culture and Religion	1,206	1,289	1,499
Education	16,660	17,572	18,165
Social Protection	7,601	7,644	7,712
Transport	9,140	10,252	11,180
Total Expenses	**76,491**	**80,326**	**83,300**

Table A1.8: General government sector purchases of non-financial assets by function

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m
General public services[(a)]	253	336	1,125
Defence	...	...	...
Public order and safety	927	1,319	1,254
Economic affairs	139	188	405
Environmental protection	5	9	28
Housing and community amenities	75	129	485
Health	1,564	2,224	2,728
Recreation, culture and religion	191	227	375
Education	986	1,822	2,366
Social protection	221	335	143
Transport	7,760	11,277	13,435
Total Purchases of Non-Financial Assets	**12,121**	**17,864**	**22,345**

Table A1.9: Public non-financial corporations sector operating statement

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Grants and Subsidies						
- Other Commonwealth Payments	...	3	3	3	3	3
- Other Grants and Subsidies	3,176	2,708	2,574	3,050	3,307	3,181
Sale of Goods and Services	9,304	8,013	8,135	8,015	8,250	8,396
Interest	109	73	54	39	37	35
Fines, Regulatory Fees and Other	811	873	799	813	767	764
Total Revenue from Transactions	**13,400**	**11,670**	**11,566**	**11,920**	**12,364**	**12,379**
Expenses from Transactions						
Employee	2,232	2,334	2,469	2,470	2,532	2,553
Personnel Services Expense	703	599	652	664	679	695
Superannuation						
- Superannuation Interest Cost	54	56	44	42	42	41
- Other Superannuation	202	215	224	220	221	225
Depreciation and Amortisation	2,758	2,829	3,457	3,611	3,756	3,889
Interest	1,285	1,050	1,111	1,122	1,147	1,185
Income Tax Expense	438	299	263	266	238	230
Other Operating	5,842	5,706	5,467	5,770	6,137	6,227
Grants, Subsidies and Other Transfer Expenses	211	130	93	64	64	66
Total Expenses from Transactions	**13,725**	**13,219**	**13,780**	**14,229**	**14,817**	**15,111**
Transactions from Discontinuing Operations	...	...	...	...	...	...
NET OPERATING BALANCE - SURPLUS AFTER TAX	**(326)**	**(1,549)**	**(2,214)**	**(2,309)**	**(2,452)**	**(2,732)**

Table A1.9: Public non-financial corporations sector operating statement (cont)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	5	...	...	...	...	...
Other Net Gains/(Losses)	(78)	(2,680)	198	332	234	534
Allowance for Impairment of Receivables	(0)	(5)	(2)	(2)	(2)	(2)
Deferred Income Tax	35	15	(15)	(37)	(39)	(37)
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(39)**	**(2,670)**	**181**	**294**	**193**	**494**
Operating Result	**(365)**	**(4,219)**	**(2,033)**	**(2,015)**	**(2,259)**	**(2,237)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**6,792**	**(1,213)**	**2,709**	**4,806**	**2,881**	**3,449**
Revaluations	6,744	(677)	2,630	4,538	2,732	3,214
Superannuation Actuarial Gain/(Loss)	144	(519)	164	373	299	417
Deferred Tax Adjustment through Equity	(96)	(17)	(85)	(105)	(150)	(181)
Items that may be Reclassified Subsequently to Operating Result	**(473)**	**(133)**	**(0)**	**(0)**	**0**	**0**
Net Gain/(Loss) on Financial Instruments at Fair Value	(8)	(0)	...	...	...	...
Other	(465)	(133)	(0)	(0)	0	0
Other Economic Flows - Other Comprehensive Income	**6,319**	**(1,347)**	**2,709**	**4,806**	**2,881**	**3,449**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners[a]	**5,954**	**(5,565)**	**675**	**2,791**	**621**	**1,212**
Dividends Distributed	(1,113)	(1,475)	(1,285)	(972)	(430)	(422)
Net Equity Injections	969	(3,188)	9,116	3,437	2,286	1,139
Total Change in Net Worth	**5,811**	**(10,228)**	**8,506**	**5,256**	**2,478**	**1,929**
Key Fiscal Aggregates						
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**5,954**	**(5,565)**	**675**	**2,791**	**621**	**1,212**
Less: Net Other Economic Flows	(6,280)	4,016	(2,890)	(5,100)	(3,073)	(3,944)
Equals: Budget Result - Net Operating Balance	**(326)**	**(1,549)**	**(2,214)**	**(2,309)**	**(2,452)**	**(2,732)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets	5,759	5,335	5,338	6,016	5,359	4,308
Sales of Non-Financial Assets	(703)	(325)	(702)	(452)	(494)	(513)
Less: Depreciation	(2,758)	(2,829)	(3,457)	(3,611)	(3,756)	(3,889)
Plus: Change in Inventories	(16)	(78)	239	64	119	(91)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases	3	...	56	83	65	118
- Other	258	423	356	364	365	360
Equals: Total Net Acquisition of Non-Financial Assets	**2,542**	**2,527**	**1,830**	**2,465**	**1,657**	**293**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(2,867)**	**(4,076)**	**(4,044)**	**(4,773)**	**(4,109)**	**(3,025)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[b]	5,763	5,335	5,394	6,099	5,424	4,426
Dividends Accrued[c]	863	727	661	661	430	422

(a) Additional disclosure for the 2019-20 Budget to disclose transactions with owners in their capacity as owners.
(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.
(c) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table A1.10: Public non-financial corporations sector balance sheet

	June 2018	June 2019	June 2020	June 2021	June 2022	June 2023
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	3,808	2,365	1,519	1,079	948	953
Receivables	1,253	1,203	1,250	1,239	1,267	1,294
Tax Equivalents Receivable	3	6	15	8	...	...
Investments, Loans and Placements						
Financial Assets at Fair Value	236	237	237	237	237	237
Other Financial Assets	1,463	547	429	438	452	472
Advances Paid	1	1	1	1	1	1
Deferred Tax Equivalent Assets	112	119	122	121	119	119
Equity						
Other Equity Investments	167	167	167	167	167	167
Total Financial Assets	**7,041**	**4,645**	**3,739**	**3,289**	**3,191**	**3,241**
Non-Financial Assets						
Inventories	499	421	659	722	840	749
Forestry Stock and Other Biological Assets	984	985	985	985	985	985
Assets Classified as Held for Sale	110	48	49	49	50	50
Investment Properties	644	648	603	603	568	569
Property, Plant and Equipment						
Land and Buildings	77,641	74,939	76,744	77,902	79,169	80,829
Plant and Equipment	6,397	5,851	6,578	7,124	7,329	7,434
Infrastructure Systems	55,330	49,058	57,971	63,017	65,598	67,338
Intangibles	1,050	1,128	1,192	1,235	1,242	1,184
Other Non-Financial Assets	226	239	222	229	236	243
Total Non-Financial Assets	**142,880**	**133,318**	**145,003**	**151,867**	**156,017**	**159,379**
Total Assets	**149,921**	**137,962**	**148,742**	**155,156**	**159,208**	**162,620**
Liabilities						
Deposits Held	91	69	54	39	38	38
Payables	2,516	2,046	2,076	2,065	2,405	2,930
Tax Equivalents Payable	119	45	20	15	27	26
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	1,254	2	2	2	2	2
Borrowings at Amortised Cost	24,855	24,530	27,015	28,551	30,143	31,342
Advanced Received	374	478	463	328	312	297
Employee Provisions	1,060	1,058	1,056	1,067	1,069	1,075
Superannuation Provision[(a)]	2,218	2,779	2,632	2,266	1,961	1,531
Deferred Tax Equivalent Provision	2,192	2,197	2,294	2,427	2,608	2,819
Other Provisions	1,609	1,298	1,194	1,203	964	950
Other Liabilities	287	341	310	311	319	322
Total Liabilities	**36,574**	**34,843**	**37,117**	**38,275**	**39,849**	**41,333**
NET ASSETS	**113,348**	**103,119**	**111,625**	**116,881**	**119,359**	**121,288**
NET WORTH						
Accumulated Funds	39,471	31,174	34,642	32,196	29,967	27,912
Reserves	73,877	71,945	76,983	84,685	89,392	93,376
TOTAL NET WORTH	**113,348**	**103,119**	**111,625**	**116,881**	**119,359**	**121,288**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**21,066**	**21,930**	**25,349**	**27,165**	**28,859**	**30,017**
Net Financial Liabilities[(c)]	**29,533**	**30,198**	**33,378**	**34,986**	**36,658**	**38,092**
Net Financial Worth[(d)]	**(29,533)**	**(30,198)**	**(33,378)**	**(34,986)**	**(36,658)**	**(38,092)**

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

Table A1.11: Public non-financial corporations sector cash flow statement

	2017-18 Actual $m	2018-19 Revised $m	2019-20 Budget $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m
Cash Receipts from Operating Activities						
Receipts from Sales of Goods and Services	9,502	8,506	8,207	8,557	8,755	9,160
Grant and Subsidies Received	3,172	2,708	2,574	3,050	3,307	3,180
Interest Receipts	99	50	30	18	16	17
Other Receipts	1,184	1,768	1,065	1,095	1,045	1,063
Total Cash Receipts from Operating Activities	**13,957**	**13,031**	**11,877**	**12,720**	**13,123**	**13,420**
Cash Payments from Operating Activities						
Payments for Employees	(2,352)	(2,391)	(2,599)	(2,586)	(2,659)	(2,676)
Payments for Personnel Services	(703)	(599)	(652)	(664)	(679)	(695)
Payments for Superannuation	(206)	(229)	(250)	(253)	(268)	(277)
Payments for Goods and Services	(5,306)	(5,706)	(5,597)	(5,704)	(6,144)	(6,026)
Grants and Subsidies Paid	(68)	(66)	(90)	(60)	(60)	(62)
Interest Paid	(1,123)	(918)	(982)	(1,042)	(991)	(1,088)
Other Payments	(1,178)	(1,152)	(862)	(783)	(647)	(641)
Total Cash Payments from Operating Activities	**(10,936)**	**(11,060)**	**(11,031)**	**(11,092)**	**(11,449)**	**(11,465)**
Net Cash Flows from Operating Activities	**3,021**	**1,971**	**846**	**1,628**	**1,674**	**1,955**
Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	709	320	702	452	494	513
Purchases of Non-Financial Assets	(5,649)	(5,516)	(5,275)	(6,036)	(5,077)	(3,847)
Net Cash Flows from Investments in Non-Financial Assets	**(4,940)**	**(5,196)**	**(4,573)**	**(5,584)**	**(4,583)**	**(3,334)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	12	0	0	0	0	0
Payments	53	(810)	(0)	0	0	0
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**65**	**(810)**	**(0)**	**0**	**0**	**0**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	166	298	195	10	45	10
Payments for Purchase of Investments	(613)	...	(24)	...	(5)	(10)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(448)**	**298**	**171**	**10**	**40**	**(0)**
Net Cash Flows from Investing Activities	**(5,323)**	**(5,709)**	**(4,402)**	**(5,574)**	**(4,543)**	**(3,334)**
Cash Flows from Financing Activities						
Advances Received	1,211	2,121	2,666	3,437	2,286	1,139
Advances Repaid	(742)	(31)	(31)	(151)	(31)	(31)
Proceeds from Borrowings	3,897	1,986	1,849	1,521	1,640	1,290
Repayment of Borrowings	(267)	(125)	(320)	(210)	(347)	(403)
Dividends Paid	(684)	(1,611)	(1,351)	(972)	(661)	(430)
Deposits Received (net)	58	(22)	(15)	(15)	(0)	(0)
Other Financing Receipts/(Payments)	(374)	(24)	(88)	(103)	(149)	(181)
Net Cash Flows from Financing Activities	**3,100**	**2,295**	**2,710**	**3,507**	**2,738**	**1,384**
Net Increase/(Decrease) in Cash Held	**798**	**(1,443)**	**(846)**	**(439)**	**(131)**	**5**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	3,021	1,971	846	1,628	1,674	1,955
Net Cash Flows from Investments in Non-Financial Assets	(4,940)	(5,196)	(4,573)	(5,584)	(4,583)	(3,334)
Dividends Paid	(684)	(1,611)	(1,351)	(972)	(661)	(430)
Cash Surplus/(Deficit)	**(2,602)**	**(4,836)**	**(5,078)**	**(4,927)**	**(3,570)**	**(1,809)**

Table A1.12: Non-financial public sector operating statement

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Taxation	30,851	30,799	31,333	33,342	34,723	36,044
Grants and Subsidies						
- Commonwealth General Purpose	17,955	17,888	18,685	19,789	20,953	21,981
- Commonwealth Specific Purpose Payments	9,844	10,130	10,431	11,046	11,679	12,360
- Commonwealth National Partnership Payments	3,129	2,848	2,888	2,359	2,263	2,204
- Other Commonwealth Payments	448	413	375	444	439	463
- Other Grants and Subsidies	832	218	528	524	565	586
Sale of Goods and Services	14,247	13,291	13,778	13,809	14,331	14,540
Interest	577	534	309	281	231	190
Dividend and Income Tax Equivalents from Other Sectors	27	301	328	121	128	128
Other Dividends and Distributions	2,114	1,796	2,001	2,002	2,203	2,351
Fines, Regulatory Fees and Other	5,459	5,763	6,235	6,141	6,211	6,012
Total Revenue from Transactions	**85,482**	**83,981**	**86,891**	**89,857**	**93,727**	**96,858**
Expenses from Transactions						
Employee	33,876	35,114	36,724	37,242	39,349	41,983
Superannuation						
- Superannuation Interest Cost	1,513	1,482	1,123	1,081	1,125	1,142
- Other Superannuation	3,210	3,352	3,373	3,308	3,383	3,581
Depreciation and Amortisation	7,631	8,150	9,567	10,102	10,379	10,684
Interest	3,189	2,831	3,311	3,690	3,820	4,014
Other Operating	22,474	23,837	22,335	23,205	23,848	23,400
Grants, Subsidies and Other Transfer Expenses	10,874	11,314	12,972	13,314	12,737	12,646
Total Expenses from Transactions	**82,766**	**86,079**	**89,406**	**91,943**	**94,641**	**97,450**
Transactions from Discontinuing Operations	0	0	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**2,716**	**(2,098)**	**(2,514)**	**(2,086)**	**(914)**	**(592)**

Table A1.12: Non-financial public sector operating statement (cont)

	2017-18 Actual	2018-19 Revised	2019-20 Budget	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(226)	(829)	11	250	247	464
Other Net Gains/(Losses)	(8)	11,116	633	1,316	1,003	951
Share of Earnings from Associates (excluding Dividends)	160	...	...	...	...	...
Allowance for Impairment of Receivables	(83)	(64)	(40)	(40)	(38)	(38)
Others	83	84	78	78	78	75
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(73)**	**10,306**	**682**	**1,604**	**1,289**	**1,452**
Operating Result	**2,643**	**8,208**	**(1,832)**	**(482)**	**375**	**860**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**27,055**	**(2,750)**	**6,853**	**14,367**	**12,331**	**16,650**
Revaluations	24,538	6,352	5,471	8,412	6,134	6,755
Share of Earnings from Associates from Revaluations	(42)	(33)	...	...	...	...
Superannuation Actuarial Gain/(Loss)	2,560	(7,162)	2,117	5,322	4,802	6,914
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	...	(1,907)	(735)	632	1,395	2,981
Deferred Tax Adjustment through Equity	0	0	(0)	(0)	0	0
Items that may be Reclassified Subsequently to Operating Result	**893**	**(293)**	**(97)**	**(14)**	**(22)**	**3**
Net Gain/(Loss) on Available for Sale Financial Assets	847	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	(6)	(0)	...	...	...	...
Other	52	(297)	(97)	(14)	(22)	3
Other Economic Flows - Other Comprehensive Income	**27,948**	**(3,048)**	**6,755**	**14,353**	**12,309**	**16,653**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners [(a)]	**30,591**	**5,161**	**4,923**	**13,871**	**12,684**	**17,514**
Dividends Distributed	...	(154)	...	...	...	...
Net Equity Injections	...	...	...	...	...	...
Total Change in Net Worth	**30,591**	**5,007**	**4,923**	**13,871**	**12,684**	**17,514**
Key Fiscal Aggregates						
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**30,591**	**5,161**	**4,923**	**13,871**	**12,684**	**17,514**
Less: Net Other Economic Flows	(27,875)	(7,259)	(7,438)	(15,957)	(13,598)	(18,105)
Equals: Budget Result - Net Operating Balance	**2,716**	**(2,098)**	**(2,514)**	**(2,086)**	**(914)**	**(592)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets	17,728	21,352	25,193	23,232	22,060	18,159
Sales of Non-Financial Assets	(1,140)	(827)	(1,733)	(2,255)	(2,012)	(1,639)
Less: Depreciation	(7,631)	(8,150)	(9,567)	(10,102)	(10,379)	(10,684)
Plus: Change in Inventories	(10)	(80)	222	32	74	(91)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases	155	1,847	2,546	617	610	615
- Other	344	594	655	732	879	883
Equals: Total Net Acquisition of Non-Financial Assets	**9,447**	**14,737**	**17,315**	**12,256**	**11,233**	**7,244**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(6,730)**	**(16,835)**	**(19,830)**	**(14,342)**	**(12,147)**	**(7,836)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(b)]	17,884	23,199	27,739	23,849	22,671	18,775
Dividends Accrued[(c)]	...	154	...	...	...	...

(a) Additional disclosure for the 2019-20 Budget to disclose transactions with owners in their capacity as owners.
(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.
(c) Net borrowing for the NFPS sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table A1.13: Non-financial public sector balance sheet

	June 2018	June 2019	June 2020	June 2021	June 2022	June 2023
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	9,225	5,804	2,569	2,151	1,967	2,027
Receivables	6,082	6,253	6,766	6,826	7,154	7,223
Tax Equivalents Receivable	9	5	8	9	10	10
Investments, Loans and Placements						
Financial Assets at Fair Value	32,814	39,964	34,855	30,190	28,004	30,793
Other Financial Assets	6,616	3,164	2,258	2,443	1,889	1,891
Advances Paid	644	563	802	1,054	1,163	1,191
Deferred Tax Equivalent Assets	0	0	0	0	0	0
Equity						
Investments in Other Public Sector Entities	2,220	(2,606)	(3,141)	(2,498)	(1,088)	1,907
Investments in Associates	5,987	12,598	12,689	11,976	12,119	12,203
Other Equity Investments	889	167	167	167	167	167
Equity Investments Held for Sale	...	...	...	...	...	...
Total Financial Assets	**64,484**	**65,910**	**56,974**	**52,319**	**51,384**	**57,412**
Non-Financial Assets						
Inventories	826	736	957	989	1,062	971
Forestry Stock and Other Biological Assets	993	994	994	994	994	994
Assets Classified as Held for Sale	430	247	325	170	168	167
Investment Properties	644	648	603	603	568	569
Property, Plant and Equipment						
Land and Buildings	161,611	165,168	174,234	179,658	182,352	184,617
Plant and Equipment	17,338	17,322	18,270	18,975	19,066	18,814
Infrastructure Systems	160,242	172,754	187,243	201,767	216,026	227,631
Intangibles	4,741	4,539	4,638	4,428	4,159	3,784
Other Non-Financial Assets	6,537	5,990	8,668	9,739	10,545	11,426
Total Non-Financial Assets	**353,363**	**368,398**	**395,931**	**417,324**	**434,941**	**448,972**
Total Assets	**417,847**	**434,309**	**452,905**	**469,642**	**486,326**	**506,385**
Liabilities						
Deposits Held	221	161	147	136	142	147
Payables	9,032	8,470	8,721	9,164	9,524	9,480
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	1,259	157	150	141	130	118
Borrowings at Amortised Cost	56,893	61,537	77,102	84,871	93,954	104,199
Advanced Received	797	751	783	824	809	785
Employee Provisions	19,064	20,404	20,857	21,099	21,221	21,123
Superannuation Provision[(a)]	56,418	63,798	61,363	55,540	50,111	42,453
Deferred Tax Equivalent Provision	(0)	...	...	...	...	...
Other Provisions	10,650	10,792	10,829	10,981	11,157	11,327
Other Liabilities	6,499	6,216	6,006	6,070	5,777	5,737
Total Liabilities	**160,832**	**172,287**	**185,960**	**188,826**	**192,826**	**195,371**
NET ASSETS	**257,016**	**262,022**	**266,946**	**280,816**	**293,500**	**311,014**
NET WORTH						
Accumulated Funds	117,455	119,009	116,716	118,305	121,354	128,172
Reserves	139,560	143,014	150,230	162,511	172,146	182,842
TOTAL NET WORTH	**257,016**	**262,022**	**266,946**	**280,816**	**293,500**	**311,014**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**9,871**	**13,113**	**37,699**	**50,134**	**62,012**	**69,347**
Net Financial Liabilities[(c)]	**98,568**	**103,770**	**125,845**	**134,010**	**140,353**	**139,866**
Net Financial Worth[(d)]	**(96,189)**	**(106,376)**	**(128,986)**	**(136,507)**	**(141,442)**	**(137,959)**

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

Table A1.14: Non-financial public sector cash flow statement

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities						
Taxes Received	30,758	30,805	31,470	33,496	34,884	36,202
Receipts from Sales of Goods and Services	15,626	13,766	14,359	15,015	15,402	15,774
Grant and Subsidies Received	31,911	31,479	32,760	34,306	35,669	37,618
Interest Receipts	471	541	204	167	132	117
Dividends and Income Tax Equivalents	108	187	148	331	123	129
Other Receipts	13,307	11,264	11,327	10,286	9,569	9,394
Total Cash Receipts from Operating Activities	**92,181**	**88,042**	**90,268**	**93,600**	**95,779**	**99,234**
Cash Payments from Operating Activities						
Payments for Employees	(32,958)	(34,563)	(36,255)	(36,840)	(39,089)	(41,729)
Payments for Superannuation	(4,467)	(4,604)	(4,817)	(4,876)	(5,134)	(5,467)
Payments for Goods and Services	(22,403)	(24,115)	(22,474)	(23,493)	(23,791)	(23,190)
Grants and Subsidies Paid	(10,156)	(10,858)	(12,367)	(12,784)	(12,348)	(12,265)
Interest Paid	(2,546)	(2,341)	(2,788)	(3,243)	(3,335)	(3,555)
Other Payments	(6,715)	(5,251)	(5,383)	(4,420)	(3,447)	(3,563)
Total Cash Payments from Operating Activities	**(79,246)**	**(81,732)**	**(84,083)**	**(85,658)**	**(87,144)**	**(89,768)**
Net Cash Flows from Operating Activities	**12,935**	**6,310**	**6,185**	**7,943**	**8,635**	**9,466**
Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	1,229	893	1,823	2,256	2,013	1,643
Purchases of Non-Financial Assets	(19,136)	(21,482)	(25,801)	(22,836)	(21,174)	(18,389)
Assets	**(17,907)**	**(20,589)**	**(23,978)**	**(20,580)**	**(19,161)**	**(16,746)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	78	17,041	127	1,033	117	15
Payments	(118)	(184)	(524)	(319)	(193)	(27)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(40)**	**16,857**	**(397)**	**714**	**(75)**	**(12)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	9,623	18,607	9,333	6,587	3,567	415
Payments for Purchase of Investments	(9,585)	(29,139)	(2,745)	(1,515)	(399)	(2,785)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**38**	**(10,532)**	**6,587**	**5,072**	**3,169**	**(2,369)**
Net Cash Flows from Investing Activities	**(17,908)**	**(14,264)**	**(17,787)**	**(14,794)**	**(16,068)**	**(19,127)**
Cash Flows from Financing Activities						
Advances Received	30	204	170	164	11	29
Advances Repaid	(70)	(154)	(203)	(162)	(44)	(60)
Proceeds from Borrowings	4,855	6,089	10,042	8,270	9,854	11,262
Repayment of Borrowings	(1,997)	(1,384)	(1,642)	(1,834)	(2,564)	(1,565)
Dividends Paid	...	(154)	...	...	...	...
Deposits Received (net)	82	(60)	(14)	(11)	6	6
Other Financing Receipts/ (Payments)	(55)	(18)	0	0	0	0
Net Cash Flows from Financing Activities	**2,845**	**4,523**	**8,353**	**6,427**	**7,262**	**9,671**
Net Increase/(Decrease) in Cash Held	**(2,128)**	**(3,431)**	**(3,250)**	**(424)**	**(170)**	**10**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	12,935	6,310	6,185	7,943	8,635	9,466
Net Cash Flows from Investments in Non-Financial Assets	(17,907)	(20,589)	(23,978)	(20,580)	(19,161)	(16,746)
Dividends Paid	...	(154)	...	...	...	...
Cash Surplus/(Deficit)	**(4,971)**	**(14,433)**	**(17,793)**	**(12,638)**	**(10,525)**	**(7,280)**

A2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements

The Budget Papers present the Estimated Financial Statements of the general government sector (GGS). These statements comprise the GGS operating statement, GGS balance sheet and GGS cash flow statement. These statements are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions and include:

- revised estimates for the current year ending 30 June 2019
- estimates for the budget year ending 30 June 2020
- estimates for the three forward years ending 30 June 2021, 2022 and 2023.

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

The Estimated Financial Statements are prepared for the New South Wales GGS, which is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (cat. No. 5514)* (ABS-GFS Manual).

The scope of the GGS is outlined in Appendix A3 of this *Budget Statement*. 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.

Basis of preparation

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

The Statements have been prepared to reflect existing operations and the impact of new policy decisions taken by the NSW Government, where their financial effect can be reliably measured.

The 2018-19 revised estimates are based on the following information provided by agencies:

- actual results for the 10-month period ending 30 April 2019
- updated year end projections.

The Statements also take into account other economic and financial data available to Treasury up to 12 June 2019, including Commonwealth Government funding decisions announced in the *2019-20 Commonwealth Government Budget*.

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

Any estimates or assumptions made in measuring revenue, expenses, 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 (AAS) do not include requirements or provide guidance on the preparation or presentation of prospective financial statements. However, recognition and measurement principles within AAS have been applied in the presentation of the Estimated Financial Statements to the maximum extent possible.

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

The Estimated Financial Statements, except for the 2018-19 revised estimates, adopt the accounting policies expected to be used in preparing general purpose financial statements for 2019-20. This is a change from the 2018-19 Budget that was prepared on the basis of accounting policies expected to be used in preparing the general purpose financial statements for 2017-18. This change was made to include the estimated impacts of new AAS effective from 2019-20.

Except for the matters set out below under *Changes in accounting policies* and the adoption of AASB 9 *Financial Instruments* (AASB 9) (to be reflected in the *Total State Sector Accounts 2018-19*), the expected 2019-20 accounting policies are not materially different from those applied in the audited *Total State Sector Accounts 2017-18*.

Note 1 *Statement of Significant Accounting Policies* in the *Total State Sector Accounts 2017--18* outlines significant accounting policies, including the principles of consolidation, significant accounting judgements and estimates, and the recognition and measurement policies for revenue, expenses, other economic flows, assets and liabilities.

To ensure that the 2018-19 revised estimates have been prepared on a consistent basis with the 2018-19 actual financial results, the revised estimates do not reflect the new accounting standards that are only effective from 1 July 2019. Consequently, the revised estimates for 2018-19 have not been prepared on the same basis as the budget and forward estimate years.

Changes in accounting policies

The Estimated Financial Statements apply AASB 9 for all years presented. AASB 9 is effective from 1 July 2018, and resulted in changes in accounting policies on classifications and measurement of financial assets and liabilities.

The Estimated Financial Statements apply for the first time AASB 15 *Revenue from Contracts with Customers* (AASB 15), AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and AASB 16 *Leases* (AASB 16) – for the 2019-20 estimates and beyond. The nature and effect of the changes are outlined in detail below.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Not-for-profit entities (including the public sector) need to determine whether a transaction is a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15).

The impact from the adoption of AASB 15 is expected to mainly relate to the recognition of revenue from non-intellectual property licenses. Cash received upfront on most long-term licenses was previously recorded as unearned income liability under 'Other liabilities' and recognised as revenue progressively over the license period. AASB 15 requires that revenue from licences without further performance obligations are recognised at the issuance of the licenses from 2019-20 onwards. Therefore, unearned income liabilities in respect of some licenses have been reversed effective 1 July 2019.

Table A2.1: Impact of AASB 15

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward Estimates		
	$m	$m	$m	$m
Estimated GGS operating statement				
Revenue from transactions	19	(21)	(18)	(17)
Expenses from transactions	…	…	…	…
Budget result	**19**	**(21)**	**(18)**	**(17)**
Other economic flows - included in operating result	(6)	(6)	(6)	(6)
Operating result	**13**	**(27)**	**(24)**	**(23)**
Estimated GGS balance sheet				
Receivables	61	63	64	65
Total assets	**61**	**63**	**64**	**65**
Other liabilities	(356)	(328)	(302)	(278)
Total liabilities	**(356)**	**(328)**	**(302)**	**(278)**
Net worth	**417**	**390**	**367**	**343**
Accumulated funds	417	390	367	343

AASB 1058 *Income of Not-for-Profit Entities*

AASB 1058 replaces most of the existing requirements in AASB 1004 *Contributions*. The scope of AASB 1004 is now limited mainly to parliamentary appropriations, administrative arrangements and contributions by owners.

Not-for-profit entities (including the public sector) need to determine whether a transaction is a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15).

The impact from the adoption of AASB 1058 is expected to mainly relate to changes in the deferral of revenue recognition from certain capital grants to align with the construction of the projects to which they relate. This results in changes to unearned income liabilities under 'Other liabilities' and 'Grants and subsides' in the budget year and forward years.

Table A2.2: Impact of AASB 1058

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward Estimates		
	$m	$m	$m	$m
Estimated GGS operating statement				
Revenue from transactions	130	(146)	226	(39)
Expenses from transactions	…	…	…	…
Budget result	**130**	**(146)**	**226**	**(39)**
Other economic flows - included in operating result	…	…	…	…
Operating result	**130**	**(146)**	**226**	**(39)**
Estimated GGS balance sheet				
Receivables	…	…	…	…
Total assets	**…**	**…**	**…**	**…**
Other liabilities	364	510	284	323
Total liabilities	**364**	**510**	**284**	**323**
Net worth	**(364)**	**(510)**	**(284)**	**(323)**
Accumulated funds	(364)	(510)	(284)	(323)

AASB 16 *Leases*

Where the State is a lessee, AASB 16 requires all leases to be accounted for under a single on-balance sheet model similar to the accounting for finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). A lessee is required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Where the State is a lessor, the accounting for lessors under AASB 16 has not significantly changed. However, an intermediate lessor in a sublease is now required to evaluate the lease classification of a sublease with reference to the right-of-use asset instead of the underlying asset of the head lease.

On adoption of AASB 16 from 2019-20 onwards, the State will recognise lease liabilities (included in 'Borrowings at amortised cost') in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities are measured at the present value of the remaining lease payments, discounted using the State's incremental borrowing rate and amortised over the remaining term of the lease. This results in an increase in 'Borrowings at amortised cost' and 'Interest expense'. The right-of-use assets are recorded at an amount equal to the lease liabilities, adjusted by any prepaid or accrued lease payments immediately before the transition date. Right-of-use assets are subsequently depreciated. The recognition of right-of-use assets results in an increase in 'Property, plant and equipment' with a corresponding increase in 'Depreciation expense'. The net impact on 'Expenses from transactions' is marginal as the increase in interest and depreciation expenses are offset by the decrease in operating lease expenses.

The State will continue to recognise leases of 'low-value' assets and short-term leases as operating expenses.

Some sublease transactions result in a reclassification by sublessors to finance leases, resulting in a decrease in rental income.

Table A2.3: Impact of AASB 16

	2019-20	2020-21	2021-22	2022-23
	Budget	Forward Estimates		
	$m	$m	$m	$m
Estimated GGS operating statement				
Revenue from transactions	(18)	(19)	(20)	(21)
Expenses from transactions	98	78	66	44
Budget result	**(116)**	**(97)**	**(86)**	**(64)**
Other economic flows - included in operating result	…	…	…	…
Operating result	**(116)**	**(97)**	**(86)**	**(64)**
Estimated GGS balance sheet				
Other financial assets	101	93	80	64
Property, plant and equipment	3,613	3,306	3,049	2,767
Total assets	**3,714**	**3,399**	**3,129**	**2,831**
Borrowings at amortised cost	3,830	3,612	3,428	3,194
Total liabilities	**3,830**	**3,612**	**3,428**	**3,194**
Net worth	**(116)**	**(214)**	**(299)**	**(364)**
Accumulated funds	(116)	(214)	(299)	(364)

The State plans to adopt the full retrospective approach option in transitioning to AASB 15 and AASB 1058. This requires the restatement of all comparative years presented as if AASB 15 and AASB 1058 have always been applied for the comparative years presented. For AASB 16, the State plans to adopt the modified retrospective approach option, under which comparative years are not restated for AASB 16. Instead, the modified retrospective approach requires the impact of prior periods to be presented only in the opening balance of accumulated funds of the transition year. For the purposes of the Estimated Financial Statements, the State has presented the impact of adopting the new standards only to the opening balance of the accumulated funds of the budget year 2019-20, which is also the transition year. The revised estimates for 2018-19, therefore, do not reflect the impact of AASB 15, AASB 1058 or AASB 16.

For the purposes of the Estimated Financial Statements, the impact of transition to AASB 15, AASB 1058 and AASB 16 on the GGS accumulated funds as at 1 July 2019 are as follows:

Table A2.4: Impact of new standards on accumulated funds as at 1 July 2019

	$m
Balance at 1 July 2019 – before new accounting standards	84,579
Impact of AASB 15	405
Impact of AASB 1058	(494)
Impact of AASB 16	…
Restated balance at 1 July 2019 – after new accounting standards	**84,490**

The expected aggregate impacts of applying the above new accounting standards are reported in the table below.

Table A2.5: Aggregate impact of new standards to key financial information

	Before new accounting standard impacts				Impact of new accounting standards				After new accounting standard impacts			
	2019-20	2020-21	2021-22	2022-23	2019-20	2020-21	2021-22	2022-23	2019-20	2020-21	2021-22	2022-23
	Budget		Forward Estimates		Budget	Forward Estimates			Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenue from transactions	84,185	87,817	89,829	92,085	131	(185)	189	(76)	84,316	87,632	90,018	92,009
Expenses from transactions	83,201	86,326	87,950	89,366	98	78	66	44	83,300	86,405	88,016	89,410
Budget result	**984**	**1,491**	**1,880**	**2,719**	**32**	**(264)**	**123**	**(120)**	**1,016**	**1,227**	**2,002**	**2,599**
Less: Net acquisition of non-financial assets												
Capital expenditure	21,932	17,400	16,838	13,964	414	350	409	385	22,345	17,750	17,247	14,349
Less: depreciation	5,429	5,801	5,921	6,085	681	690	701	710	6,110	6,491	6,623	6,795
Less: other items	712	1,428	1,007	559	…	…	…	…	712	1,428	1,007	559
Total net acquisition of non-financial assets	15,790	10,171	9,910	7,320	(267)	(340)	(293)	(325)	15,523	9,831	9,618	6,995
Net lending / (borrowing)	**(14,807)**	**(8,680)**	**(8,030)**	**(4,601)**	**299**	**76**	**415**	**205**	**(14,507)**	**(8,604)**	**(7,615)**	**(4,396)**
Total assets	416,505	432,393	448,012	467,523	3,775	3,461	3,193	2,896	420,280	435,854	451,205	470,419
Total liabilities	149,496	151,243	154,296	156,167	3,838	3,795	3,409	3,239	153,334	155,038	157,705	159,406
Net worth	**267,008**	**281,150**	**293,716**	**311,356**	**(63)**	**(333)**	**(216)**	**(343)**	**266,946**	**280,816**	**293,500**	**311,013**
Net debt	**8,524**	**19,361**	**29,456**	**35,445**	**3,830**	**3,612**	**3,428**	**3,194**	**12,354**	**22,973**	**32,884**	**38,640**

There are no other significant changes to AAS or accounting policies adopted in 2019-20 that would significantly impact the Estimated Financial Statements.

New Accounting Standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 2019-20. The State has not adopted these early. The assessed impact of these new standards and interpretations is set out below.

AASB 1059 *Service Concession Arrangements: Grantors*

AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) will be effective for reporting periods commencing on or after 1 January 2020. Service concession arrangements (SCA) involve either a public or private sector entity operating a service concession asset to deliver public services on behalf of a public sector grantor.

Currently, under TPP 06-8 *Privately Financed Projects* (TPP 06-8), most SCAs in New South Wales are generally treated as leases or as assets gradually recognised over the concession period.

AASB 1059 will require service concession assets to be recognised immediately at the start of the arrangement or over the construction period, with a corresponding liability to reflect any payments due, and/or the grant of a right, to the operator. Further, AASB 1059 has a broader scope than TPP 06-8, possibly resulting in more arrangements being recognised in the State's statement of financial position.

These changes are expected to significantly increase assets and liabilities in the State's balance sheet and impact the operating statement depreciation and amortisation expenses and income from the amortisation of grant of right liabilities.

The estimated impact of AASB 1059 on future estimated financial statements has not been sufficiently identified and quantified at this stage.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Estimated Financial Statements.

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).

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

The net operating balance (i.e. the budget result) is the net result of harmonised GFS-GAAP transactions for the GGS. In the operating statement:

- The *net operating balance* is the net result of *revenue and expenses from transactions*. It excludes *other economic flows*, which capture 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 are not required to be presented within the meaning of AAS as outlined in Section 27A (5) of the *Public Finance Audit Act 1983*.

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

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

Tables may not add in all instances due to rounding to the nearest million dollars.

Presentation changes

There have been no presentation changes since the release of the 2018-19 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to this *Budget Statement*.

Material economic and other assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table A2.6.

Table A2.6: Key economic performance assumptions[(a)]

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcomes	Forecasts	Forecasts	Forecasts	Projections	Projections
New South Wales population (persons)[(b)]	7,988,000	8,120,000	8,250,000	8,376,000	8,501,000	8,624,000
Nominal gross state product ($million)	604,400	626,200	649,000	678,200	710,400	745,700
Real gross state product (per cent)	2.6	2¼	2¼	2½	2½	2½
Real state final demand (per cent)	3.4	2½	2½	2½	-	-
Employment (per cent)	3.2	3¼	1½	1¼	1¼	1¼
Unemployment rate (per cent)[(c)]	4.8	4½	4½	4½	4½	4½
Sydney consumer price index (per cent)[(d)]	1.9	1½	1¾	1¾	2¼	2½
Wage price index (per cent)[(e)]	2.1	2½	2½	2¾	3	3
Nominal gross state product (per cent)	4.5	3½	3¾	4½	4¾	5

(a) Per cent change, year average, unless otherwise indicated.
(b) As at 30 June each year.
(c) Year average, per cent.
(d) 2017-18 to 2020-21 excludes ¼ percentage point from tobacco excise increases.
(e) Weighted private and public sector wages.
Source: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and Treasury

Summary of other key assumptions

The following section outlines the other key assumptions used in the preparation of the 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

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

Grants and subsidies revenue

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

The adoption of AASB 1058 from 2019-20 onwards results in changes to estimates, as revenue recognition on certain grants with specific performance obligations are aligned with the timing of the completion of the related performance obligations. For further details, refer to *Changes in accounting policies*.

Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Commonwealth Government. For 2019-20, the GST forecast is based on the assessed relativity for New South Wales in 2019-20 and the Treasury's population projections. The assessed relativity is based on the three-year average of actual data (2015-16, 2016-17 and 2017-18) as published by the Commonwealth Grants Commission.

Beyond 2019-20, the State's share of GST is based on New South Wales Treasury's forecast relativities, state populations and the Commonwealth's GST pool estimates. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared with other states and territories.

Sale of goods and services

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

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

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by the PNFC and Public Financial Corporations (PFC) sectors. They are based on expected profitability and the agreed dividend policy at the time of the Budget.

Other dividends and distributions

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

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

Fines, regulatory fees and other revenues

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

Expenses from transactions

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

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

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 State'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 Commonwealth Government Securities (CGS) rate), which are classified as 'other economic flows – other comprehensive income'.

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

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

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

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

Table A2.7: Superannuation assumptions – pooled fund / state super schemes

	2018-19	2019-20	2020-21	2021-22	2022-23
	%	%	%	%	%
Liability discount rate	1.75	1.75	2.00	2.25	2.75
Expected return on investments	7.76	7.40	7.40	7.40	7.40
Expected salary increases	2.70	2.70	3.20	3.20	3.20
Expected rate of CPI(a)	1.75	2.00	2.00	2.25	2.50

(a) 2017-18 to 2020-21 includes ¼ percentage point from tobacco excise increases

Depreciation and amortisation

Property, plant and equipment are depreciated (net of residual value) over their respective useful lives. Right-of-use assets are generally depreciated over their respective lease term (from 2019-20 onwards). 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 sale programs. The depreciation expense is based on the assumption that there will be no change in depreciation rates over the forecast period but includes the estimated impact of the current and future revaluation of assets over the forecast period. The depreciation expense may also be impacted by future changes in useful lives, carrying value, residual value or valuation methodology.

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

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

Interest expense

Estimates for interest expense are based on the forecast levels of outstanding borrowings (e.g. debt facilities with NSW TCorp and lease liabilities), other long-term financial liabilities and provisions. Interest expense on new borrowings (including any refinancing of existing borrowings) are based on forward estimates from TCorp.

Other operating expenses

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

Grants and subsidies expense

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

Other economic flows

Revaluations

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

Superannuation actuarial gains / losses

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

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

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

Net acquisition of non-financial assets

Sale of non-financial assets

Sale of non-financial assets includes the proceeds from the sale of an intangible asset recognised upfront in GFS but amortised over the term of the arrangement for GAAP. This is presented consistently in the cash flow statement.

Assets

Property, plant and equipment

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

The adoption of AASB 16 from 2019-20 results in the recognition of right-of-use assets, including those from leases previously classified as operating leases, where the State is a lessee. The estimates of right-of-use assets are based on the State's best estimate of the timing of renewals of lease arrangements and the impact of depreciation. Refer to *Changes in accounting policies* for further details on the impacts of adopting AASB 16.

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

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

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

Liabilities

Borrowings

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

The adoption of AASB 16 from 2019-20 results in the recognition of additional lease liabilities in relation to leases previously classified as operating leases where the State is a lessee. Estimates of lease liabilities are based on the best estimate of the timing of renewals of lease arrangements and impact of amortisation of the liabilities. Refer to *Changes in accounting policies* for further details on the impacts of adopting AASB 16.

Employee provisions

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the State'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 claim liabilities, actuarial assumptions have been applied for future claims to be incurred, claim payments, inflation and liability discount rates. Actual liabilities may differ from estimates.

A3. CLASSIFICATION OF AGENCIES

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

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

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

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

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

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

[1] Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* Cat No. 5514.0, ABS, Canberra.

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

Table A3.1: Classification of agencies by sector

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Aboriginal Housing Office	•		
Alpha Distribution Ministerial Holding Corporation	•		
Art Gallery of New South Wales	•		
Audit Office of New South Wales	•		
Australian Museum	•		
Barangaroo Delivery Authority *(to be abolished and functions transferred to Infrastructure NSW from 1 July 2019)*	•		
Biodiversity Conservation Trust of NSW	•		
Building Insurers' Guarantee Corporation	•		
Centennial Park and Moore Park Trust	•		
Cobbora Holding Company Pty Ltd		•	
Crown Finance Entity	•		
Crown Solicitor's Office	•		
Department of Customer Service *(to be established from 1 July 2019)*	•		
Department of Finance, Services and Innovation *(to be abolished from 1 July 2019)*	•		
Department of Family and Community Services *(to be abolished and merged into the Department of Family and Community Services and Justice from 1 July 2019)*	•		
Department of Justice *(to be abolished and merged into the Department of Family and Community Services and Justice from 1 July 2019)*	•		
Department of Industry *(to be abolished and merged into the Department of Planning, Industry and Environment from 1 July 2019)*	•		
Department of Planning and Environment *(to be abolished and merged into the Department of Planning, Industry and Environment from 1 July 2019)*	•		
Department of Education	•		
Department of Customer Service *(to be established from 1 July 2019)*	•		
Department of Family and Community Services and Justice *(to be established from 1 July 2019)*	•		
Department of Planning, Industry and Environment *(to be established from 1 July 2019)*	•		
Department of Premier and Cabinet	•		
Destination NSW	•		
Electricity Assets Ministerial Holding Corporation	•		
Electricity Retained Interest Corporation – Ausgrid	•		
Electricity Retained Interest Corporation – Endeavour Energy	•		
Electricity Transmission Ministerial Holding Corporation	•		
Environment Protection Authority	•		
Environmental Trust	•		
Epsilon Distribution Ministerial Holding Corporation	•		
Essential Energy		•	
Fire and Rescue NSW	•		

[2] This reflects the structure of the NSW Public Sector to take effect from 1 July 2019 consistent with recent Administrative Arrangements orders. For more information on any machinery of government changes see 'About this Budget Paper' in Budget Paper No.3 *Budget Estimates*.

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
First Australian Mortgage Acceptance Corporation (FANMAC) Trusts			•
Forestry Corporation of New South Wales		•	
Greater Sydney Commission	•		
Health Care Complaints Commission	•		
Historic Houses Trust of New South Wales	•		
Home Purchase Assistance Fund	•		
Hunter and Central Coast Development Corporation	•		
Hunter Water Corporation		•	
Independent Commission Against Corruption	•		
Independent Liquor and Gaming Authority	•		
Independent Pricing and Regulatory Tribunal	•		
Information and Privacy Commission	•		
Infrastructure NSW	•		
Insurance and Care NSW			•
Judicial Commission of New South Wales	•		
Landcom		•	
Lands Administration Ministerial Corporation	•		
Law Enforcement Conduct Commission	•		
Legal Aid Commission of New South Wales	•		
Liability Management Ministerial Corporation	•		
Lifetime Care and Support Authority of New South Wales			•
Local Land Services	•		
Long Service Corporation	•		
Luna Park Reserve Trust	•		
Mental Health Commission of New South Wales	•		
Ministry of Health	•		
Multicultural NSW	•		
Museum of Applied Arts and Sciences	•		
Natural Resources Commission	•		
New South Wales Crime Commission	•		
New South Wales Electoral Commission	•		
New South Wales Government Telecommunications Authority	•		
New South Wales Land and Housing Corporation		•	
New South Wales Rural Assistance Authority	•		
New South Wales Treasury Corporation			•
Newcastle Port Corporation		•	
NSW Education Standards Authority	•		
NSW Food Authority	•		
NSW Police Force	•		
NSW Self Insurance Corporation	•		
NSW Trains		•	
NSW Trustee and Guardian	•		
Office of Environment and Heritage *(to be abolished and functions transferred to the Department of Premier and Cabinet and the Department of Planning, Industry and Environment from 1 July 2019)*	•		
Office of Local Government *(to be abolished and functions transferred to the Department of Planning, Industry and Environment from 1 July 2019)*	•		
Office of Sport	•		
Office of the Children's Guardian	•		
Office of the Director of Public Prosecutions	•		

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Office of the NSW Rural Fire Service	•		
Office of the NSW State Emergency Service	•		
Office of Transport Safety Investigations	•		
Ombudsman's Office	•		
Parliamentary Counsel's Office	•		
Place Management NSW		•	
Planning Ministerial Corporation	•		
Ports Assets Ministerial Holding Corporation	•		
Property NSW	•		
Public Service Commission	•		
Rail Corporation New South Wales		•	
Rental Bond Board	•		
Roads and Maritime Services *(to be abolished and functions transferred to Transport for NSW from 1 July 2019)*	•		
Roads Retained Interest Pty Ltd *(established June 2018)*	•		
Royal Botanic Gardens and Domain Trust	•		
Service NSW	•		
State Archives and Records Authority of New South Wales	•		
State Insurance Regulatory Authority	•		
State Library of New South Wales	•		
State Sporting Venues Authority		•	
State Transit Authority of New South Wales		•	
Sydney Cricket and Sports Ground Trust		•	
Sydney Ferries		•	
Sydney Metro	•		
Sydney Motorway Corporation[3]			•
Sydney Olympic Park Authority	•		
Sydney Opera House Trust		•	
Sydney Trains		•	
Sydney Water Corporation		•	
TAFE Commission	•		
Teacher Housing Authority of New South Wales		•	
The Legislature	•		
The Treasury	•		
Transport for NSW	•		
UrbanGrowth NSW Development Corporation *(to be abolished and functions transferred to Infrastructure NSW from 1 July 2019)*	•		
Venues NSW		•	
Waste Assets Management Corporation		•	
Water Administration Ministerial Corporation	•		
Water NSW		•	
WCX M4 Corporation Pty Ltd[3]		•	
WCX M4-M5 Link[3]		•	
WCX M5 Corporation Pty Ltd[3]		•	
Western City and Aerotropolis Authority *(established November 2018)*	•		
Western Sydney Parklands Trust	•		
Workers' Compensation (Dust Diseases) Authority	•		
Zoological Parks Board of New South Wales		•	

[3] Entities abolished following the sale of 51 per cent stake in WestConnex in August 2018.

A4. 2018-19 BUDGET – OUTCOME AND SUMMARY OF VARIATIONS

Budget outcome for 2018-19

The Budget result for 2018-19 is estimated to be a surplus of $0.8 billion compared with an original budget surplus of $1.4 billion.

Total revenue is estimated to be $81.1 billion in line with the original budget estimate.

Total expenses are estimated to be $80.3 billion which is $670 million or 0.8 per cent higher than the original budget estimate of $79.7 billion.

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

Table A4.1: Summary of variations

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
REVENUE FROM TRANSACTIONS				
Taxation				
Payroll Tax	9,150	9,373	223	Stronger than expected employment growth.
Waste and Environment Levy	568	772	204	Due to higher forecast of leviable waste volumes than expected at Budget.
Other Duties and Taxes	4,859	5,025	167	Mainly due to the Crown Casino licence fee of $95 million being brought forward to 2018-19.
Stamp Duty	9,523	9,178	(345)	Weaker residential property prices and lower than expected residential transaction volumes. This was partially offset by one-off transfer duty payment associated with the WestConnex transaction.
Land Tax	4,293	4,225	(68)	Revised down following a lower 2017-18 outcome than expected at Budget, as well as lower than expected foreign investor land tax surcharge revenue.
Motor Vehicle Taxes	2,753	2,690	(63)	Lower growth in the total vehicle registrations.
Total Taxation	**31,146**	**31,263**	**117**	
Commonwealth Grants				
General Purpose Grants				
GST Revenue Grants	18,405	17,835	(570)	Lower GST receipts are expected in 2018-19 following a reduction in the national GST pool and NSW population growth.
Other General Purpose Grants	70	53	(17)	Aggregated net minor variances.
Total General Purpose Grants	**18,475**	**17,888**	**(587)**	
National Agreements				
Ministry of Health	6,463	6,741	278	Final reconciliation payments for 2016-17 and 2017-18 from the Commonwealth under the National Health Reform Agreement.
Other National Agreements	3,389	3,390	1	Aggregated net minor variances.
Total National Agreements	**9,851**	**10,130**	**279**	
National Partnership Payments				
Transport for NSW	1,586	1,365	(221)	Commonwealth Government transport contributions have been reprofiled across forward years.
Other National Partnership Payments	1,457	1,483	26	Aggregated net minor variances.
Total National Partnership Payments	**3,043**	**2,848**	**(195)**	
Other Commonwealth Payments	**362**	**410**	**48**	
Other Grants and Subsidies				
Ministry of Health	7	156	149	Reclassification from Fines, Regulatory Fees and Other Revenue to Other Grants and Subsidies.
Other Grants and Subsidies	373	425	53	Aggregated net minor variances.
Total Other Grants and Subsidies	**379**	**581**	**202**	
Total Grants and Subsidies	**32,110**	**31,857**	**(254)**	

Table A4.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
Sales of Goods and Services				
Transport for NSW and Sydney Metro	3,104	2,571	(533)	Due to transfer of Sydney Metro Northwest into the General Government Sector.
Other	6,409	6,226	(183)	Aggregated net minor variances.
Total Sales of Goods and Services	**9,513**	**8,797**	**(716)**	
Interest Revenue				
Crown Finance Entity	95	206	111	Higher cash and investments in term deposits.
Other	228	325	97	Aggregated net minor variances.
Total Interest Revenue	**323**	**531**	**208**	
Dividend and Income Tax Equivalent Income from Other Sectors				
Dividends from the PFC Sector	118	266	148	Final dividend received from the Sydney Motorway Corporation at the time of the 51 per cent sale to Sydney Transport Partners.
Income Tax Equivalents from the PNFC Sector	339	299	(40)	Various small reductions in profits across the PNFC sector.
Dividends from the PNFC Sector	1,341	1,321	(21)	Primarily due to higher drought-driven operating costs of Sydney Water, including costs associated with the desalination plant.
Income Tax Equivalents from the PFC Sector	26	35	10	Aggregated net minor variances.
Total Dividend and Income Tax Equivalent Income from Other Sectors	**1,823**	**1,921**	**98**	
Other Dividends and Distributions				
NSW Self Insurance Corporation	310	536	226	Increased investment distributions following better than expected investment performance.
Crown Finance Entity	770	999	229	Higher than expected distributions from investments managed by TCorp including; Restart NSW Fund, Social Affording Housing Fund and NSW Generations Funds
Other	242	261	19	Aggregated net minor variances.
Total Other Dividends and Distributions	**1,322**	**1,796**	**474**	
Fines, Regulatory Fees and Other Revenue				
Mineral Royalties	1,914	2,074	161	Higher thermal coal prices and a lower than expected exchange rate.
Ministry of Health	381	176	(205)	Reclassification from Fines, Regulatory Fees and Other Revenue to Other Grants and Subsidies.
Other	2,548	2,713	164	Aggregated net minor variances.
Total Fines, Regulatory Fees and Other Revenue	**4,843**	**4,962**	**120**	
TOTAL REVENUES	**81,081**	**81,128**	**47**	

Table A4.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
EXPENSES FROM TRANSACTIONS				
Employee				
NSW Self Insurance Corporation	603	819	215	Higher than expected workers' compensation insurance claims resulting from the latest actuarial valuation.
Department of Education	8,106	8,247	141	Reflects a minor increase in daily teaching costs across all schools.
Service NSW	138	217	79	Growth in service centre volumes driven by the Cost of Living programs.
Ministry of Health	12,142	12,206	64	Increase in employee expenses driven by increased hospital activity and complexity.
Crown Finance Entity	1,141	1,190	49	Update in the actuarial valuation and change in discount rate applied to Long Service Leave valuations.
Other	9,483	10,111	628	Net remaining increases across a number of agencies for additional policy measures including drought relief, partially offset by reclassifications from other operating expenses and grants and subsidies.
Total Employee	**31,613**	**32,789**	**1,176**	
Superannuation Interest Cost				
Crown Finance Entity	1,464	1,403	(61)	Updated actuarial valuations and lower discount rate applied in valuing defined benefit plans.
Other	6	24	18	Aggregated net minor variances.
Total Superannuation Interest Cost	**1,470**	**1,426**	**(43)**	
Other Superannuation				
Crown Finance Entity	381	404	23	Result of an update in actuarial valuations.
Other	2,624	2,734	109	Aggregated net minor variances.
Total Other Superannuation	**3,006**	**3,138**	**132**	
Depreciation and Amortisation				
Roads & Maritime Services	1,539	1,609	70	Higher asset revaluations and associated depreciation of road pavement, traffic signalling and traffic control assets.
Transport for NSW	596	664	69	Higher asset revaluations and associated depreciation of Country Rail Network (CRN) assets, and the transfer of STA bus assets to Transport NSW in the General Government sector.
Department of Finance, Services and Innovation	95	151	56	Mainly due to change in depreciation policy for ICT projects.
Other	2,760	2,896	137	Aggregated net minor variances.
Total Depreciation and Amortisation	**4,989**	**5,321**	**331**	

Table A4.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
Interest Expenses				
NSW Self Insurance Corporation	322	144	(179)	Reduced unwind of discount of outstanding claims liabilities resulting from the change to the risk-free discount rate.
Other	1,722	1,707	(15)	Aggregated net minor variances.
Total Interest Expenses	**2,044**	**1,850**	**(194)**	
Other Operating				
NSW Self Insurance Corporation	855	1,103	248	Increase in incurred insurance claims resulting from the latest actuarial valuation.
Department of Justice	528	615	87	Higher costs in Correctional Centre Management.
Transport for NSW and Sydney Metro	4,520	4,034	(486)	Transfer of Sydney Metro Northwest into the General Government Sector.
Other	15,697	15,726	29	Aggregated net minor variances.
Total Other Operating	**21,600**	**21,478**	**(123)**	
Grants, Subsidies and Other Transfer Expenses				
Crown Finance Entity	1,093	621	(472)	Mainly due to the reprofiling of Restart infrastructure projects to future years.
Department of Industry	765	544	(221)	Due to delays in land divestment to Local Aboriginal Land Councils, and lower payments to external training providers.
New South Wales Rural Assistance Authority	21	139	118	Additional grants for the Government's Emergency Drought Relief Package.
Other	13,055	13,020	(35)	Aggregated net minor variances.
Total Grants, Subsidies and Other Transfer Expenses	**14,934**	**14,324**	**(610)**	
TOTAL EXPENSES FROM TRANSACTIONS	**79,656**	**80,326**	**670**	
BUDGET RESULT - SURPLUS/(DEFICIT)	**1,425**	**802**	**(623)**	

Table A4.1: Summary of variations (cont)

Category/Agency	Budget $m	Revised $m	Variation $m	Comment on Major Variations
Capital Expenditure				
Roads & Maritime Services	4,887	5,593	706	Western Harbour Tunnel enabling works at Rozelle and bring forward of other road projects.
Department of Planning and Environment	399	94	(305)	Contracting and construction delays for the Walsh Bay and Powerhouse Museum redevelopments.
Other	12,044	12,178	134	Aggregated net minor variances.
Total Capital Expenditure	**17,329**	**17,864**	**535**	
OTHER KEY FISCAL AGGREGATES				
Sales of Non-Financial Assets				
Other	650	502	(148)	Aggregated net minor variances.
Total Sales of Non-Financial Assets	**650**	**502**	**(148)**	
Depreciation and Amortisation				
Total Agencies	4,989	5,321	331	As above.
Total Depreciation and Amortisation	**4,989**	**5,321**	**331**	
Changes in Inventories				
Other	42	2	(40)	Minor decrease in inventories.
Total Change in Inventories	**42**	**2**	**(40)**	
Assets Acquired Using Finance Leases				
Other	1,925	1,847	(77)	Aggregated net minor variances.
Total Assets Acquired Using Finance Leases	**1,925**	**1,847**	**(77)**	
Other Movements in Non-Financial Assets				
Other Movements in Non-Financial Assets	**40**	**214**	**174**	Aggregated net minor variances.
NET LENDING	**(10,263)**	**(11,451)**	**(1,188)**	

A5. TAX EXPENDITURE AND CONCESSIONAL CHARGES STATEMENT

Favourable tax treatment or lower fees or service charges may be granted to certain individuals, groups or organisations to support policy objectives. This tax expenditure and concessional charges statement recognises that such special treatment is economically equivalent to increasing expenses, and has the same effect on the budget outcome.

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

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

Judgement is required in delineating the 'concessional' and 'structural' features of a particular tax or service delivery scheme. The approach adopted is to treat the general application of a tiered tax schedule or charging regime as a structural element of the benchmark, rather than a concession to those paying less than the highest marginal rate of tax. Similarly, providing lower public transport fares for all children is included in the benchmark rather than as a concession. However, subsidised travel for eligible school children and senior citizens is treated as a concession. Provisions to prevent double taxation or to otherwise support the conceptual structure of a tax, rather than provide a benefit to a particular group of taxpayers, are generally excluded.

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

A5.1 Overview of the estimates

Tax expenditures and concessional charges are listed in the following pages and, where possible, an estimate of the costs associated with each of the major items is provided to assist comparison with the budgetary cost of direct outlays.

In 2019-20, total measured tax expenditures and concessions provided by the New South Wales Government are expected to amount to $8.8 billion, or 10.4 per cent of total New South Wales revenue.

Tax expenditures

Table A5.1 provides a summary of the total value of major tax expenditures (those valued at $1.0 million or greater) for each of the main revenue sources. The estimates are for the financial years 2017-18 to 2019-20, except for land tax, which uses calendar years 2018, 2019, and 2020. The total value of major quantifiable tax expenditures is an estimated $6.7 billion or 21.1 per cent of tax revenue in 2019-20.

Table A5.1: Major tax expenditures by type

Tax	2017-18		2018-19		2019-20	
	Tax Exp. $m	Tax Exp. as % of tax revenue collected	Tax Exp. $m	Tax Exp. as % of tax revenue collected	Tax Exp. $m	Tax Exp. as % of tax revenue collected
Transfer Duty	712	8.2	647	8.8	653	9.5
General and Life Insurance Duty	1,023	104.1	1,080	106.6	1,151	108.5
Payroll Tax	1,693	19.2	1,808	19.3	1,881	19.2
Land Tax	1,023	27.4	1,127	26.7	1,170	25.8
Taxes on Motor Vehicles	586	21.5	686	25.5	765	27.6
Gambling and Betting Taxes	877	37.3	938	35.9	1,013	38.5
Parking Space Levy	71	66.7	71	64.6	72	64.6
Total	**5,985**	**19.1**	**6,358**	**20.3**	**6,707**	**21.1**

Changes to the estimates

The estimates in Table A5.1 reflect policy changes since the 2018-19 Budget. From 1 July 2019, retirement visa holders will be exempt from foreign investor surcharge. This affects land tax and transfer duty estimates. From 1 July 2019, the payroll tax threshold will increase to $900,000 and transfer duty thresholds will be indexed to the Sydney consumer price index (CPI). These policy changes affect the tax expenditure estimates for payroll tax and transfer duty.

The Toll Relief Program, broadened in the 2018-19 Half-Yearly Review, affects motor vehicle weight tax and registration fees. The primary producer heavy vehicle registration rebate affects motor vehicle weight tax expenditure. New revenue measures are outlined in Chapter 5.

Concessions

Table A5.2 classifies, by function, the major concessions provided by the NSW Government. The total value of major concessions, which accrue primarily to pensioners, older Australians and school students, is estimated at $2.1 billion in 2019-20.

Table A5.2: Concessions by function

Function	2017-18 $m	2018-19 $m	2019-20 $m
Public Order and Safety	11	12	11
Education	608	647	661
Health	264	289	299
Transport	444	464	516
Housing and Community	535	525	563
Economic Affairs	11	12	12
Recreation, Culture and Religion	6	7	6
Environmental Protection	14	12	15
Total	**1,894**	**1,968**	**2,084**

Education concessions, the major component of which is the School Student Transport Scheme, account for around a third of the total estimated cost of concessions. Housing and community concessions account for around a quarter of the total cost of concessions. These concessions mostly relate to concessional charges and rebates to low income households and pensioner concession card holders for utilities and council rates. Transport concessions, the major component of which are concessions to pensioners, seniors and welfare beneficiaries, account for around a quarter of the total.

2017-18 and 2018-19 estimates for public transport concessions and the School Student Transport Scheme were revised down from last year's estimates following updated patronage data. 2018-19 public transport concessions were revised down by approximately 44 per cent and the School Student Transport Scheme by approximately 17 per cent.

A5.2 Detailed estimates of tax expenditures

Transfer duty (including 'landholder' duty)

The benchmark tax base includes all transfers of dutiable property as defined in Chapter 2 of the *Duties Act 1997*, including NSW land, land use entitlements, transferable floor space, and partnership interests. Indirect acquisition of land under Chapter 4 of the *Duties Act 1997* (landholder duty) is also included.

The benchmark tax structure comprises a tiered rate scale with marginal tax rates varying from 1.25 to 5.5 per cent over six steps. A premium marginal rate of 7 per cent applies for residential property valued above $3.0 million.

From 1 July 2019, transfer duty thresholds will be indexed to the Sydney Consumer Price Index. Surcharge purchaser duty applies to purchases of residential land by foreign persons at a rate of 8 per cent.

The *Duties Act 1997* includes a number of exemptions designed to exclude the application of duty (apart from a nominal charge) to transactions where:

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

Exemptions that fall under the first of these two categories are not included as tax expenditure, as exemptions of this nature are designed to avoid the double taxation that could occur if the exemption were not provided. Exemptions that fall under the second of these two categories are also not included, as they are designed to support the underlying structure of transfer duty, rather than to provide benefit to a particular group of taxpayers. Examples of this second category include exemptions for changes in trustees, and the rearranging of assets within subsidiaries of the same corporate group.

Table A5.3: Transfer duty – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Charitable/non-profit organisations/clubs			
An exemption is granted for transactions of charitable or benevolent organisations, as set out in Section 275 of the *Duties Act 1997*.	38	36	37
Government			
Councils and county councils The transfer of property to a council or county council is exempt under the *Local Government Act 1993*.	13	12	13
Individuals/families			
First Home Buyer concessions and exemptions From 1 July 2017, exemptions or concessions are available to first homebuyers for the purchase of a new or existing home up to a value of $800,000, or vacant land for homebuilding up to $450,000. Under the previous arrangements, first homebuyer concessions were not available for the purchase of established homes or for homes valued above $650,000.	479	426	438
Transfer of residences between spouses or de facto partners An exemption is granted, subject to the property being their principal place of residence and jointly held after transfer.	33	29	30
Transfers of matrimonial property consequent upon divorce An exemption is provided for transfers of property in the break-up of marriage, de facto or domestic relationships under the *Family Law Act 1975 (Cwlth)*.	103	97	94
Purchases by tenants of Housing NSW and Aboriginal Housing Office An exemption is provided for purchases of a principal place of residence.	1	1	1
Rural			
Intergenerational rural transfers An exemption is granted for transfers of rural land used for primary production between generations, or between siblings, to facilitate younger family members taking over family farms.	43	44	39
Other			
Other Legislation An exemption is granted in other legislation for certain transfers of dutiable property.	2	1	2

Transfer duty – other major tax expenditures (> $1 million)[1]

- Only nominal duty is charged on transfers of property to a beneficiary entitled to it under the will of a deceased person.
- For 'off the plan' purchases by owner occupiers, duty may be deferred until completion of the sale or 12 months after the contract, whichever occurs first.

[1] Items listed under the 'other major tax expenditures' headings are those where the value of the tax expenditure is estimated to be more than $1 million in at least one year, but there is insufficient data available on which to base a reliable estimate.

Transfer duty – minor tax expenditures (< $1 million)

The following are exempt from transfer duty:

- approved equity release schemes for aged home owners
- certain purchases of manufactured relocatable homes (caravans)
- call option assignments, subject to certain conditions
- transfer of a liquor licence in certain circumstances under the *Liquor Act 2007*
- transfer of property related to a joint government enterprise that has the function of allocating funds for water savings projects
- purchase of a principal place of residence by tenants of Housing NSW, the Community Housing Program administered by Housing NSW and the Aboriginal Housing Office
- transfers where public hospitals are the liable party
- transfer of properties gifted to a special disability trust
- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*, not connected with a trading undertaking
- transfers for the purpose of amalgamation or de-amalgamation of clubs under the *Registered Clubs Act 1976*
- instruments executed by or on behalf of agencies within the meaning of the *Convention on the Privileges and Immunities of the Specialised Agencies* approved by the General Assembly of the United Nations in 1947
- transfers between associations of employees or employers registered under the *Workplace Relations Act 1996 (Cwlth)* for the purpose of amalgamation
- transfer of property to the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- transfers of property between licensed insurers, and between the State Insurance Regulatory Authority (SIRA) and licensed insurers, under the *Workers Compensation Act 1987*
- acquisition of an interest in a primary producer that is not ‘land rich’.

Concessional duty is charged in relation to:

- acquisitions in unit trust schemes, private companies or listed companies with land holdings in New South Wales of $2.0 million or more, where the acquisition is for the purpose of securing financial accommodation
- buy-back arrangements of widely held unit trust schemes for the purpose of re-issuing or re-offering the units for sale, subject to certain criteria
- amalgamations of certain Western Lands leases under the *Western Lands Act 1901* where transfer duty has been paid on the transfer of other such leases in the previous 3 years.

The following are exempt from surcharge purchaser duty:

- Holders of subclass 410 (retirement) and 405 (investor retirement) visas from 1 July 2019.

A5.3 General insurance duty

The benchmark tax base for general insurance is all premiums paid for insurance policies, excluding life insurance, insurance covering property of the Crown in right of New South Wales, crop and livestock insurance from 1 January 2018 and lenders mortgage insurance from 1 July 2017. The benchmark tax rate is 9 per cent of the premium paid.

Table A5.4: General insurance duty – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Business			
Exemption for workers compensation premiums	254	280	320
Marine and cargo insurance An exemption is provided for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	8	8	9
Small business exemptions From 1 January 2018, an insurance duty exemption is provided to small businesses for commercial vehicles, professional indemnity, and product and public liability.	25	52	54
Individuals/families			
Concessional rates for Type B general insurance, as identified in Section 233 of the *Duties Act 1997* A concessional rate of 5 per cent is applied to certain categories of general insurance, including motor vehicle (excluding compulsory third party), aviation, disability income, occupational indemnity and hospital and ancillary health benefits (where not covered by private health insurers).	279	297	309
Compulsory third party motor vehicle insurance An exemption is provided for third party motor vehicle personal injury insurance (green slip), as per the *Motor Accidents Act 1988* and the *Motor Accidents Compensation Act 1999*.	230	204	212

General insurance duty – minor tax expenditures (< $1 million)

The following are exempt:

- insurance by non-profit organisations with the main aim being a charitable, benevolent, philanthropic, or patriotic purpose
- societies or institutions whose resources are used wholly or predominantly for the relief of poverty, the promotion of education, or any purpose directly or indirectly connected with defence or the amelioration of the condition of past or present members of the naval, military or air forces of the Commonwealth or their dependants or any other patriotic objectives
- insurance by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- insurance covering mortgages or pools of mortgages acquired for issuing mortgage backed securities
- separate policies covering loss by fire of tools, implements of work or labour used by any working mechanic, artificer, handcrafter or labourer
- redundancy insurance in respect of a housing loan that does not exceed $124,000
- reinsurance.

A5.4 Life insurance duty

For temporary or term life insurance policies, life insurance riders, and trauma or disability insurance policies, the benchmark tax base is the first year's premium on the policies and the benchmark rate is 5 per cent. For group term insurance policies, duty of 5 per cent of the premium payable in any succeeding year in respect of any additional life covered by the policy is also charged.

The benchmark tax base for all other life insurance policies is the total sum insured. The benchmark tax rate is $1 on the first $2,000 and 20 cents for every additional $200 or part thereof.

Table A5.5: Life insurance duty – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Individuals/families			
Superannuation An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	201	211	219
Annuities An exemption is granted to annuities.	26	28	29

A5.5 Motor vehicle stamp duty

The benchmark tax base is the value of all purchases and transfers of motor vehicles. The benchmark tax rate for passenger vehicles is $3 per $100, or part thereof, for vehicles valued up to $44,999, and $1,350 plus $5 per $100 for vehicles valued at $45,000 or more.

Table A5.6: Motor vehicle stamp duty – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Business			
New demonstrator motor vehicle An exemption is granted to licensed motor dealers and wholesalers under the *Motor Dealers Act 1974.*	100	98	100
Individuals/families			
Caravans and camper trailers An exemption is provided for transfers of registration of caravans and camper trailers.	35	45	46
Transfers on divorce or breakdown of a de facto relationship An exemption is granted for the transfer of registration to one of the parties to a divorce or separation in a de facto relationship.	3	3	3
Transfer of ownership of a deceased registered owner An exemption is granted for the transfer of registration to a nominated legal personal representative or to the person beneficially entitled to the vehicle in the estate.	9	9	9

Table A5.6: Motor vehicle stamp duty – major tax expenditures (cont.)

	2017-18 $m	2018-19 $m	2019-20 $m
Government/public amenities			
Local councils An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	11	10	10
Pensioners/concession card holders/disadvantaged			
War veterans and impaired members of the Defence Force An exemption is granted to veterans who are eligible for a totally and permanently incapacitated (TPI), extreme disablement adjustment or intermediate service pension or 70 per cent or more of the general disability pension, and to current or former members of the Defence Force with a disability, assessed as 50 or more impairment points, who have received compensation or a special rate disability pension.	2	2	2

Motor vehicle stamp duty – minor tax expenditures (< $1 million)

The following are exempt:

- applications to register a heavy vehicle trailer, not previously registered under the Commonwealth or another Australian jurisdiction
- applications to register a heavy vehicle trailer, previously registered in the name of the applicant under the Commonwealth or another Australian jurisdiction
- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations
- vehicles specially constructed for ambulance or mine rescue work
- vehicles weighing less than 250kg used for transporting invalids
- vehicles registered by a Livestock Health and Pest Authority (now administered by Local Land Services), established under the *Rural Lands Protection Act 1998*
- vehicles registered by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- motor vehicles registered conditionally under the *Road Transport Act 2013*.

A concessional rate of duty applies to vehicles modified for use by disabled persons.

A5.6 Payroll tax

The payroll tax benchmark was aggregate annual gross remuneration in excess of $750,000 paid by a single or group taxpayer up to 30 June 2018. From 1 July 2018 to 30 June 2019 the payroll tax benchmark was aggregate annual gross remuneration in excess of $850,000 paid by a single or group taxpayer. From 1 July 2019 to 30 June 2020 the payroll tax benchmark is aggregate annual gross remuneration in excess of $900,000 paid by a single or group taxpayer. The benchmark tax rate is 5.45 per cent.

Table A5.7: Payroll tax – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Business			
Apprentices A full exemption/rebate applies to wages paid to apprentices or to employees in an approved non-profit group apprenticeship scheme.	54	58	60
Trainees A full exemption/rebate is provided for wages paid to trainees or to employees in an approved non-profit group traineeship scheme.	36	39	40
Maternity Leave An exemption is granted for maternity leave payments for a period of up to 14 weeks, or its equivalent at a reduced rate of pay.	38	40	42
Redundancy payments An exemption is provided for the Commonwealth tax-free part of a genuine redundancy or approved early retirement scheme payment.	4	4	5
Charitable/non-profit organisations/clubs			
Charitable institutions An exemption is granted to non-profit charitable, benevolent, patriotic or philanthropic organisations for wages paid to employees engaged exclusively in the normal work of these institutions.	298	353	367
Not-for-profit private hospitals An exemption is granted to non-profit private hospitals for wages paid to persons engaged exclusively in work of a kind ordinarily performed by a hospital.	19	20	21
Government/public amenities			
Public hospitals, Local Health Districts and Ambulance Service of NSW An exemption is granted for wages paid to persons engaged exclusively in the normal work of these organisations.	721	753	784

Table A5.7: Payroll tax – major tax expenditures (cont)

	2017-18 $m	2018-19 $m	2019-20 $m
Local councils An exemption is granted to councils, county councils and their wholly owned subsidiaries, except for wages paid in connection with certain activities, such as the supply of electricity, gas, water or sewerage services, or the conduct of parking stations, hostels or coal mines. A full list of exclusions can be found in the *Payroll Tax Act 2007*.	227	237	247
Schools and colleges An exemption is granted to not-for-profit schools and colleges (other than technical schools, technical colleges or those carried on by or on behalf of the State of NSW) which provide education at or below, but not above, the secondary level of education.	259	267	277
Religious institutions An exemption is granted for wages paid to persons engaged exclusively in work of a kind ordinarily performed by religious bodies.	36	37	39

Payroll tax – minor tax expenditures (< $1 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Force
- wages paid to persons employed under the Community Development Employment Project administered by Aboriginal and Torres Strait Islander Corporations
- wages paid by the Australian-American Fulbright Commission
- wages paid by the Commonwealth War Graves Commission
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner in Australia representing any other part of the Commonwealth of Nations
- wages paid for a joint government enterprise that has the function of allocating funds for water saving projects
- wages paid by the Governor of a State
- wages paid to employees while the employees are providing volunteer assistance to the State Emergency Services or Rural Fire Brigades (but not in respect of wages paid or payable as recreation leave, annual leave, long service leave or sick leave)
- adoption leave payments for a period of up to 14 weeks
- paternity leave payments for a period of up to 14 weeks.

A5.7 Land tax

The benchmark tax base is the average of the last three years unimproved land value of all land owned, on 31 December of the previous year, that is above the indexed threshold for that year (as defined in the *Land Tax Management Act 1956*). This excludes land used:

- for owner-occupied residences
- by the Commonwealth Government
- by the NSW Government.

The benchmark tax rate for the 2019 land tax year is $100 plus 1.6 per cent of the land value between the thresholds of $692,000 and $4,231,000, and 2 per cent thereafter. Surcharge land tax applies to residential land owned by foreign persons at the rate of 2 per cent per year. The benchmark tax base for surcharge land tax excludes certain commercial residential property.

Table A5.8: Land tax – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Business			
Racing clubs An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse racing, trotting or greyhound racing which is used primarily for the purposes of their meetings.	14	15	16
Employer and employee organisations An exemption is granted for land owned by or held in trust for employer and employee organisations for that part not used for a commercial activity open to members of the public.	4	5	5
Co-operatives An exemption is granted for land owned by a co-operative under the Co-operatives National Law (NSW) that has its objects listed in the *Co-operation Act 1923*.	16	17	18
Child care centres and schools An exemption is granted for land used as a residential child care centre licensed under the *Children and Young Persons (Care and Protection) Act 1998* or a school registered under the *Education Act 1990*.	7	7	8
Government/public amenities			
Cemeteries and crematoriums An exemption is provided for land owned by or in trust for use as a cemetery or crematorium.	24	26	27
Public and private hospitals An exemption is provided for land owned by or in trust for public or private hospitals (including nursing homes) and Local Health Districts.	31	34	35
Individuals/families			
Early payment discount A discount of 1.5 per cent is available where the full amount of land tax is paid within 30 days of issue of the notice of assessment.	34	35	35
Retirement Visa Holders An exemption from surcharge land tax for holders of subclass 410 (retirement) and 405 (investor retirement) visas.	…	…	3

Table A5.8: Land tax – major tax expenditures (cont.)

	2017-18 $m	2018-19 $m	2019-20 $m
Pensioners/concession card holders/disadvantaged			
Retirement villages An exemption is granted for land used as retirement villages, and residential parks predominantly occupied by retired persons.	174	192	199
Boarding houses for low-income persons An exemption is granted for land used for boarding houses for which the rent charged is less than the amount prescribed by the guidelines.	10	12	12
Religious institutions			
Religious societies An exemption is provided for land owned by or in trust for a religious society carried on solely for religious, charitable or educational purposes.	22	24	25
Rural			
Land used for primary production An exemption is granted for land used for primary production. To qualify, land must be used for primary production for the purpose of profit on a continuous or repetitive basis.	688	759	787

Land tax – other major tax expenditures (> $1 million)

The following are exempt:

- land owned by or in trust for any club or body of persons which is used primarily for the purpose of a game or sport and not for the pecuniary profit of the members
- buildings (or part thereof) occupied by a society, club or association and not carried on for pecuniary profit of members
- land owned by or in trust for an entity which is used solely for charitable or educational purposes and not for the pecuniary profit of members
- land owned by a society registered under the *Friendly Societies (NSW) Code*
- land used for the Sydney Light Rail
- public gardens, recreation grounds or reserves
- land owned and used by a local council
- public authorities representing the Crown
- New South Wales State and Local Aboriginal Land Councils
- fire brigades, ambulances or mines rescue stations
- religious societies' places of worship and residences of clergy, ministers or orders of the society
- land used to hold agricultural shows, which is owned by, or held in trust for, a society established for the purpose of holding, promoting and funding such shows.

Land tax – minor tax expenditures (< $1 million)

The following are exempt:

- low cost accommodation within 5 km of Sydney GPO
- Primary Products Marketing Boards, Local Land Services and Agricultural Industry Service committees
- community land development
- land subject to a conservation agreement in perpetuity under the *National Parks and Wildlife Act 1974* or a trust registered under the *Nature Conservation Trust Act 2001*
- land owned, held in trust or leased by the Nature Conservation Trust of NSW, or land subject to a permanent conservation or trust agreement
- land that is the subject of a BioBanking agreement
- land owned by a joint government enterprise that has the function of allocating funds for water saving projects
- land used solely as a police station
- land owned by RSL (NSW Branch), being Anzac House
- principal place of residence of a person with a disability, in a Special Disability Trust.

A concession is provided for unoccupied flood-liable land.

A5.8 Vehicle weight tax

The benchmark tax base is all vehicles (except Commonwealth vehicles) intended for on-road use. The benchmark tax rates, which vary by vehicle type, weight, usage and other factors, are updated annually by the NSW Government.

From 1 January 2019, charges for cars, station wagons and trucks up to 4.5 tonnes Gross Vehicle Mass are based on a 12 step graduated weight scale, ranging from:

- $215 (0 - 975kg) to $1,201 (4,325 - 4,500kgs) for private use vehicles
- $350 (0 - 975kg) to $2,272 (4,325 - 4,500kgs) for business use vehicles.

From 1 January 2019, charges for trailers and caravans up to 4.5 tonnes Gross Vehicle Mass are based on a 12 step graduated weight scale, ranging from:

- $0 (0 - 254kg) to $1,201 (4,325 - 4,500kgs) for private use vehicles
- $104 (0 - 254kg) to $2,002 (4,325 - 4,500kgs) for business use vehicles.

Table A5.9: Vehicle weight tax – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Business			
General purpose plant Concessions are provided for machines that cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	33	42	49
Private Vehicles			
Toll Relief From 1 July 2018, eligible NSW motorists who spend $25 a week or more on tolls, on average, over a 12 month period will receive free registration. From 1 July 2019, eligible motorists who spend $15 a week or more on tolls, on average, over a 12 month period will receive half-price registration.	…	33	64
Government/public amenities			
Roadwork equipment An exemption is granted for any motor vehicle, plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery owned by a local council that is used for the purposes of road repair, maintenance or construction, removal of garbage or night soil, bushfire fighting or civil defence work, or for any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	6	5	5
Commonwealth Government vehicles Any vehicle leased to a Commonwealth Authority is exempt from tax under Section 16 (2) (d) of *Commonwealth Vehicles (Registration and Exemption from Taxation) Act 1997 (Cwlth)*.	1	1	1
Concessions provided under Sections 16 and 17 of the *Motor Vehicles Taxation Act 1988* including vehicles specially constructed for the work of conveying sick or injured persons or to carry out mine rescue, and agricultural vehicles that do not travel on a road.	2	2	2
Pensioners/concession card holders/disadvantaged			
Selected social security recipients An exemption is granted for any motor vehicle used substantially for non-business purposes owned by holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards or DVA Gold War Widows Cards.	300	311	332
Rural			
Primary producers Primary producer concessions include, for motor vehicles not greater than 4.5 tonnes of gross vehicle mass, private rates rather than business rates for cars and station wagons and 55 per cent of business rates for trucks, tractors and trailers.	29	63	69

Vehicle weight tax – minor tax expenditures (< $1 million)

The following are exempt:

- motor vehicles (not government owned) used principally as an ambulance
- motor vehicles (not government owned) used by the State Emergency Service
- motor vehicles on which a trader's plate is being used in accordance with the *Road Transport (Vehicle Registration) Act 1997* or the regulations under that Act
- motor vehicles owned by Aboriginal Land Councils
- motor vehicles of consular employees and trade missions.

Concessions are provided as follows:

- a concessional rate of 55 per cent of business rates (or 30 per cent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle that is used solely or principally as a tow truck with a crane and hook
- a concessional rate of 88 per cent is provided for mobile cranes used for private use
- a concessional rate of tax is applied to any motor vehicle that is owned by a Livestock Health and Pest Authority (now administered by Local Land Services) and is used solely for carrying out the functions of the board
- a concessional rebate of $100 from vehicle registration is given to first and second year apprentices registered with the NSW Department of Education.

A5.9 Motor vehicle registration fees

The benchmark tax base is all vehicles intended for private on-road use. From 1 July 2019, the standard registration fee for light vehicles (up to 4.5 tonnes Gross Vehicle Mass) is $67 per annum but a range of other charges are levied for temporary or conditional registration, for registration transfer or cancellation, for special permits and on heavy vehicles.

Table A5.10: Motor vehicle registration fees – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Pensioners/concession card holders/disadvantaged			
Selected social security recipients An exemption is granted to holders of Pensioner Concession Cards, DVA Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards (subject to income and disability pension rate thresholds) for a single vehicle used substantially for social or domestic purposes.	56	58	61
Private Vehicles			
Toll Relief Program From 1 July 2018, eligible NSW motorists who spend $25 a week or more on tolls, on average, over a 12 month period will receive free registration. From 1 July 2019, eligible motorists who spend $15 a week or more on tolls, on average, over a 12 month period will receive half-price registration.	…	6	12

Motor vehicle registration fees – minor tax expenditures (< $1 million)

- An exemption is provided for Mobile Disability Conveyance.

A5.10 Gambling and betting taxes

The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels, which vary based on a progressive rate scale depending on the level of annual profits from gaming machines. From 1 January 2019, the benchmark for betting taxes will include a point of consumption (PoC) tax levied on all bets placed with Australian based wagering operators by New South Wales residents. The benchmark rate for PoC tax is 10 per cent of New South Wales net wagering revenue.

Table A5.11: Gambling and betting taxes – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Charitable/non-profit organisations/clubs			
Club gaming machines Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	877	888	907
Business			
Totalizator licensee PoC tax offset A PoC tax credit will be provided to the totalizator licensee in recognition of existing betting taxes paid and racing parity arrangements to achieve a competitively neutral outcome.	…	50	106

Gambling and betting taxes – minor tax expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

A5.11 Parking space levy

The benchmark is the number of off-street parking spaces in Category 1 areas (City of Sydney, North Sydney and Milsons Point business districts) or Category 2 areas (Chatswood, Parramatta, St Leonards and Bondi Junction business districts).

The benchmark levy is indexed annually to movements in the Sydney CPI, over the year to the previous March quarter. For 2017-18, the benchmark levy was $2,390 per space in Category 1 areas and $850 per space in Category 2 areas. For 2018-19, the benchmark levy is $2,440 per space in Category 1 areas and $870 per space in Category 2 areas.

Table A5.12: Parking space levy – major tax expenditures

	2017-18 $m	2018-19 $m	2019-20 $m
Business			
General exemptions and concessions for Category 1 and 2 areas An exemption is granted for certain parking spaces for bicycles and motor cycles, residents of the same or adjoining premises, use under the mobility parking scheme, loading and unloading of goods or passengers, cranes and other plant, overnight parking of emergency service vehicles, private vehicles parked on land owned by councils, religious organisations or bodies, charities or benevolent institutions, persons providing services on a casual basis, unused casual parking or unleased tenant parking.	60	60	61
Additional exempt parking spaces in Category 2 areas An exemption is granted for spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants, medical centres, car hire and sales, repair and wash establishments and funeral parlours.	11	11	11

A5.12 Detailed estimates of concessions

Details of concessions by function are shown below for major concessions worth $1.0 million or more.

Table A5.13: Public order and safety – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Pensioners/concession card holders/disadvantaged			
Court interpreting and translation services Multicultural NSW provides translation and interpreting services in NSW courts.	5	5	5
Court fee concessions Court fees may be reduced or waived, subject to guidelines issued by the Attorney General, in circumstances where a person's capacity to pay may otherwise limit his or her access to justice.	3	3	3
Government/public amenities			
Concessions for NSW State Hallmark Events The NSW Police Force does not charge for all additional police costs associated with crowd control and traffic management services for designated NSW State Hallmark Events such as the Royal Easter Show.	3	4	3

Public order and safety – minor concessions (< $1 million)

- The NSW Police Force does not charge for additional policing services for minor sporting events and agricultural shows in the northern, southern or western region, or for some or all of the additional policing services provided for non-commercial events run by charities and not-for-profit organisations meeting appropriate criteria.

Table A5.14: Education – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Students			
School Student Transport Scheme The School Student Transport Scheme provides subsidised travel to and from school for eligible students on government and private bus, rail, and ferry services, long distance coaches and in private vehicles where no public transport services exist.	522	544	564
Jobs of Tomorrow (STEM) Scholarships Students training in science, technology, engineering or maths-related courses through Smart and Skilled are eligible for a $1,000 scholarship.	6	6	3
Pensioners/concession card holders/disadvantaged			
Smart and Skilled – VET concessions and exemptions Fee concessions are available to Commonwealth welfare beneficiaries and people with a disability, as well as their dependents and partners, undertaking Certificate IV and below qualifications. Fee exemptions are available to students with a disability, as well as their dependents and partners, for their first qualification in a calendar year. Fee exemptions are also available to Aboriginal students.	68	85	94
Smart and Skilled Fee-free scholarships Concession-eligible 15-30 year olds are entitled to one fee-free scholarship per year and two fee-free scholarships over four years. In 2016, scholarships were extended to individuals aged 15-17 who are in out-of-home care and individuals aged 18-30 who have previously been in out-of-home care.	12	12	…

Table A5.15: Health – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Pensioners/concession card holders/disadvantaged			
Ambulance service for concessional patients Free ambulance transport is provided to holders of Pensioner, Health Care, or Department of Veterans' Affairs concession cards.	210	231	238
Outpatient Pharmaceutical Scheme for concessional patients Pharmaceuticals are provided to concessional patients at a discounted price or free of charge once the safety net threshold is reached.	22	23	24
Concessional car parking fees Form 1 July 2017, car parking concessions are provided to certain categories of patients, and their carers, which recognise regular or long term hospitalisation and treatment.	12	14	16
Life Support and Medical Energy Rebates Scheme A rebate is provided for energy costs for eligible recipients and costs associated with certain life support systems.	12	13	13
Medical Energy Rebate Assistance is provided for households that use air conditioning to assist with a medically diagnosed inability to manage body temperature.	3	3	3
Spectacles Program The Stronger Communities Cluster assists those who are most vulnerable and disadvantaged in the community to acquire spectacles and other vision aids such as contact lenses.	5	5	5

Table A5.16: Transport – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Pensioners/concession card holders/disadvantaged			
Public transport concessions Pensioners, seniors, welfare beneficiaries and students travel for less than full fare on bus, rail, taxi and ferry services (excluding School Student Transport Scheme).	337	330	344
Home and Community Care Program & Community Transport Program Transport for NSW provides community transport services to frail aged and younger people with disabilities, and their carers, under the Home and Community Care Transport Sub-program. Transport for NSW also provides subsidised transport for people with special needs due to physical conditions, significant social disadvantages or geographical isolation under the Community Transport Program.	79	98	105
Driver's licence fee exemption Transport for NSW provide a driver's licence fee exemption to holders of Pensioner Concession Cards, DVA Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards, subject to income and disability rate thresholds, where the vehicle owned by the licence holder is used substantially for social and domestic purposes.	28	36	67

Table A5.17: Housing and Community – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Charitable/non-profit organisations/clubs			
Crown land rent concessions Rent concessions to various Crown land tenure holders in circumstances where individuals or organisations experience difficulty making payments by the due date, and in circumstances to recognise the level of community benefit provided by groups and organisations.	17	12	12
Exempt properties water rate concession A partial discount is provided on Sydney Water Corporation and Hunter Water Corporation charges to owners of properties used for non-profit provision of community services and amenities (principally councils, religious bodies and charities):			
• Sydney Water Corporation	18	18	19
• Hunter Water Corporation.	2	2	2
Pensioners/concession card holders/disadvantaged			
Low Income Household Rebate Energy bill rebates are available to customers who hold eligible concession cards.	231	226	240
Pensioner water rate concession Funding is provided to Sydney Water Corporation and Hunter Water Corporation to provide Pensioner Concession Card holders, who are direct customers, with a rebate for their water and sewerage charges.			
• Sydney Water pensioners receive a 100 per cent discount on the fixed water service charge, an 80 per cent discount on the wastewater service charge, and a 50 per cent discount on the stormwater service charge.	125	123	127
• Hunter Water pensioners receive a rebate on the water, sewerage and stormwater service charge. Environmental levy charges are also waived.	14	14	15
Local council rates concession Local council rates are reduced for holders of Pensioner Concession Cards.	76	76	79
Individuals/families			
Energy Accounts Payment Assistance Energy bill rebates are available to assist people experiencing a short term financial crisis or emergency to pay their electricity or gas bill.	20	21	21
Family Energy Rebate Energy bill rebates are available to families who have received the Family Tax Benefit.	4	6	9
Gas Rebate A rebate is provided to eligible households to assist with gas bills.	27	26	29
Hardship and Low Income Schemes Funding is provided to Sydney Water Corporation and Hunter Water Corporation to provide concessions through hardship and low income schemes for customers in financial hardship.	1	1	2
Self-Funded Retiree Energy Rebate Assistance for self-funded retiree energy bills.	…	…	10

Housing and Community – minor concessions (< $1 million)

- Essential Energy provides an offset to the cost of concessions on water charges given to eligible customers.
- WaterNSW grants exemptions from fixed availability charges to a number of customers, which include pensioners, schools and charities.
- Sydney Water Corporation provides discounted septic pump-out fees to residences in the Blue Mountains that are residential-zoned but not connected to the sewerage network.

Table A5.18: Economic affairs – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Pensioners/concession card holders			
Fishing licence concession Fishing licence concessions are provided to eligible persons.	9	9	9
Business			
Sydney Startup Hub rental subsidy Rental discounts to Sydney Startup Hub tenants who meet subsidy criteria	2	3	3

Economic affairs – minor concessions (< $1 million)

- Forestry Corporation of NSW provides discounts to charities seeking permits for non-profit events and provides discounts to pensioners for firewood.

Table A5.19: Recreation, culture and religion – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Seniors/children/disadvantaged/special groups			
Recreational vessel registration and boat driving licence Transport for NSW provide a 50 per cent concession on recreational vessel registration and recreational boating licences to holders of Pensioner Concession Cards and Repatriation Health Cards.	3	4	4
Zoo admissions The Taronga Conservation Society Australia provides discounted entry to its zoological parks (including Taronga Zoo in Sydney and the Taronga Western Plains Zoo in Dubbo) for Concession Card holders, tertiary education students and school students.	2	2	2
Australian Museum admissions The Australian Museum offers free admission to children aged 16 years or under and reduced admission charges to seniors, pensioners and the unemployed.	1	1	…

Recreation, culture and religion – minor concessions (< $1 million)

- The Sydney Living Museum offers concessional admission charges to the unemployed, children, pensioners, seniors and students. The Sydney Living Museum provides bus subsidies to regional schools for museum visits and a sleep over program for regional and rural school students.
- The Sydney Opera House provides concessional charges on guided tours for children, pensioners, seniors, students and school group tours. Concession tickets are available to many Sydney Opera House productions for Australian pensioners/seniors, full-time students and children.
- The Sydney Opera House provides a supported venue hire rate to select charitable organisations, community groups or arts organisations that the Sydney Opera House supports or has an existing relationship with, on a case-by-case basis.
- The Sydney Opera House, through the Access Program, provides accessible performances and programs for people with disabilities, including free tailored excursions and tours, performing arts workshops and supported music programs.
- The Museum of Applied Arts and Sciences provides concessional admission charges for children, students, seniors and the unemployed. Country residents are entitled to a concession on the Museum's household membership.
- Transport for NSW offers a concession on private mooring licences to holders of Pensioner Concession Cards or DVA Gold Cards endorsed with Totally and Permanently Incapacitated, Extreme Disablement Adjustment or war widow/er.

Table A5.20: Environmental protection – major concessions

	2017-18 $m	2018-19 $m	2019-20 $m
Seniors/children/disadvantaged/special groups			
Entry to national parks			
Holders of Pensioner Concession Cards, seniors, volunteers and community groups receive free or discounted entry to national parks.	14	12	15

Environmental protection – minor concessions (< $1 million)

- Game and Pest Management Trust Fund provides a discounted rate on game hunting licences for eligible pensioners and minors.
- NSW National Parks and Wildlife Service offer fee concessions for a range of activities.

B. FISCAL RISKS AND BUDGET SENSITIVITIES

The 2019-20 Budget is prepared, in part, on forecasts and assumptions subject to variations. This appendix outlines some of the risks inherent in the budget and presents the potential budget result and/or balance sheet impacts of these risks (if realised) and sensitivities resulting from changes in specified variables. In the analysis presented throughout this appendix, all variables other than those being tested adopt the same forecasts and assumptions used in preparing the 2019-20 Budget.

The summary of sensitivities in this appendix should be used as a 'rule of thumb' estimated impact for a change in the relevant variable. The sensitivity analysis presented assumes either a 1 per cent or 1 percentage point change to the specified variable in each year. A positive impact from the variable change will improve the State's budget position or net worth, while a negative impact weakens the budget position or net worth.

Several specific fiscal risks are also outlined in this appendix. These could potentially have a positive or negative impact on the budget and forward estimates. Due to the uncertainty surrounding these risks, the potential impacts have not been incorporated into the 2019-20 Budget. For further information on the State's contingent assets and liabilities see Appendix C of this Budget Paper.

B.1 Operating statement risks and sensitivities

State taxation revenue

Taxation revenue is dependent on underlying economic drivers such as property volumes and prices, employment and employee compensation. Changes in these underlying drivers can have a significant impact on revenue collected.

The largest State tax is payroll tax, and the main driver of payroll tax is total employee compensation. Variations in employment, wages, and other forms of employee compensation can cause movements in payroll tax revenue. The labour market is also exposed to macro-economic uncertainties. These include external trade shocks, enterprise bargaining outcomes, and changes in household demand. Movements in any of these could result in revised employment or wage growth outcomes, with flow-through effects on payroll tax.

Transfer duty makes up about 8.2 per cent of forecast 2019-20 general government sector revenue and a delay in the forecast residential property recovery, or a less robust return to growth, could detract from the State's budget result. Conversely, a stronger recovery could improve the result. Revenue from large commercial transactions is becoming a greater share of transfer duty over time. Since large transactions are more volatile than activity in the residential property market, this increases the risk of upward or downward revisions to transfer duty.

Other state taxes are typically less volatile, following changes in the broader NSW economy. Motor vehicle and gambling taxes and other stamp duties broadly follow consumption patterns across the State, which can change suddenly, influenced by numerous factors including employment and house price growth.

Table B.1: Revenue sensitivities – state taxation revenues

Revenue source and assumptions	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	2019-20 Sensitivities
	$m	$m	$m	$m	
State tax revenues					
Factors affecting state tax revenues					
Dwelling price growth	60	68	77	81	**+ 1% movement in factor[(a)]**
Dwelling sales growth	50	57	65	68	
Change in employment growth	111	116	122	128	
Change in growth of average compensation of employees	110	115	121	127	

(a) 1 per cent movement in factor is a 1 percentage point increase.

GST and other Commonwealth payments

The GST revenue that New South Wales receives is affected by the amount collected nationally (the pool size) and the State's share (its relativity). A rise in New South Wales' own source revenue relative to other states, or a reduction in its assessed need for expenditure relative to other states, or an increase in National Agreement and National Partnership payments relative to other states, may put downward pressure on the State's relativity and therefore GST revenue.

As identified in Chapter 2, there are significant short and medium term risks for New South Wales from the subdued outlook for nominal household consumption and dwelling investment.

The 2019-20 Commonwealth Budget scenario analysis[1] indicates a 0.5 per cent fall in nominal consumption growth compared with that forecast in 2019-20 would reduce national GST receipts by $0.3 billion in 2019-20 and $0.5 billion in 2020-21. This would reduce New South Wales GST revenue by $373 million over the four years to 2021-22, while a greater fall in nominal consumption growth and national GST receipts would lead to a commensurate fall in the State's GST revenue.

Changes in the fiscal circumstances of other states also present risks to New South Wales' GST revenue:

- downside risks exist if New South Wales' transfer duty revenue is stronger than expected or if it is lower than expected in other states
- upside risks also exist. For example, an increase in Western Australia's iron ore royalties in 2019-20 would increase New South Wales' GST revenue.

The Commonwealth Grants Commission (CGC) 2020 Methodology Review also presents near term risks for New South Wales. This five-yearly review will lead to changes in how the CGC calculates each state and territories' GST requirement. Possible data revisions could also have redistribution impacts. Outcomes from the Review will affect New South Wales' GST share from 2020-21 to 2025-26.

To minimise risks regarding GST revenue forecasting, Treasury will conduct a review of its GST revenue forecasting framework to ensure it continues to support good decision-making through high-quality GST revenue forecasts. Changes to this framework will be implemented over the next 12 months.

[1] Commonwealth Budget 2019-20, Budget Paper 5, Statement 7: Forecasting Performance and Scenario Analysis, Scenario 2: Alternative paths for household consumption growth

The budget result is also affected by variations in National Agreement and National Partnership payments and any associated spending obligations. The volatility arises from new or re-negotiated programs and infrastructure projects, the termination of existing agreements and changes to payment profiles.

Royalties

New South Wales' mineral royalties are primarily derived from coal, most of which is exported to East Asia. Royalties revenue is sensitive to changes in foreign exchange rates, global coal prices and domestic production. Mineral royalties are also exposed to other domestic and external global risks that contribute to its significant volatility as a revenue source. Mineral royalties are generally affected by three factors:

- coal export volumes – an increase in coal volumes increases the quantity of coal that royalties are charged on, hence increasing revenue
- coal export prices – an increase in coal export prices increases the value of coal exports and so increases royalties revenue
- exchange rates – an appreciation of the Australian-US exchange rate reduces the Australian dollar value of coal exports, putting downward pressure on royalties revenue due to coal exports being transacted in US dollars

Table B.2: Revenue sensitivities – state taxation royalties

Revenue source and assumptions	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	2019-20 Sensitivities
	$m	$m	$m	$m	
Royalties [b]					
Factors affecting NSW Royalties					
Coal export volumes (Mt)	16	18	17	17	**+ 1% movement in factor** [a]
Coal export prices ($US)	16	18	18	18	
Australian-US dollar exchange rate	(19)	(18)	(18)	(18)	

(a) 1 per cent movement in factor is a 1 percentage point increase.
(b) Royalty sensitivities do not include changes to non-coal revenue or to the composition of coal types.

General expense risks

Some expenditure risks are largely within the Government's control and can be actively managed, whereas other risks are primarily outside of its control. For example, expenditure linked to Commonwealth payments, interest rate changes or natural disasters are exogenous risks, while impacts associated with existing government policy, employee expenses or the reprofiling of expenditure can be more actively managed.

The State's largest operating expense is for employee related expenses, which includes salaries, wages, superannuation expenses and employment on-costs. Employee related expenses are impacted by factors including new enterprise bargaining agreements, as well as the overall size and composition of the workforce. Changes in these parameters can impact the budget result. Since 2011, the NSW Public Sector Wages Policy has helped to mitigate this risk.

The Government also incurs other operating expenses related to the non-labour costs of delivering services such as the maintenance and depreciation of assets, electricity, insurance and fuel. The cost of these inputs are subject to changes in market fluctuations, which can impact the Budget. For example, changes to inflation could increase the cost of goods and services, which may outweigh the positive impacts of own-source revenues.

Table B.3: Expense sensitivities

Expense source and assumptions	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	2019-20 Sensitivities
	$m	$m	$m	$m	
Expenses					
Factors affecting expenses					**+ 1% movement in factor** (a)
Employee expenses (excl super)	(343)	(348)	(368)	(394)	
Cost of goods and services	(208)	(219)	(215)	(199)	
Government services demand growth					
Factors affecting expenses					**+ 1% movement in factor** (a)
Health and Education expenses	(402)	(413)	(430)	(446)	

(a) 1 per cent movement in factor is a whole 1 per cent increase.

Growth in demand for government services, from factors such as higher than forecast population growth and other external events represents a further risk to expenses.

Health and education services represent a significant proportion of public sector expenditure and increases in demand for these services can worsen the budget result. Similarly, a decrease in Commonwealth Government payments towards these services will worsen the budget result if the same level of service is maintained. Higher than forecast demand for public transport services can also impact the budget result if additional services or infrastructure are required to meet this demand.

The 2019-20 Budget incorporates several savings initiatives as well as policy measures and election commitments being funded from within existing agency budgets. Changes to factors – such as demand growth or inflation – could impact agency budgets and risk the ability of agencies to meet these commitments from within existing budget allocations.

Other expenditure challenges that could impact the budget result include:

- higher maintenance, depreciation and operating costs associated with the Government's record infrastructure program
- extension of existing time-limited programs
- unforeseen legal expenses or costs associated with litigation
- changes to parameters that impact the liabilities and associated expenditure for superannuation, long service leave, other employee provisions and insurance provisions (see below for further balance sheet risks and sensitivities).

Investment revenue and borrowing costs

The Budget is susceptible to the performance of global financial markets and changes in interest rates. Higher interest rates may result in higher costs for new borrowings, while at the same time providing higher interest revenue. Financial market movements could result in investment returns above or below estimates, which then impact revenue. Adopting the recently introduced Attribution Managed Investment Trust AMIT regime for the NSW Generations Fund and the Social and Affordable Housing Fund will help provide greater certainty with respect to these funds' investment returns.

Table B.4: Financial markets and interest rates sensitivities

Expense / Revenue source and assumptions	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	2019-20 Sensitivities
	$m	$m	$m	$m	
Financial markets and interest rates					
Investment Revenue [(a)]	244	242	248	265	**+ 1% movement in factor**
Interest Revenue [(b)]	9	10	10	10	
Interest Expenses [(b)]	(39)	(112)	(183)	(295)	

(a) 1 per cent movement in factor is a 1 percentage point increase in investment returns.
(b) 1 per cent movement in factor is a 1 percentage point increase in interest rates.

NSW Treasury continues to develop financial risk management strategies that optimise and protect the State's balance sheet. For example, this year Treasury and TCorp have worked closely to assist agencies with foreign exchange risk management. This approach results in greater cost certainty and cost-efficient arrangements and will continue to be applied to provide cost effective and consistent management of foreign exchange, interest rate and commodity price risks.

B.2 Balance sheet risks and sensitivities

Risks to the State's balance sheet include unanticipated changes to the value of existing assets and liabilities (i.e. as shown on the balance sheet) and the potential recognition of contingent assets and liabilities (i.e. not shown on the balance sheet as the accounting recognition criteria are not yet met).

Investment funds held by New South Wales are exposed to a number of inherent market risks which subject them to short-term volatility in returns, particularly in those with a higher weighting to growth assets. Each fund comprises a different underlying type of investment, with associated risks and investment horizons. The risks and performance of the funds are monitored closely, and the Strategic Asset Allocations are reviewed annually to reflect current risks and market conditions.

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 defined benefit superannuation and long service leave liabilities.

The State also faces a range of potential obligations that are non-quantifiable, which can be broadly grouped into commercial transactions and other contingent liabilities. As an example, the Government provided limited general warranties to purchasers and lessees under several energy transactions and has also retained responsibility for the costs associated with remediating pre-existing contamination at several power station sites.

Investments

The State holds a number of investment funds which are managed by TCorp, including the NSW Generations Fund, NSW Infrastructure Future Fund, Social and Affordable Housing Fund and the Treasury Managed Fund.

The NSW Generations Fund (NGF)

The NGF was seeded with an initial balance of $10.0 billion in November 2018 from sales proceeds from the successful WestConnex transaction and balance sheet reserves. The *NSW Generations Funds Act 2018* requires that the funds in the NGF can only be directed towards the repayment of the State's debt.

Since inception, the NGF's investment performance has been very strong, returning 8.5 per cent in the five months to April 2019, well above expectations. The NGF's value at 30 April 2019 was $10.8 billion, which equates to an investment gain of approximately $802.0 million since it was established.

The NGF investment strategy (i.e. the mix of assets it is invested in) is aligned to its long-term investment horizon and its policy aim of achieving intergenerational equity. As such, the Fund is well-placed for higher returns within a considered level of risk. Reflecting this, the NGF is invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure. Under the prevailing governance arrangements, Treasury endorses the risk appetite and the NGF Advisory Board endorses the investment strategy to the Treasurer.

The NSW Infrastructure Future Fund (NIFF)

The NIFF continues to deliver steady returns and TCorp's management has achieved long-term investment returns superior to fixed term deposits or cash.

Since its inception in December 2016, the NIFF has generated gains of over $2.0 billion. This represents a net return of 6.2 per cent per annum since inception, and 4.6 per cent for the last 10 months to 30 April 2019. This investment return is well above the rate available from holding funds in the Treasury Banking System. The balance of the NIFF was at $18.1 billion as at 30 April 2019, which comprises proceeds from asset recycling transactions, Commonwealth Government Asset Recycling Initiative payments, proceeds from Waratah Bonds, windfall tax revenue, and investment earnings.

The NIFF is invested strategically in a mix of defensive and growth assets to provide higher returns than if simply left in cash. This asset allocation is designed to provide liquidity to fund the future requirements of the Restart NSW and Rebuilding NSW expenditure programs.

Social and Affordable Housing Fund (SAHF)

The SAHF was seeded with $1.1 billion of asset recycling proceeds in August 2017. As at 30 April 2019, the SAHF had a balance of $1.2 billion and has returned 9.3 per cent since inception and 6.7 per cent for the last 10 months to 30 April 2019, outperforming its strategic asset allocation benchmark and increasing funding for new and affordable housing stock.

TCorp manages the SAHF to provide a stable income stream over a 25-year period, facilitating the delivery and ongoing servicing of social and affordable homes from a mix of private and non-profit consortia.

Treasury Managed Fund (TMF)

The TMF provides funding for the State's self-insurance scheme covering participating government entities for their insurable risk exposures. The TMF receives contributions from NSW government entities and holds assets to meet the cost of liabilities when they arise.

As at 30 April 2019, the TMF had a balance of $8.5 billion and has returned 6.8 per cent for the 10 months to April 2019. Since inception in March 1999, it has returned 6.8 per cent per annum exceeding both its strategic asset allocation benchmark and investment objective.

The fund has a relatively high exposure to growth assets including domestic and international equities as well as unlisted assets such as property and infrastructure. The TMF's investment strategy supports its investment and policy objectives over the long term – within an acceptable level of risk. This provides the Government with confidence that unforeseen losses can be managed with minimal impact to the State Budget.

Superannuation and long service leave liabilities

Forecast liabilities for superannuation and long service leave are based on a wide range of parameters. These include assumptions around salary growth, inflation, investment returns and discount rates. A change in any of these parameters may affect the actual liabilities of superannuation and long service leave. The long service leave liability is also subject to variations in the rate of employee retention.

Table B.5: Superannuation liabilities

Net financial liabilities (NFL) source and assumptions	2019-20 Budget	2020-21 Forward estimates	2021-22	2022-23	2019-20 Sensitivities
	$m	$m	$m	$m	
Superannuation liabilities [b]					
Factors affecting superannuation liabilities					
Change in public sector wages and salaries	(140)	(260)	(350)	(420)	**+ 1% movement in factor** [a]
Change in Sydney CPI	(770)	(1,500)	(2,150)	(2,950)	
Change in investment return [c]	350	720	1,110	1,530	
Change in discount rate	11,200	...	...		
Factors affecting superannuation liabilities					
Change in public sector wages and salaries	140	260	340	400	**- 1% movement in factor** [a]
Change in Sydney CPI	770	1,600	2,250	3,100	
Change in investment return [c]	(350)	(710)	(1,090)	(1,480)	
Change in discount rate	(12,900)	...	...		

(a) 1 per cent movement in factor is a 1 percentage point change.
(b) For producing superannuation liabilities sensitivities, AASB 119 *Employee Benefits* is used.
(c) A positive effect (e.g. improved investment returns) reduces NFL (improves the financial position), while a negative effect (e.g. higher public sector wages) increases NFL (weakens the financial position).

An increase in public sector salaries will increase the superannuation entitlements of those employees on a defined benefit scheme that are still in the workforce, while an increase in CPI will increase the benefit payments to all members as their pension is indexed by the Sydney CPI. An increase in the investment return on superannuation assets will increase the proportion of the defined benefit that can be funded and will hence improve the budget result. For an explanation of the unfunded superannuation liability, refer to Chapter 6 of this *Budget Statement*.

B.3 Specific fiscal risks

National Redress Scheme for survivors of institutional child sexual abuse

On 9 March 2018, the NSW Government announced it would opt-in to the National Redress Scheme for survivors of institutional child sexual abuse. Liabilities for the Scheme are forecast based on a wide range of actuarially based parameters. These include assumptions about the exposure and latency of reporting abuse in New South Wales, and the number of applicants. Adjustments may be made to these parameters once more applications are received, and more data becomes available. This may affect the actual liabilities and expenses of redress over the 10-year life of the Scheme.

Civil litigation claims of institutional child sexual abuse

Survivors of institutional child sexual abuse may choose to pursue civil litigation rather than opting into the redress scheme. Civil claims currently represent a contingent liability and there continues to be significant uncertainty around these claims. Once more data becomes available on the proportion of survivors opting to pursue redress instead of civil action, and of the claims in the Civil Court system, the ability to reliably measure the liability may become clearer and brought to account appropriately.

Drought

New South Wales is experiencing severe drought conditions. Water restrictions are in effect, commencing in Sydney, the Blue Mountains and Illawarra in June 2019. Sustained drought conditions could result in lower than projected water sales. In turn, this may result in lower dividend and distribution revenue from the public non-financial corporations sector, adversely affecting the budget result.

Continued drought conditions could require additional concurrent expenditure for:

- repairs for breaks and leaks from drying soils
- infrastructure planning
- funding of water efficiency programs
- conservation campaigns
- further water restriction roll outs.

Infrastructure related risks

Infrastructure projects

The cost of the State’s total estimated infrastructure program is $93.0 billion and may vary during the project life cycle, including as a result of changes to project delivery schedules. Factors such as availability of expert labour and capital equipment, weather and cost escalations can also impact project estimates.

Maintenance and depreciation from the State's infrastructure program

The delivery of the Government's record infrastructure program is contributing to increases in depreciation and maintenance expenditure as assets are completed, many beyond the forward estimates.

From 2011-12 to 2018-19, the compound annual growth rate of depreciation expenses was 8.6 per cent, which is higher than the 4.4 per cent growth rate for total expenses. This trend is expected to continue across the budget and forward estimates. Depreciation expenses are forecast to grow at an average rate of 6.3 per cent across the budget and forward estimates (compared with 2.7 per cent for total expenses). The Government's use of Public Private Partnerships in delivering its infrastructure program helps to partially mitigate the risks associated with maintenance costs, as they can be passed onto private sector contractors.

Looking to the future, the Government will continue to monitor and develop strategies to help manage the budget impacts from depreciation and maintenance expenditure associated with a growing capital program.

Restart NSW

This Budget includes the estimated impact of expensing funds from the Restart NSW fund to government agencies (capital expenditure) and non-government proponents, principally local councils (recurrent expenditure). These estimates include assumptions around the expenditure profiles of approved projects and unapproved projects (on the assumption that a formal approval will be forthcoming).

Changes to the timing of these approvals and project delivery schedules may affect the estimates. Unreserved balances in Restart NSW are not reflected in the Budget until a reservation or commitment is made. See Chapter 3 of the *Infrastructure Statement* for more information.

Financial reporting and accounting related risks

Impacts of new accounting standards

The Australian Accounting Standards Board has issued several new Australian Accounting Standards (AAS) (see Appendix A2).

The 2019-20 Budget incorporates the estimated impacts of the new AAS that come into effect from 2019-20, including AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for Profit Entities* and AASB 16 *Leases*. The impacts from these standards are largely associated with the reprofiling of revenues to align with how contracted obligations are completed over time, as well as the requirement for most leases to be reported on the balance sheet, with corresponding impacts on capital expenditure, interest, depreciation and operating expenses.

The 2019-20 Budget does not include the financial impacts associated with AASB 1059 *Service Concession Arrangements: Grantors,* the new AAS that comes into effect from 2020-21. The application of this standard requires the recognition of service concession assets and related liabilities at the commencement of service concession arrangements. This is expected to significantly increase assets and liabilities in the State's balance sheet, and also to impact the budget result. The NSW Government is still assessing its financial impacts on the forward estimates.

C. CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities are uncertain and depend on a particular event occurring before being reflected on the State's balance sheet (see Box C.1 for technical definitions of contingent assets and liabilities).

The recognition of a contingent asset or liability on the State's balance sheet can significantly impact the State's budget. By identifying and, where possible, quantifying these contingent assets and liabilities, the Government is able to better manage risks and opportunities.

Box C.1: Accounting definition of contingent assets and liabilities

Accounting standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* defines:

A contingent asset as:

- a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability as:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets

Contingent assets are classified as either quantifiable, where their financial value is known or can be reasonably estimated, or non-quantifiable, where their financial value cannot be reasonably determined.

The State has no material, quantifiable contingent assets reported as at 30 April 2019.

Non-quantifiable contingent assets

Table C.1 notes the State's non-quantifiable contingent assets.

Table C.1: General government non-quantifiable contingent assets

Contingent Asset	Nature of the contingent asset
Asbestos Injury Compensation Fund	The State has the ability to recoup any potential future loans it may be required to provide to the Fund.
Eastern Creek Alternative Waste Treatment Plant	The Crown Entity holds a guarantee, a contingent asset, which fully offsets the same contingent liability.
HIH Insurance	Potential proceeds relating to the liquidation of HIH Insurance.

Contingent liabilities

Contingent liabilities are also classified as either quantifiable or non-quantifiable. Table C.2 lists the State's quantifiable contingent liabilities as at 30 April 2019.

Table C.2: General government quantifiable contingent liabilities

	General Government Sector	
	2019[c]	2018[d]
	$m	$m
Department of Justice[a] (Claims in Respect of Compensation)	492	492
Roads and Maritime Services (Land Acquisitions and Other)	692	892
Department of Education[b] (Contractual Claims, Litigation and Other)	733	0
Other Agencies	22	13
	1,939	**1,397**

(a) The Victims' Support Scheme (VSS) was created on 3 June 2013 through the *Victims' Rights and Support Act 2013* and has contingent claims within a range of $282 million to $492 million based on the latest actuarial valuation.
(b) The Public Service Association (PSA) has filed a major industrial case with the Industrial Relations Commission (IRC) seeking an increase in pay for all Support Administration Staff (SAS). If awarded in full, the cost to the department dated from 1 July 2017 to 30 June 2019 is estimated to be $733 million including related on-costs.
(c) As of reporting date at 30 April 2019.
(d) As of reporting date at 30 June 2018.

Non-quantifiable contingent liabilities

The State faces a range of potential obligations that are non-quantifiable, which have been broadly grouped into the following categories:

- commercial transactions
- other contingent liabilities.

As set out in Table C.3, the State is party to non-quantifiable contingent liabilities relating to commercial transactions. As an example, under several energy transactions the Government provided limited general warranties to purchasers and lessees. The Government has also retained responsibility for the costs associated with remediating pre-existing contamination at several power station sites.

Table C.3: Commercial transaction-related non-quantifiable contingent liabilities

Transactions	Nature of the contingent liabilities
Transactions related to Delta Electricity's Western Assets, Eraring Energy, Vales Point Power Station, Colongra Power Station and Macquarie Generation	Various contingent liabilities, including: • Pre-completion contamination and land remediation liability • General Warranties • Coal haul road liability • Ash dam liability • Where an option is exercised under the handback deed, remediation of Vales Point and Site Land • Barnard River Scheme native title indemnity • Deed of indemnity for directors and senior management.
Transactions related to facilities at Port Kembla, Port Botany and Enfield and the Port of Newcastle	The State has indemnified the lessees in respect of pre-existing environmental contamination.
Sale of Pacific Power International	The State must compensate the trustee of the Energy Industry Superannuation Scheme funds for a shortfall of assets in the reserves of the fund related to the transfer of defined benefit scheme membership to Aurecon.
Transactions related to Sydney Ferries, Eraring and Delta West Power Stations	The State bears the risk of the employer's superannuation guarantee contributions being insufficient to fund the defined employee benefits for certain ex-public-sector employees. Indemnities have also been provided to the private sector employer in respect of certain losses suffered.
Transactions related to the lease of TransGrid, Ausgrid and Endeavour Energy	General Warranties and Deed of Indemnity.

The State also holds non-quantifiable contingent liabilities relating to various other matters, as set out below in Table C.4.

Table C.4: Other non-quantifiable contingent liabilities

Contingent liabilities	Nature of the contingent liabilities
Native Title	Contingent liabilities in respect to Native Title, under both the *Native Title Act 1993 (Cth)* and the *Native Title (New South Wales) Act 1994*.
Aboriginal Land Claims	Assets in the form of reserved Crown land may be reduced in value from applications made under the *Aboriginal Land Rights Act 1983 (NSW)*.
Stolen Generations Reparation Scheme	Stolen Generations survivors may seek remediation from the Stolen Generations Reparation Scheme. Due to timing, probability and uncertainty of the total numbers of claimants, reliable costs are unable to be estimated.
Contaminated Land	A number of Crown land sites in the State have been assessed as being potentially contaminated and needing remediation. Most are subject to preliminary site investigations or clean up works which might not incur a financial liability.
Litigation outside of the National Redress Scheme	People abused whilst in the care of NSW Government institutions who do not apply for and accept an offer of redress through the National Redress Scheme for Survivors of Institutional Child Sexual Abuse, can pursue legal action as an alternative. The potential liability to the State of these potential claims is currently unquantifiable.
Other litigation	State agencies and corporations are subject to various claims and litigation in the normal course of operations. The quantum of these claims cannot accurately be determined.
Unclaimed money – Consolidated fund	The State treats the receipt of unclaimed money to the Consolidated Fund as income. However, claims can be legally lodged for several years after the money is paid into the Fund.
StateFleet interest rate exposure	The Government's motor vehicles are financed by an internal arrangement managed by StateFleet and funded by TCorp. The facility is funded through a portfolio of debt.
NSW Treasury Corporation (TCorp)[1]	TCorp has made undertakings on behalf of other government authorities for their performance under contracts with third parties, which are recoverable from the government authority participants.
Land Acquisition	Claims have been made against the State for compensation for land acquired under the *Land Acquisition (Just Terms Compensation) Act 1991*.
Asbestos Injury Compensation Fund	The State has issued a loan facility to the Asbestos Injury Compensation Fund. In October 2016, other Australian jurisdictions agreed to share the default risk.
Contracts with private sector parties	The Government has guaranteed the obligations and performance of various statutory authorities with private sector party contracts.
Guarantee on local government loans	The State provides TCorp with a guarantee on all loans to local governments.

[1] The State has a triple-A credit rating, representing an extremely remote chance of default on any borrowings. For this reason, Government Entities' borrowings are not considered contingent liabilities.

D. HISTORICAL FISCAL INDICATORS

This Appendix reports the key fiscal indicators for the general government and non-financial public sector from 1996-97. Data are presented in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, consistent with the financial statements presented in Appendix A1 Statement of Finances.

The below tables are contained in this Appendix.

Table D.1	General government sector operating statement aggregates
Table D.2	General government sector balance sheet and financing indicators
Table D.3	Non-financial public sector operating statement aggregates
Table D.4	Non-financial public sector balance sheet and financing indicators
Table D.5	New South Wales credit metrics

Historical data from 2008-09 are consistent with data published in annual Outcomes Reports and Budget Papers. As Outcomes Reports and Budget Papers prior to 2008-09 were prepared in accordance with Government Finance Statistics, historical data prior to 2008-09 reflect data that have been backcast to be consistent with AASB 1049. The historical series have also been adjusted from 2005-06 to incorporate the retrospective application of amended AASB 119 *Employee Benefits* and the recognition of a share of assets and liabilities of Law Courts Limited and Murray-Darling Basin Authority in accordance with AASB 11 *Joint Arrangements*.

Table D.1: General government sector operating statement aggregates

	Taxation Revenue			Total Revenue			Expenses			Net Operating Balance		Capital Expenditure		Net Lending/ (Borrowing)		GSP(d) (current prices)
	$m	Per cent of GSP	Per cent growth - nominal	$m	Per cent of GSP	Per cent growth - nominal	$m	Per cent of GSP	Per cent growth - nominal	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP	$m
1996-97	11,724	5.8	n.a.	26,089	12.8	n.a.	25,278	12.4	n.a.	811	0.4	2,607	1.3	(581)	(0.3)	203,428
1997-98	12,897	6.0	10.0	27,335	12.7	4.8	26,017	12.1	2.9	1,317	0.6	2,736	1.3	(420)	(0.2)	214,695
1998-99	14,115	6.2	9.4	28,950	12.8	5.9	27,900	12.3	7.2	1,050	0.5	3,002	1.3	(123)	(0.1)	226,441
1999-00	15,185	6.3	7.6	30,556	12.6	5.5	28,530	11.8	2.3	2,026	0.8	2,733	1.1	1,345	0.6	241,679
2000-01	13,337	5.2	(12.2)	32,091	12.6	5.0	30,584	12.0	7.2	1,507	0.6	2,859	1.1	545	0.2	255,166
2001-02	13,210	5.0	(1.0)	33,843	12.8	5.5	32,263	12.2	5.5	1,580	0.6	3,102	1.2	588	0.2	264,592
2002-03	14,146	5.1	7.1	36,070	12.9	6.6	34,315	12.3	6.4	1,755	0.6	3,349	1.2	464	0.2	279,119
2003-04	15,018	5.0	6.2	37,657	12.5	4.4	36,502	12.2	6.4	1,155	0.4	3,332	1.1	44	0.0	300,102
2004-05	15,300	4.8	1.9	39,085	12.4	3.8	38,844	12.3	6.4	241	0.1	3,343	1.1	(660)	(0.2)	315,881
2005-06	15,902	4.8	3.9	42,652	12.8	9.1	41,472	12.5	6.8	1,180	0.4	3,949	1.2	(317)	(0.1)	332,374
2006-07	17,697	5.0	11.3	44,720	12.7	4.8	44,651	12.6	7.7	69	0.0	4,295	1.2	(1,775)	(0.5)	352,995
2007-08	18,554	4.9	4.8	47,449	12.6	6.1	47,298	12.6	5.9	151	0.0	4,689	1.2	(1,798)	(0.5)	376,630
2008-09	17,885	4.5	(3.6)	49,684	12.6	4.7	51,258	13.0	8.4	(1,574)	(0.4)	5,264	1.3	(3,940)	(1.0)	394,513
2009-10	19,129	4.6	7.0	56,344	13.6	13.4	56,453	13.7	10.1	(109)	(0.0)	7,286	1.8	(3,736)	(0.9)	413,303
2010-11	20,395	4.6	6.6	57,168	12.9	1.5	57,015	12.8	1.0	153	0.0	7,046	1.6	(4,097)	(0.9)	444,477
2011-12	20,660	4.4	1.3	59,003	12.7	3.2	59,604	12.8	4.5	(551)	(0.1)	5,881	1.3	(3,255)	(0.7)	464,772
2012-13	21,980	4.6	6.4	60,130	12.5	1.9	61,891	12.9	3.8	(1,731)	(0.4)	7,872	1.6	(4,138)	(0.9)	479,854
2013-14	24,295	4.9	10.5	66,005	13.3	9.8	64,757	13.1	4.6	1,247	0.3	8,546	1.7	(1,236)	(0.2)	495,303
2014-15	26,067	5.1	7.3	69,617	13.6	5.5	66,736	13.0	3.1	2,881	0.6	9,484	1.8	(126)	(0.0)	513,529
2015-16	29,088	5.4	11.6	74,532	13.8	7.1	69,867	13.0	4.7	4,664	0.9	9,351	1.7	392	0.1	538,513
2016-17	30,789	5.3	5.8	78,139	13.5	4.8	72,551	12.6	3.8	5,724	1.0	10,546	1.8	3,039	0.5	576,716
2017-18(a)	31,326	5.2	1.7	80,672	13.3	3.2	76,491	12.7	5.4	4,181	0.7	12,121	2.0	(2,762)	(0.5)	604,400
2018-19(b)	31,263	5.0	(0.2)	81,128	13.0	0.6	80,326	12.8	5.0	802	0.1	17,864	2.9	(11,451)	(1.8)	626,200
2019-20(c)	31,841	4.9	1.8	84,316	13.0	3.9	83,300	12.8	3.7	1,016	0.2	22,345	3.4	(14,507)	(2.2)	649,000
2020-21(c)	33,876	5.0	6.4	87,632	12.9	3.9	86,405	12.7	3.7	1,227	0.2	17,750	2.6	(8,604)	(1.3)	678,200
2021-22(c)	35,296	5.0	4.2	90,018	12.7	2.7	88,016	12.4	1.9	2,002	0.3	17,247	2.4	(7,615)	(1.1)	710,400
2022-23(c)	36,665	4.9	3.9	92,009	12.3	2.2	89,410	12.0	1.6	2,599	0.3	14,349	1.9	(4,396)	(0.6)	745,700

(a) Restated.
(b) Revised.
(c) Estimate.
(d) Gross State Product.

Table D.2: General government sector balance sheet and financing indicators

	Borrowings[d]		Interest Expense		Net Debt[e]		Net Financial Liabilities[f]	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	13,604	6.7	1,551	5.9	11,478	5.6	29,860	14.7
1997-98	14,795	6.9	1,490	5.5	10,823	5.0	29,441	13.7
1998-99	17,680	7.8	1,362	4.7	10,392	4.6	28,377	12.5
1999-00	15,857	6.6	1,348	4.4	9,771	4.0	24,590	10.2
2000-01	12,432	4.9	1,021	3.2	6,893	2.7	23,651	9.3
2001-02	11,211	4.2	868	2.6	5,422	2.0	24,502	9.3
2002-03	10,570	3.8	803	2.2	3,638	1.3	25,418	9.1
2003-04	11,189	3.7	789	2.1	2,970	1.0	25,072	8.4
2004-05	11,872	3.8	1,190	3.0	2,826	0.9	31,363	9.9
2005-06	12,404	3.7	1,209	2.8	1,483	0.4	32,066	9.6
2006-07	13,060	3.7	1,289	2.9	3,645	1.0	28,820	8.2
2007-08	13,874	3.7	1,320	2.8	5,663	1.5	34,079	9.0
2008-09	16,662	4.2	1,488	3.0	8,170	2.1	53,212	13.5
2009-10	19,075	4.6	1,674	3.0	9,161	2.2	57,716	14.0
2010-11	22,530	5.1	1,877	3.3	7,960	1.8	55,932	12.6
2011-12	26,885	5.8	2,082	3.5	14,127	3.0	80,497	17.3
2012-13	29,060	6.1	2,220	3.7	11,907	2.5	70,437	14.7
2013-14	31,040	6.3	2,249	3.4	6,869	1.4	70,715	14.3
2014-15	31,511	6.1	2,243	3.2	5,461	1.1	74,371	14.5
2015-16	31,847	5.9	2,209	3.0	(57)	(0.0)	87,611	16.3
2016-17	32,814	5.7	2,149	2.8	(9,344)	(1.6)	65,690	11.4
2017-18[a]	32,446	5.4	1,994	2.5	(11,195)	(1.9)	69,068	11.4
2018-19[b]	37,162	5.9	1,850	2.3	(8,818)	(1.4)	73,614	11.8
2019-20[c]	50,238	7.7	2,278	2.7	12,354	1.9	92,493	14.3
2020-21[c]	56,461	8.3	2,648	3.0	22,973	3.4	99,050	14.6
2021-22[c]	63,940	9.0	2,768	3.1	32,884	4.6	103,722	14.6
2022-23[c]	72,974	9.8	2,946	3.2	38,640	5.2	101,800	13.7

(a) Restated.
(b) Revised.
(c) Estimate.
(d) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost.
(e) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.
(f) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities.

Table D.3: Non-financial public sector operating statement aggregates

	Revenue	Expenses	Net Operating Balance		Capital Expenditure[d]		Net Lending/ (Borrowing)	
	$m	$m	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1997-98	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1998-99	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1999-00	40,271	37,763	2,508	1.0	5,460	2.3	523	0.2
2000-01	43,960	41,731	2,229	0.9	5,365	2.1	1,081	0.4
2001-02	43,666	41,320	2,346	0.9	6,080	2.3	16	0.0
2002-03	45,865	44,209	1,656	0.6	6,697	2.4	(747)	(0.3)
2003-04	47,875	46,681	1,194	0.4	6,706	2.2	(1,048)	(0.3)
2004-05	48,130	47,841	289	0.1	6,937	2.2	(2,178)	(0.7)
2005-06	51,524	49,071	2,453	0.7	8,318	2.5	(1,217)	(0.4)
2006-07	54,348	51,489	2,859	0.8	9,706	2.7	(2,121)	(0.6)
2007-08	57,709	55,592	2,117	0.6	11,138	3.0	(3,757)	(1.0)
2008-09	61,021	60,400	621	0.2	13,268	3.4	(7,104)	(1.8)
2009-10	64,699	62,002	3,734	0.9	16,340	4.0	(6,089)	(1.5)
2010-11	67,492	66,754	1,143	0.3	14,855	3.3	(6,475)	(1.5)
2011-12	70,226	68,917	1,301	0.3	13,067	2.8	(5,532)	(1.2)
2012-13	70,349	68,869	1,699	0.4	14,143	2.9	(5,070)	(1.1)
2013-14	75,181	72,836	2,367	0.5	13,869	2.8	(3,527)	(0.7)
2014-15	78,244	74,052	4,204	0.8	13,408	2.6	(1,202)	(0.2)
2015-16	81,086	77,261	3,634	0.7	16,175	3.0	(3,971)	(0.7)
2016-17	82,096	78,047	5,058	0.9	18,198	3.2	(2,721)	(0.5)
2017-18[a]	85,482	82,766	2,716	0.4	17,884	3.0	(6,730)	(1.1)
2018-19[b]	83,981	86,079	(2,098)	(0.3)	23,199	3.7	(16,835)	(2.7)
2019-20[c]	86,891	89,406	(2,514)	(0.4)	27,739	4.3	(19,830)	(3.1)
2020-21[c]	89,857	91,943	(2,086)	(0.3)	23,849	3.5	(14,342)	(2.1)
2021-22[c]	93,727	94,641	(914)	(0.1)	22,671	3.2	(12,147)	(1.7)
2022-23[c]	96,858	97,450	(592)	(0.1)	18,775	2.5	(7,836)	(1.1)

(a) Restated.
(b) Revised.
(c) Estimate.
(d) Before 2011-12 Capital Expenditure is reported as purchases of non-financial assets plus non-financial assets acquired using finance leases. Post 2011-12 Net Capital Expenditure is used.

Table D.4: Non-financial public sector balance sheet and financing indicators

	Borrowings (d)		Interest Expense		Net Debt (e)		Net Financial Liabilities (f)	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1997-98	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1998-99	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1999-00	23,686	9.8	1,971	4.9	19,102	7.9	36,809	15.2
2000-01	23,334	9.1	1,778	4.0	18,273	7.2	37,676	14.8
2001-02	22,337	8.4	1,627	3.7	15,627	5.9	39,300	14.9
2002-03	22,218	8.0	1,574	3.4	13,127	4.7	42,104	15.1
2003-04	23,362	7.8	1,523	3.2	11,834	3.9	42,370	14.1
2004-05	25,731	8.1	1,995	4.1	12,012	3.8	54,127	17.1
2005-06	27,673	8.3	2,014	3.9	9,801	2.9	50,723	15.3
2006-07	32,125	9.1	2,179	4.0	20,481	5.8	51,627	14.6
2007-08	33,048	8.8	2,326	4.0	22,605	6.0	58,142	15.4
2008-09	39,687	10.1	2,763	4.5	28,943	7.3	80,446	20.4
2009-10	45,497	11.0	3,127	4.8	32,666	7.9	88,276	21.4
2010-11	50,911	11.5	3,534	5.2	32,389	7.3	86,236	19.4
2011-12	55,364	11.9	3,897	5.5	39,641	8.5	112,127	24.1
2012-13	59,313	12.4	3,909	5.6	40,093	8.4	105,318	21.9
2013-14	63,630	12.8	4,019	5.3	37,733	7.6	133,452	26.9
2014-15	63,870	12.4	3,977	5.1	36,442	7.1	117,411	22.9
2015-16	64,135	11.9	3,698	4.6	29,403	5.5	128,739	23.9
2016-17	54,684	9.5	3,113	3.8	9,048	1.6	92,075	16.0
2017-18 (a)	58,152	9.6	3,189	3.7	9,871	1.6	98,568	16.3
2018-19 (b)	61,694	9.9	2,831	3.4	13,113	2.1	103,770	16.6
2019-20 (c)	77,252	11.9	3,311	3.8	37,699	5.8	125,845	19.4
2020-21 (c)	85,012	12.5	3,690	4.1	50,134	7.4	134,010	19.8
2021-22 (c)	94,084	13.2	3,820	4.1	62,012	8.7	140,353	19.8
2022-23 (c)	104,317	14.0	4,014	4.1	69,347	9.3	139,866	18.8

(a) Restated.
(b) Revised.
(c) Estimate.
(d) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost.
(e) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.
(f) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities. Before 2004-05, only net financial worth is reported for the Non-Financial Public Sector.

Table D.5: New South Wales credit metrics

	Gross Debt/Receipts[(d)]	Gross Interest Paid/Receipts[(e)]	Non-Commercial Gross Debt/Revenues[(f)]
1996-97	78.3	6.6	81.0
1997-98	73.7	6.3	76.8
1998-99	77.4	5.7	85.5
1999-00	66.1	4.9	71.9
2000-01	59.3	4.1	57.4
2001-02	55.1	3.6	50.1
2002-03	51.9	3.4	48.2
2003-04	51.4	3.3	46.8
2004-05	53.3	3.3	50.6
2005-06	51.5	3.3	39.6
2006-07	58.3	3.3	40.8
2007-08	54.8	3.3	44.5
2008-09	62.4	3.3	56.0
2009-10	62.4	3.5	57.9
2010-11	72.7	3.8	59.0
2011-12	76.1	4.2	66.7
2012-13	80.4	4.3	75.0
2013-14	79.9	4.2	72.8
2014-15	79.0	4.2	68.5
2015-16	76.1	3.9	60.6
2016-17	64.0	3.4	66.7
2017-18[(a)]	71.4	3.0	64.4
2018-19[(b)]	78.5	2.9	52.1
2019-20[(c)]	84.2	3.1	65.1
2020-21[(c)]	88.5	3.4	67.8
2021-22[(c)]	95.9	3.6	73.6
2022-23[(c)]	98.4	3.9	80.5

(a) Restated.
(b) Revised.
(c) Estimate.
(d) Gross debt as ratio to operating receipts in Non-Financial Public Sector. S&P substantially updated their rating methodology at 30 June 2014.
(e) Interest paid as a ratio of operating receipts in Non-Financial Public Sector. Three-year average. S&P substantially updated their rating methodology at 30 June 2014.
(f) Total state gross non-commercial debt as ratio to general government revenues.

E. PERFORMANCE AND REPORTING UNDER THE FISCAL RESPONSIBILITY ACT 2012

The *Fiscal Responsibility Act 2012* (FRA) requires the Government to report on performance against the FRA's objective, targets and principles as part of the budget papers.

The FRA sets the policy objective of maintaining the State's triple-A credit rating, supported by two fiscal targets and three principles of sound financial management (see Table E.1).

Table E.1: Fiscal Responsibility Act 2012 – object, targets and principles

Object	Fiscal targets	Fiscal principles
Maintain the triple-A credit rating	1) Expense growth kept below long-term average revenue growth	1) Responsible and sustainable spending, taxation and infrastructure investment: • aligning general government revenue and expense growth • stable and predictable taxation policies • investment in infrastructure that has the highest benefit for the community
		2) Effective financial and asset policies: • performance management and reporting • asset maintenance and enhancement • funding decisions • risk management practices
	2) Eliminate unfunded superannuation liabilities by 2030	3) Achieving intergenerational equity: • policy to have regard for its effects on future generations • the current generation to fund the cost of its services

Review of the FRA

Five years after the FRA's commencement in 2012, the Treasurer was required to review the FRA to determine whether its policy objective remains valid and the terms remain appropriate for achieving the objective. In 2018, the review was tabled in each House of Parliament and stated the following key findings:

- the Government has met the FRA's objective and targets, and has pursued the principles of the FRA. Recent initiatives such as the NSW Generations Fund and the *Government Sector Finance Act 2018* further support the objective
- the objective to maintain a triple-A credit rating is unique but an appropriate mechanism to support fiscal discipline
- the Commonwealth downgrade remains a risk to maintaining the State's triple-A rating. This risk should be managed appropriately by the NSW Government continuing to maintain a sustainable operating position and levels of debt consistent with a triple-A credit rating. The principles of the FRA should continue to be adhered to, in particular '*responsible and sustainable spending, taxation and infrastructure investment'* and *'achieving intergenerational equity'*

- the current targets support the objective of the FRA, with adherence to the 5.6 per cent expense growth cap helping to deliver solid budget results over the prior five years. With revenue pressures that may put pressure on the operating position over the medium term, the Government should continue to maintain a sustainable operating position to ensure debt levels remain manageable
- The Government should continue to pursue the principles of sound financial management to support the objective of the FRA, with work to date demonstrating a significant modernisation of the State's financial framework.

Performance

Maintaining the triple-A credit rating

New South Wales continues to meet the objective of the FRA. Both major credit rating agencies – S&P Global and Moody's – reaffirmed the State's triple-A credit rating in September 2018.

As a sub-sovereign, the credit rating for States and Territories is capped by the rating on the sovereign, the Commonwealth Government. In July 2016, S&P placed the Commonwealth on a negative outlook, which flowed through to New South Wales (and the other triple-A rated States and Territories). In September 2018, S&P Global revised the Commonwealth's rating outlook from negative to stable, and S&P subsequently revised the New South Wales outlook back to stable.

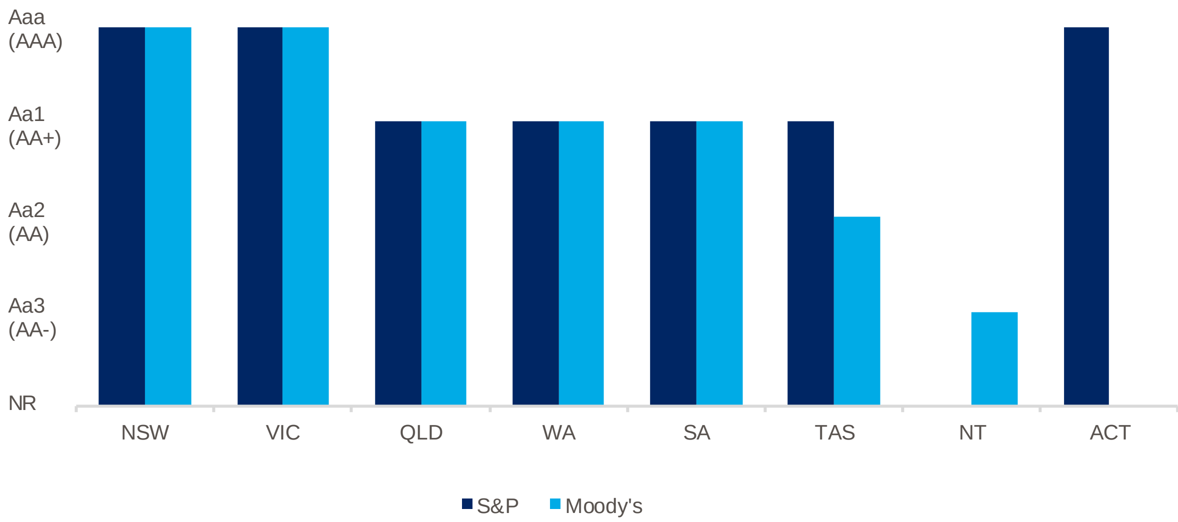
New South Wales is one of only five comparable sub-sovereigns outside the United States to hold a triple-A credit rating from both Moody's and S&P Global (refer Table E.2).

Table E.2: New South Wales is one of five states rated triple-A by Moody's and S&P Global[(a)]

Moody's	S&P Global
New South Wales (AU)	**New South Wales (AU)**
Victoria (AU)	**Victoria (AU)**
British Columbia (CA)	Australian Capital Territory (AU)
Saskatchewan (CA)	**British Columbia (CA)**
Baden-Wuerttemberg (DE)	Vaud (CH)
Bavaria (DE)	Zurich (CH)
Brandenburg (DE)	**Baden-Wuerttemberg (DE)**
	Bavaria (DE)
	Saxony (DE)

(a) Sub-sovereigns in bold text reflect a triple-A rating issued by both rating agencies.
Note: shows sub-sovereigns comparable to the State of New South Wales i.e. states, provinces, landers, cantons etc.
Abbreviations: AU (Australia), CA (Canada), CH (Switzerland) and DE (Germany)

Chart E.1: New South Wales has the highest credit ratings possible in Australia



Meeting the FRA targets and principles

The FRA sets out two fiscal targets and three principles of sound financial management to help support the object of the Act, as described in Table E.1.

Target 1 – Expense growth below long-term average revenue growth

The FRA requires annual general government expense growth to be maintained below the long-term average general government revenue growth (5.6 per cent as set in the *Fiscal Responsibility Regulation 2013*).

This limit on expense growth has been supported by the Government's 2.5 per cent public sector wages policy and various savings measures such as efficiency dividends.

The Government has achieved this target since the introduction of the FRA in 2012 and is projected to continue to do so over the budget and forward estimates in the 2019-20 Budget (see Chart E.2).

Over the long-term, there is a divergence in the revenue outlook from long-term revenue growth (which was noted in the review of the FRA). As revenue pressures emerge over the medium term, the Government will need to not only carefully manage expense growth, but maintain a sustainable operating position and manageable debt levels.

Chart E.2: General government annual expense growth

Target 2 – Fully funding the State's superannuation liabilities by 2030

The FRA requires the Government to fully fund the State's unfunded superannuation liabilities by 2030. If not properly managed, unfunded super liabilities may result in long-term financial imbalance that impacts intergenerational equity and puts pressure on the credit rating.

To achieve this target, the Government makes annual cash contributions to the State's defined benefit superannuation schemes in line with a funding plan set at each triennial review of the schemes. This funding plan takes into account any changes in both the asset (e.g. market returns) and the liability (e.g. demographic and actuarial assumptions) components of the schemes. Following the latest triennial review in October 2018, it was confirmed that New South Wales remains on track to fully fund the State's superannuation liabilities by 2030.

Total state unfunded super liabilities are estimated to be $61.0 billion at June 2019 and are projected to decline to $40.9 billion at June 2023, reaching zero at June 2030 (see Chapter 6 for further analysis).

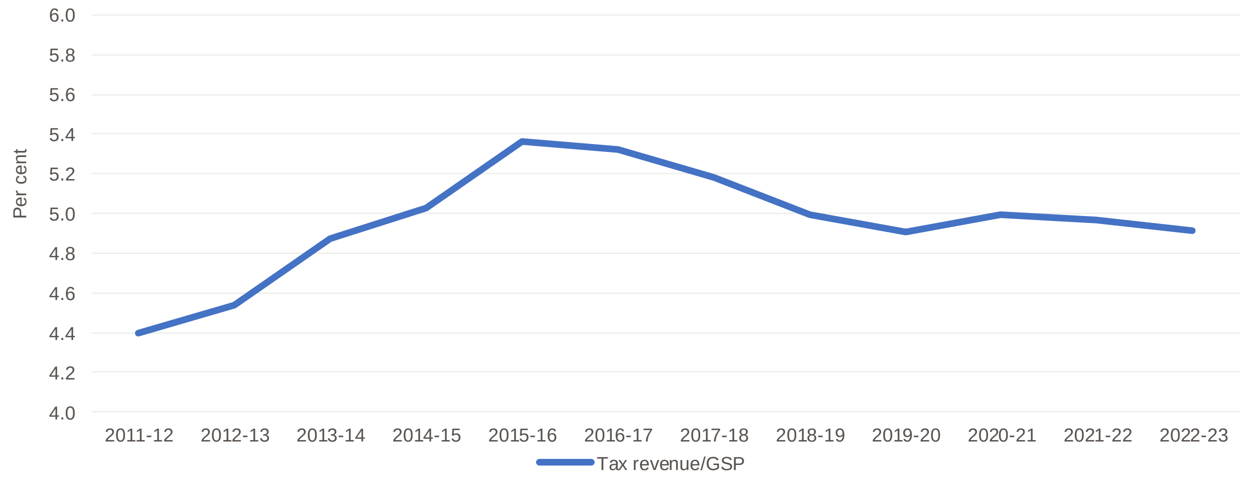
Principle 1 – Responsible and sustainable spending, taxation and infrastructure investment

The principle of responsible and sustainable spending, taxation and infrastructure investment includes aligning general government revenue and expense growth, stable and predictable taxation policies, and investment in infrastructure that has the highest benefit for the community. This underpins the ability to maintain a strong and sustainable fiscal position, shown by an operating position appropriate for current conditions, and debt that can be sustainably managed while providing recurrent services and infrastructure investment.

Keeping general government expense growth below the long-term revenue growth rate of 5.6 per cent as per the FRA target reflects the commitment to responsible and sustainable spending.

State taxation has remained consistent and low, with the ratio of tax receipts to gross state product (GSP) declining from 5.4 per cent in 2015-16 to a projected 5.0 per cent in 2018-19, and remaining around that ratio across the forward estimates (as shown in Chart E.3).

Chart E.3: Taxation revenue, ratio to GSP



The Government continues to deliver its infrastructure program with total investment in the general government sector reaching $71.7 billion over the four years to 2022-23.

The sustainability of this investment is made possible by financing predominantly through operating surpluses and the proceeds from the asset recycling program, which have moderated the need for additional debt.

The State continues its transformation to an outcome budgeting framework. The 2018-19 Budget set out the 46 State Outcomes providing a "citizen perspective" of the Budget. Another major milestone was reached in December 2018 with the release of Treasury's Policy and Guidelines Paper on *Outcome Budgeting* (TPP18-09). This provides guidance on developing and maintaining the outcomes framework, the financial and non-financial requirements for performance reporting, and the timetables for finalising outcome, performance and equity measures.

Principle 2 – Effective financial and asset management policies

The principle of effective financial and asset management policies includes having sound policies and processes for performance management and reporting, asset maintenance and enhancement, funding decisions and risk management practices.

The Government has continued to focus on the State's balance sheet management, funding decisions and risk management through the inter-departmental Assets and Liabilities Committee (ALCO). This includes improved cash management and optimisation of the State's balance sheet and a whole-of-government foreign exchange risk policy.

Some additional reforms and polices implemented by the Government include:

- the passage of the *Government Sector Finance Act 2018* which modernises financial structures, principles, guidelines and controls across the entire public sector
- establishment of the NSW Generations Fund
- strengthened reporting and management of contingent assets and liabilities
- the first issuance of Green Bonds (in November 2018) to fund projects delivering environmental and social benefits.

Principle 3 – Progress in achieving intergenerational equity

The principle of intergenerational equity includes ensuring any policy decisions have regard to their financial effects on future generations, and that the current generation funds the cost of the services delivered today.

The FRA commits the Government to ensure that policy decisions are made with consideration to their financial effects on future generations. Each budget reports the impact of its measures on the long-term fiscal gap, which is a summary indicator of the budget's financial effect on future generations.[1] The 2016 Intergenerational Report highlighted that if current trends continue, a widening fiscal gap will emerge where expenditure would exceed revenues resulting in a fiscal gap of 3.4 per cent of GSP by 2055-56.

There is no change to the fiscal gap as a result of measures in this Budget. Savings initiatives such as reducing expenditure to reflect recent machinery of government changes allow the Government to invest in new services and infrastructure for the NSW community without further impacting long-term fiscal sustainability. This shows that prudent budget management continues to be effective in limiting the financial burden shifted to future taxpayers.

With intergenerational challenges on the horizon, the Government became the first state in Australia to create a vehicle to support intergenerational equity by establishing the NSW Generations Fund in 2018. The dedicated debt retirement fund is projected to grow to more than $28 billion over the next decade, strengthening the State's balance sheet and supporting intergenerational equity for the people of New South Wales.

[1] The fiscal gap is calculated for the general government sector and is the difference between the base period primary balance as a share of GSP and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.

F. ECONOMIC SCENARIO ANALYSIS

The 2019-20 Budget relies on forecasts and judgements about the future of the economy, based on information available at the time of preparation. These forecasts are subject to some inherent uncertainties such as changes in behaviours, evolving relationships between variables and unexpected events or shocks.

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

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

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

F.1 Impact of variations in key forecast assumptions

This scenario analysis is intended to compliment the central economic outlook as presented in Chapter 2 by quantifying some of the key risks to the overall narrative. Two scenarios were considered: a positive shock to the NSW workforce participation rate; and a negative shock to house prices, where NSW prices fall slightly more than the rest of Australia.

The economic and revenue impact of these scenarios was modelled using the Centre of Policy Studies (CoPS) Victoria University Regional Model Tax (VURMTAX)[1] and presented as a deviation from baseline.

Higher workforce participation rate

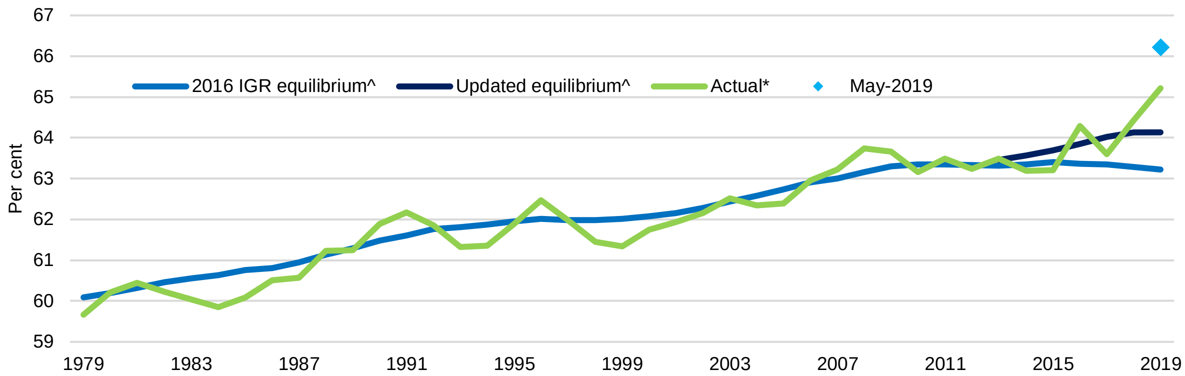
The New South Wales workforce participation rate has outperformed expectations over the last few years. It has surpassed the long run equilibrium participation rate modelled in the 2016 Intergenerational Report (IGR), reaching a new record high of 66.2 per cent in May 2019 (see Chart F.1).

Much of this increase can be put down to strong labour market conditions encouraging new entrants into the labour force, especially women. Although the rise in the participation rate has been greater than cyclical drivers and higher migration would suggest. This means there has likely been a change to underlying long-run structural drivers of workforce participation. It is unclear, however, what has driven this and how much is structural and long lasting.

Nevertheless, current forecasts assume that much of the recent increase in the participation rate is cyclical in nature and will partially diminish over the forecast horizon. It is possible, however, that this assumption of cyclicality is incorrect and a larger share of the recent increase in the participation rate is structural and therefore more persistent.

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

Chart F.1: The NSW equilibrium participation rate has shifted up since the 2016 IGR, with actuals continuing to exceed expectations



*Actual for 2018-19 is a year to date average.
^Driven by both changes in age composition (impacted by migration, births and deaths) and underlying participation rate trends by age & sex (structural trends).
Source: ABS 6202.0, 6291.0.55.001 and NSW Treasury

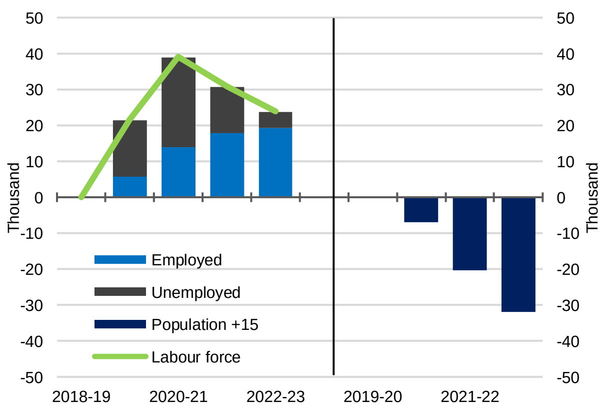
This scenario assumes that the participation rate holds up at around its current annual highs over the forecast period. This is comparable to the participation rate being 0.5 percentage points higher in the Budget year and 1.0 percentage point higher in each year thereafter. In this case, the shock to the participation rate is not the result of higher demand for workers and is treated as an exogenous increase in supply of additional workers. A demand driven shock, where workers have been encouraged to participate by businesses, would yield different results.

Macroeconomic impact over the Budget and forward estimates

The higher participation rate has the immediate effect of increasing the supply of labour within New South Wales. The increase in supply is accommodated by a rise in both New South Wales employment and a temporary rise in unemployment (see Chart F.2). Unemployment increases because the local economy is not able to fully absorb the additional workers until economic growth expands to meet this new supply of workers.

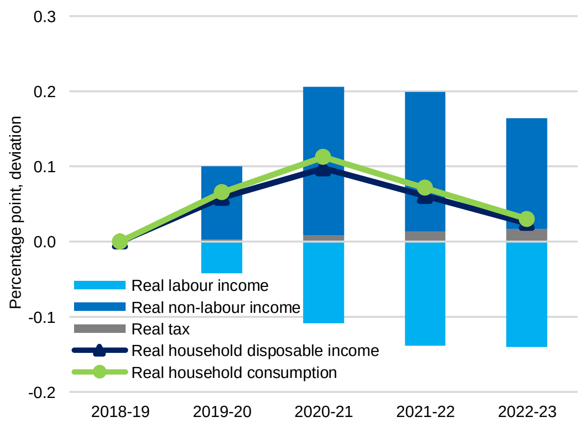
The higher local unemployment rate flows through to lower real wages growth in New South Wales relative to the rest of Australia. With more participants in the labour market, businesses have more applicants to choose from, allowing them to reduce wages relative to the base case. Lower wages make labour relatively cheaper for businesses and lifts employment and business profits.

Chart F.2: Higher participation rate lifts jobs and lowers population



Source: CoPS, Victoria University and NSW Treasury

Chart F.3: Household consumption lifts in line with higher real household income



Source: CoPS, Victoria University and NSW Treasury

In a delayed response to higher relative wages in the rest of Australia, New South Wales workers move interstate to chase higher relative wages. This increased outflow of population helps to reduce the local unemployment rate and soften the fall in wages within New South Wales. It is this rebalancing of the labour market that helps relative real wages return to the base line in the longer term. The stickiness of wages, makes this adjustment only gradual.

Overall, the impact on the NSW economy is positive, albeit with some short-term trade-offs. Higher employment and real household income results in increased household consumption (see Chart F.3). Additionally, higher business profits results in increased business investment. Ultimately, gross state product (GSP) is around a ¼ percentage point higher than under the baseline after four years (see Table F.1).

Table F.1: The effect of higher participation on major economic parameters

Financial year estimate[(a)]	2019-20	2020-21	2021-22	2022-23
State final demand	0.1	0.2	0.1	0.1
Gross state product	0.1	0.2	0.3	0.3
Employment	0.1	0.3	0.4	0.5
Unemployment rate	0.3	0.5	0.3	0.1
Consumer price index	0.0	(0.1)	(0.3)	(0.3)
Nominal wages	(0.2)	(0.7)	(0.9)	(1.0)
Working age population	0.0	(0.1)	(0.3)	(0.5)

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

This scenario does not fully reflect actual outcomes over recent years because it is an entirely exogenous increase in supply, rather than a shock driven by a combination of higher demand and supply of workers. It does, however, help illuminate some of the short-run effects of the recent record high participation rate. It helps to explain the recent strength in employment, solid economic growth and some of the weakness in wages growth and inflation despite the very low local unemployment rate.

Revenue impact over the Budget and forward estimates

Under this scenario, overall tax revenues are largely unchanged after four years (see Table F.2). Higher household consumption in New South Wales and nationally raises the national GST pool, increasing NSW GST revenue. In contrast, payroll tax collections are marginally lower, with more modest nominal wages offsetting a higher level of employment. With a larger economy and lower wages, the economy has become more internationally competitive, lifting coal royalties slightly.

Table F.2: The effect of higher participation on major revenue parameters

Financial year estimate[(a)] ($, million)	2019-20	2020-21	2021-22	2022-23
Payroll tax	(7)	(27)	(45)	(52)
Land tax	0	8	14	11
Transfer duty	7	14	11	9
Coal royalties	1	3	5	7
Other tax revenue	(1)	(7)	(17)	(22)
GST revenue	6	17	26	33
Total revenue	6	7	(5)	(14)

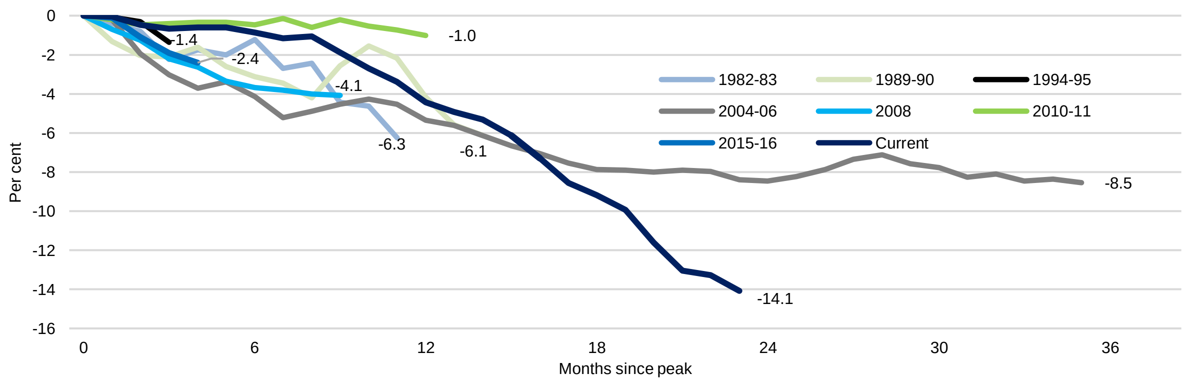
(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Lower New South Wales and national house prices

Following several years of strong growth, Sydney house prices have fallen dramatically from their peak in mid-2017. In May, Sydney's median house price was down over 14 per cent from its peak, the largest nominal decline since the early 1980s (see Chart F.4). Both softer demand and increasing housing supply have led to the current price declines. Additional drivers have included tighter credit conditions, affordability challenges, low rental yields and reduced investor and owner occupier sentiment.

*Chart F.4: The largest decline in Sydney house prices since the early 1980s**



* Stratified median sales price of houses, seasonally adjusted
Source: CoreLogic and NSW Treasury

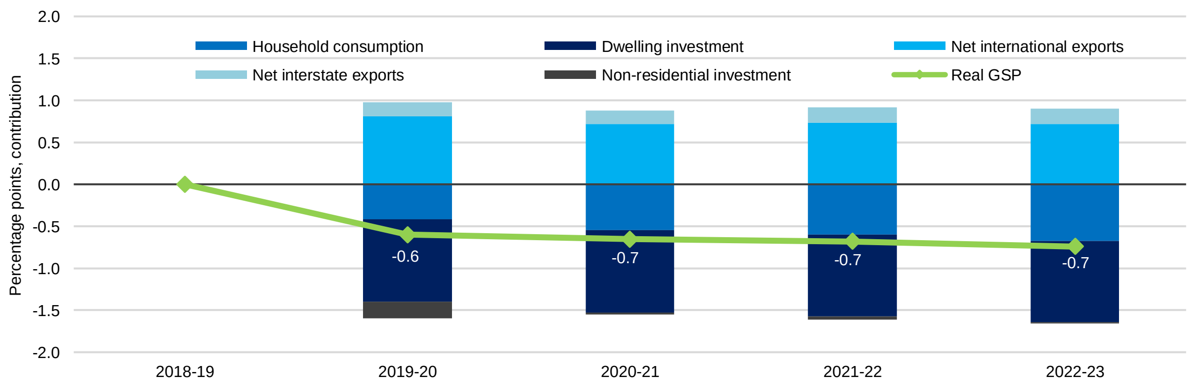
Current forecasts assume that house prices will stabilise from late-2019. This is consistent with improving auction clearance rates, lower interest rates and a gradual improvement in household income growth. There is the risk, however, that this does not eventuate, and house prices continue to decline. The weakness in housing finance commitments and rental price growth provide the strongest basis for this risk. Affordability also remains an issue. Despite the recent fall, house prices are still around 60 per cent higher than in late-2011, leaving house price to income ratios still stretched, suggesting further downside risk.

Hence, this scenario examines the impact of a further fall in house prices. In New South Wales, house prices are negatively shocked by 10 per cent, while the rest of Australia experiences a fall of 7 per cent, roughly matching relativities seen in the current downturn. The fall in house prices originates as a reduction in homebuyers demand for housing. Lower house prices result in lower conveyance duty, which partially offsets the effect of falling house prices on economic activity.

Macroeconomic impact over the Budget and forward estimates

The fall in house prices has a negative impact on the NSW economy (see Table F.3). GSP is about three-quarters of a percentage point lower after four years (see Chart F.5). This is the result of falls in dwelling investment and household consumption, slightly offset by improved international and interstate trade.

Chart F.5: Lower dwelling investment drives much of the decline in gross state product



Source: CoPS, Victoria University and NSW Treasury

Residential construction activity is most negatively affected by the shock to house prices. This fall in housing investment occurs because new residential construction projects have become less economical. Developers no longer receive a return on investment that compensates them for the risk, and the cost of construction hasn't fallen by the same degree.

The resulting fall in household consumption is consistent with less household income and a negative wealth effect. Lower economic activity reduces demand for employment, causing the unemployment rate to trend higher and wages to slow. Increased interstate migration outflows somewhat mute the decline in wages relative to the rest of Australia.

Partially offsetting these declines is an increased contribution from international and interstate trade. An increased contribution from international trade is the result of a lower Australian dollar, increasing international demand for exports and reduced domestic demand for more expensive imports. Interstate trade contributes more because the State's imports from the rest of the country decline, consistent with weaker local consumption.

Table F.3: The effect of lower house prices on major economic parameters

Financial year estimate[(a)]	2019-20	2020-21	2021-22	2022-23
State final demand	(1.6)	(1.6)	(1.7)	(1.7)
Gross state product	(0.6)	(0.7)	(0.7)	(0.7)
Employment	(0.7)	(0.6)	(0.6)	(0.5)
Unemployment rate	0.7	0.3	0.2	0.1
Consumer price index	(0.5)	(0.3)	(0.4)	(0.3)
Nominal wages	(0.6)	(0.7)	(1.0)	(1.1)
Working age population	0.0	(0.2)	(0.3)	(0.4)

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

The softer economic outlook flows through to substantially lower tax collections (see Table F.4). Residential transfer duty collections fall sharply because property valuations collapse and the turnover of property declines. Payroll tax collections fall because employment and wages decline. GST receipts fall because national household consumption and dwelling investment is weaker. Along with this, the State's share of GST revenue also falls as the rest of Australia's population expands due to interstate migration. Offsetting lower revenues slightly is higher coal royalties in response to an improvement in international competitiveness, via a lower currency and wages.

Table F.4: The effect of lower house prices on major revenue parameters

Financial year estimate[(a)] ($, million)	2019-20	2020-21	2021-22	2022-23
Payroll tax	(139)	(144)	(178)	(194)
Land tax	0	(87)	(121)	(145)
Transfer duty	(477)	(516)	(545)	(561)
Coal royalties	41	33	32	30
Other tax revenue	(80)	(73)	(91)	(96)
GST revenue	(345)	(364)	(382)	(403)
Total revenue	(1,001)	(1,151)	(1,285)	(1,370)

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

GLOSSARY

2019 Pre-election Budget Update	The Pre-election Budget Update was released by the Treasury Secretary on 5 March 2019. As required under the *Parliamentary Budget Officer Act 2010*, the Pre-election Budget Update provided an update to the State's economic and fiscal outlook following the release of the 2018-19 Half-Yearly Review.
ABS Government Finance Statistics GFS Manual (ABS GFS)	The ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods as updated from time to time.
Appropriation	The authority given to Parliament for the expenditure of monies from the consolidated fund for the annual services of Government and the Legislature. This authority is given to Ministers by the annual Appropriation Act.
Budget result (net operating balance)	The budget result represents the difference between expenses and revenues from transactions for the general government sector. This measure is equivalent to the net operating balance adopted in accounting standard AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting*.
Capital expenditure	This is expenditure relating to the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements). Capital expenditure also includes assets acquired using finance leases.
Capital grants	Amounts paid or received for capital purposes for which no economic benefits of equal value are receivable or payable in return.
Cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets (less distributions paid for the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors).
Classification of the functions of government – Australia (COFOG-A)	A system of classification for revenue, expenses, and transactions in non-financial assets, according to the primary purpose for the outlay (e.g. health, education, transport). This replaces the former government purpose classification (GPC) breakdown.
Contingent assets and liabilities	Possible future assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in control of the State.
Cluster	NSW Government entities have been consolidated into clusters reflecting broad policy areas of Government. These clusters are not legal entities. They are administrative arrangements that bring together a group of different legal and administrative entities.
Cluster grants	This represents the appropriation passed on by the principal agencies to the other government agencies within the cluster to fund their services.
Comprehensive Result (Change in net worth)	Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.
Concessional charges	Concessional charges apply to goods and services provided by government agencies at a lower fee or charge to certain members of the community, compared to the wider population, to pursue an economic or social policy goal such as reducing the cost of living.
Consolidated Fund	The fund is established under s39 of the *Constitution Act 1902* which includes all public monies collected, received or held by any person for or on behalf of the State.
Crown Entity	Includes the Crown Finance Entity and the Consolidated Fund.

Crown Finance Entity	The Crown Finance Entity acts as the residual entity for NSW whole-of-government transactions that are not the responsibility of any other state public sector agency. Major assets reported by the Crown Finance Entity include investments for the NSW Infrastructure Future Fund and Social Affordable Housing Fund.
Current grants	Amounts paid or received for current purposes for which no economic benefits of equal value are receivable or payable in return.
Fiscal aggregates	These are analytical balances that are useful for macroeconomic purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting* prescribes the net operating balance (budget result), net lending/borrowing (fiscal balance), change in net worth (comprehensive result), net debt, net worth, and cash surplus/(deficit).
Fiscal gap	The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.
Fiscal Responsibility Act 2012 (FRA)	The Act sets out both medium-term and long-term fiscal targets and principles providing a framework for budgeting in New South Wales.
Forward estimates	Refers to the period from 2020-21 to 2022-23.
General government sector (GGS)	This is an ABS classification of agencies that provide public services (such as health, education and police), or perform a regulatory function. General government agencies are funded in the main by taxation (directly or indirectly).
government / Government	'government' refers to the institution of government and is used as a pronoun in these budget papers (e.g. government department). The 'Government' refers to the present Government constituted by the Executive.
Government finance statistics (GFS)	A system of financial reporting developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.
Government Sector Finance Act 2018	The *Government Sector Finance Act 2018* creates the financial management framework for the government sector in New South Wales that promotes and supports sound financial management, budgeting, performance, financial risk management, transparency and accountability in the government sector. This Act will eventually replace four other Acts. • The GSF Act replaced the *Public Authorities (Financial Arrangements) Act 1987* from 1 December 2018. • The GSF Act is proposed to replace the *Annual Reports (Departments) Act 1985* and *Annual Reports (Statutory Bodies) Act 1984* from 1 July 2020. • The *Public Finance and Audit Act 1983* is proposed to be renamed the *Government Sector Audit Act 1983* from 1 July 2020 once all provisions other than those dealing with the Auditor-General, audit matters and the Public Accounts Committee have been omitted and replaced by the GSF Act.
Grants for on-passing	All grants paid to one institutional sector (for example, a state government) to be passed on to another institutional sector (for example, local government or a non-profit institution). For New South Wales, these primarily comprise grants from the Commonwealth Government to be on-passed to specified private schools, and to specified local government authorities.
Gross state product (GSP)	The total market value of final goods and services produced within a state.
Half-Yearly Review	Required under legislation, the Half-Yearly Review provides an update to the economic and financial assumptions released in the Budget.

Interest expense	Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings. Where discounting is used, the carrying amount of a liability increases in each period to reflect the passage of time. This increase is also recognised as an interest expense.
Machinery of Government (MoG)	MoG changes vary in scope and can involve: the abolition or creation of new government entities; the merger or absorption of entities; and small or large transfers of policy, program or service delivery responsibilities to other entities.
National Agreement (please also see National Specific Purpose Payments)	National Agreements define the objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services across a particular sector. The sectors include; Health, Education, Skills and Workforce, Disability and Indigenous.
National Partnership Payment (NPP)	A Commonwealth Government grant to States and Territories to support the delivery of specified outputs or projects, to facilitate reforms or to reward the delivery of nationally significant reforms. Each NPP is supported by a National Partnership Agreement which defines mutually agreed objectives, outputs and performance benchmarks.
National Specific Purpose Payments (SPP)	A Commonwealth Government grant made to the States and Territories under the associated National Agreement. These grants must be spent in the key service delivery sector (Health, Education, Skills and Workforce, Disability and Indigenous) for which it is provided. States are free to allocate the funds within that sector to achieve the mutually agreed objectives specified in the associated National Agreement.
Net acquisition of non-financial assets	This is purchases (or acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Purchases and sales (or net acquisitions) of non-financial assets generally include accrued expenses and payables for capital items. Other movement in non-financial assets include non-cash capital grant revenue/expenses such as developer contribution assets.
Net financial assets	See net financial worth.
Net debt	Net debt equals the sum of financial liabilities (deposits held, advances received, loans and other borrowings) less the sum of financial assets (cash and deposits, advances paid and investments, loans and placements).
Net financial liabilities (NFL)	This is the total liabilities less financial assets, other than equity in PNFCs and PFCs. It is a more accurate indicator than net debt of a jurisdiction's fiscal position. This is because it is a broader measure than net debt in that it includes significant liabilities other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth. For the general government sector NFL, excluding the net worth of other sectors results in a purer measure than net financial worth as, in general, the net worth of other sectors of government is backed up by physical assets.
Net financial worth	Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets less liabilities. It is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. It includes all classes of financial assets and liabilities, only some of which are included in net debt.
Net interest on the net defined benefit liability/asset	This is the change during the period to the net defined benefit liability/asset that arises from the passage of time.
Net lending/(borrowing)	This is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
Net operating balance (budget result)	This is calculated as revenue from transactions less expenses from transactions.
Net worth	This is an economic measure of wealth and is equal to total assets less liabilities.

Nominal dollars/prices	This shows the dollars of the relevant period. No adjustment is made each time period for inflation.
Non-financial public sector (NFPS)	This is a sub-sector formed by the consolidation of the general government sector and public non-financial corporations (PNFC) sector.
Operating Result	This is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.
Other economic flows	These are the changes in the volume or value of an asset or liability that do not result from transactions (that is, revaluations and other changes in the volume of assets).
Outcome indicator	Measures the effectiveness and performance of the government in achieving specific State Outcomes.
Payables	A liability that includes short and long-term trade creditors, and accounts payable.
Program group	A group of aligned activities aimed at delivering an agreed State Outcome. These activities may be performed by more than one agency.
Public Finance and Audit Act 1983	An Act to make provision with respect to the administration and audit of public finances and for other purposes. From 1 July 2020, the *Public Finance and Audit Act 1983* will be renamed the *Government Sector Audit Act 1983*, with the elements relating to the financial matters of the State replaced by the *Government Sector Finance Act 2018*.
Public Private Partnerships (PPP)	The creation of an infrastructure asset through private sector financing and private ownership for a concession period (usually long term). The Government may contribute to the project by providing land or capital works, through risk sharing, revenue diversion or purchase of the agreed services.
Public financial corporations (PFC)	An ABS classification of agencies that have one, or more, of the following functions: • that of a central bank • the acceptance of demand, time or savings deposits or • the authority to incur liabilities and acquire financial assets in the market on their own account.
Public non-financial corporations (PNFC)	Government controlled agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.
Receivables	An asset that includes short and long-term trade debtors, accounts receivable and interest accrued.
Recurrent expenditure	* see Total expenses
Restart NSW	A fund established by the NSW Government in 2011. Funds deposited into Restart NSW come from asset recycling transactions, Commonwealth Government asset recycling initiative payments, proceeds from Waratah Bonds, windfall tax revenue and investment earnings.
Services	These are the 'end products' or direct services that are delivered to clients or recipients, the broader community or another government agency. They are expected to contribute to Government priorities.
Social Impact Investments (SII)	Social impact investments aim to achieve social returns as well as financial returns, with measurement of both. For government, partnering in such transactions is a way of harnessing capital and expertise from across public, private and not-for-profit sectors in order to tackle social challenges.
Special deposit account	A Special deposits account is to consists of: (a) all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and (b) all accounts of money that are directed or authorised to be paid to the special deposits account by or under legislation.

State Owned Corporation (SOC)	Government entities (mostly PNFCs) which have been established with a governance structure mirroring as far as possible that of a publicly listed company. NSW state owned corporations are scheduled under the *State Owned Corporations Act 1989* (Schedule 5).
State Outcomes	The outcomes which the government is seeking to achieve for the people of New South Wales.
Superannuation interest cost	This is the net interest on the net defined benefit liability/asset determined by multiplying the net defined benefit liability/asset by the discount rate (government bond rate).
Other superannuation expense	This includes all superannuation expenses from transactions except superannuation interest cost. It generally includes all employer contributions to accumulation schemes and the current service cost, which is the increase in defined benefit entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are disclosed as an other economic flow.
Surplus/deficit (net result)	In Budget Paper No.3 *Budget Estimates* this is the agency accounting result which corresponds to profit or loss in private sector financial reports. It equals the net cost of services adjusted for government contributions. This is not the same as the budget result or the GFS cash surplus/(deficit).
Tax expenditure	Measures the additional tax that would have been payable if standard (or benchmark) tax rates had been applied to all taxpayers. Expenditures can include specific exemptions, reduced tax rates, allowances, deductions and deferral of tax liabilities. Equivalent amounts may be paid as rebates.
Total expenses	The total amount of expenses incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year. It does not include expenditure on the purchase of assets. It also excludes losses, which are classified as other economic flows.
Total revenues	This is the total amount of revenue due by way of taxation, Commonwealth Government grants and from other sources (excluding asset sales) regardless of whether a cash payment is received. It excludes gains, which are classified as other economic flows.
Total state sector	This represents all agencies and corporations owned and controlled by the NSW Government. It comprises the general government, public non-financial corporations and public financial corporations.
Uniform Presentation Framework (UPF)	The uniform presentation framework provides uniformity in presentation of financial information so that users of the information can make valid comparisons between jurisdictions. A new framework was introduced in February 2019 which aligns the UPF with the ABS GFS Manual updates.

* terms used when referring to the Restart NSW and Rebuilding NSW programs

To gain a better understanding of the terminology and key aggregates used in these budget papers, a glossary of terms can be found in Note 37 of the Report on State Finances 2017-18.