E. PERFORMANCE AND REPORTING UNDER THE FISCAL RESPONSIBILITY ACT 2012

E.1 Performance Reporting under the *Fiscal Responsibility Act 2012*

Performance against FRA's object

The *Fiscal Responsibility Act 2012* (FRA) requires the Government to report on its performance against the Act's objects, targets, and principles.

The FRA sets a policy objective of maintaining the State's triple-A credit rating, supported by two fiscal targets and three principles of sound financial management.

As per section 8(c) of the FRA, the Government is required to outline the reasons for a departure from the FRA's object, targets and principles, and how the Government plans to achieve these targets by the end of the forward estimates (2026-27). Relevant actions are outlined in the following sections.

Table E.1: Performance against the FRA's object – Maintain the State's triple-A credit rating

	Moody's	Fitch	S&P Global
Latest credit ratings	Rated as triple-A (Aaa) in September 2022	Rated as triple-A (AAA) in November 2022	Rated as double-A plus (AA+) in October 2022 S&P Global in June 2022 outlined that it was unlikely that New South Wales would regain the triple-A credit rating until the second half of the decade and with the State required to reduce debt levels.

In support of achieving the object of the FRA, this Budget adopts two key fiscal principles to support the State's credit rating:

- returning to, and then maintaining, a sustainable operating position.
- stabilising and then maintaining a sustainable debt position.

The final assessment of the State's credit rating is determined by the independent credit rating agencies using their published methodology. The State is due to be rated again by all three credit rating agencies in late 2023.

Performance against FRA targets and principles – Target 1

The FRA limits annual expense growth to below the long-term average revenue growth rate (5.6 per cent). The budget forecasts expense growth to remain below the long-term average revenue growth as the Government implements its Comprehensive Expenditure Review outcomes (see Table E.2). For further information on expense measures in this budget see Chapter 5 Expenditure.

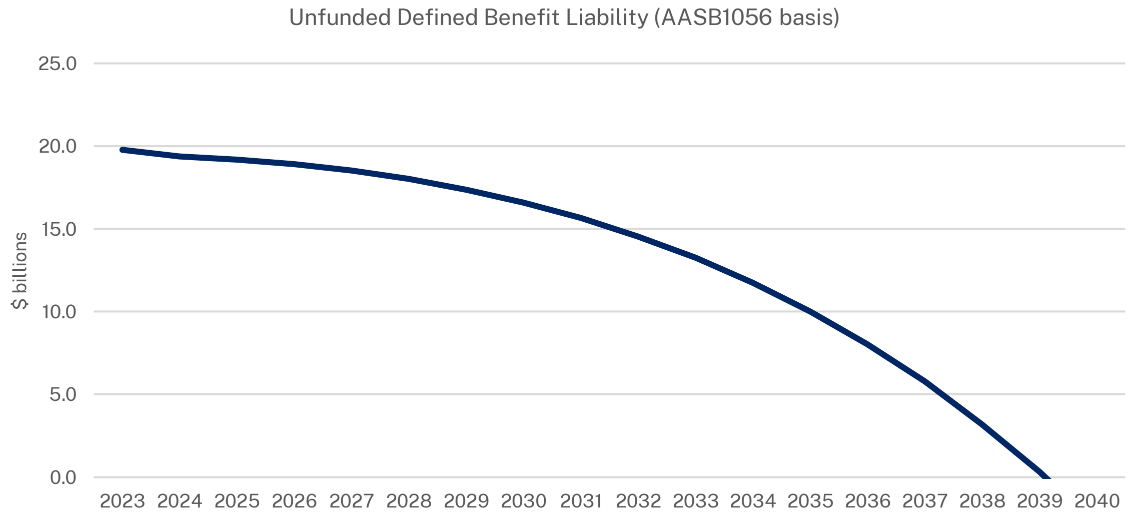
Table E.2: Target 1 – General government expense growth

Fiscal Targets	2022-23 %	2023-24 %	2024-25 %	2025-26 %	2026-27 %	Relevant actions to achieve fiscal targets of the FRA by 2026-27
Annual expense growth kept below long-term average revenue growth (5.6 per cent) **(General government expense growth)**	(2.1)	3.4	(3.1)	0.6	2.5	From 2022-23, the Government is forecasting annual expense growth to remain below the long-term revenue growth rate. Budget repair has been conducted through the Comprehensive Expenditure Review which has identified $13 billion worth of savings, revenue and reprioritisation. Savings allow the Government to redirect funding towards priority election commitments, including energy bill relief to households and small businesses, without placing undue pressure on the State's finances.

Performance against FRA targets and principles – Target 2

The FRA commits the State to eliminating unfunded superannuation liabilities by 2030. As part of this Budget the State is contributing an additional $1.7 billion over the next four years to 2026-27. This will ensure the target continues to be fully funded by 2040, in line with the approach taken by the previous Government in the 2022-23 Budget (see Chart E.1). Following the onset of COVID, New South Wales re-anchored its superannuation liability target to be fully funded by 2040 which freed up fiscal capacity to support the State's response to COVID.

Chart E.1: Target 2 – General government net superannuation liabilities



Performance against FRA targets and principles – Principles of sound financial management

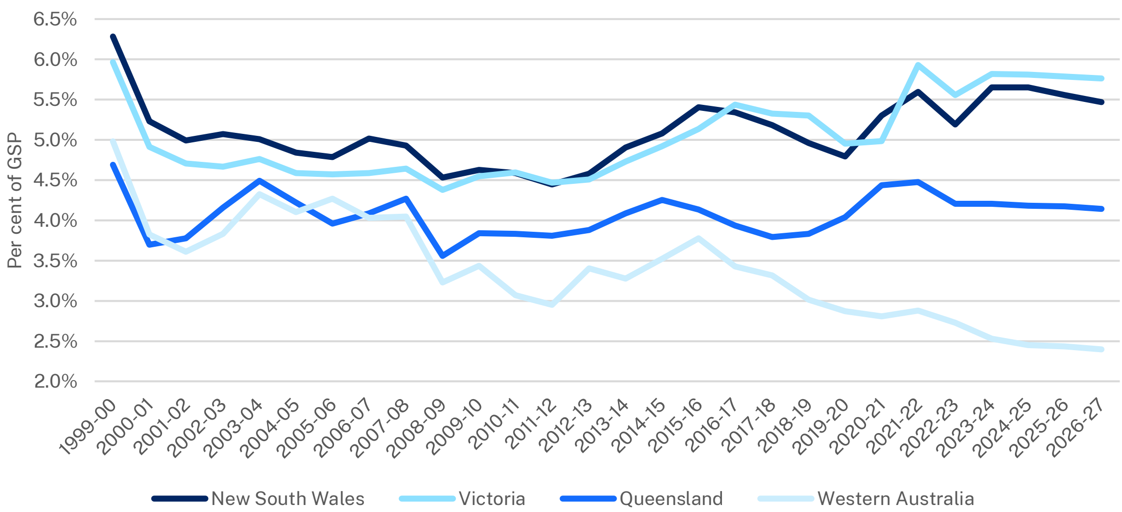
Table E.3: Fiscal Responsibility Act 2012 – Principle 1

FRA principles of sound financial management
Principle No 1 is responsible and sustainable spending, taxation and infrastructure investment, including: (a) aligning general government revenue and expense growth (b) stable and predictable taxation policies (c) investment in infrastructure that has the highest benefit for the community.

Reporting for general government revenue and expense growth is covered under Target 1.

State taxation policies have been broadly stable over the past two decades, averaging around 5 per cent of revenues (Chart E.2). This Budget forecasts expense growth to remain below the long-term average revenue growth as the Government implements its Comprehensive Expenditure Review outcomes (Table E.2).

Chart E.2: Principle 1 – General government taxation revenue to GSP[1]



Up until 2018-19, the State maintained spending on infrastructure broadly in line with economic growth at around 2 per cent of gross state product (GSP) (Chart E.3). Since 2018-19, the State's infrastructure program has increased significantly. This Budget will see infrastructure expenditure start to trend back towards more sustainable levels of growth by 2026-27 (see Box 3.2 in Chapter 3 Fiscal Strategy and Outlook).

[1] General government taxation revenue does not consider mining royalties which are a significant proportion of Queensland's and Western Australia's overall revenues.

Chart E.3: Principle 1 – General government and public non-financial corporations' capital expenditure

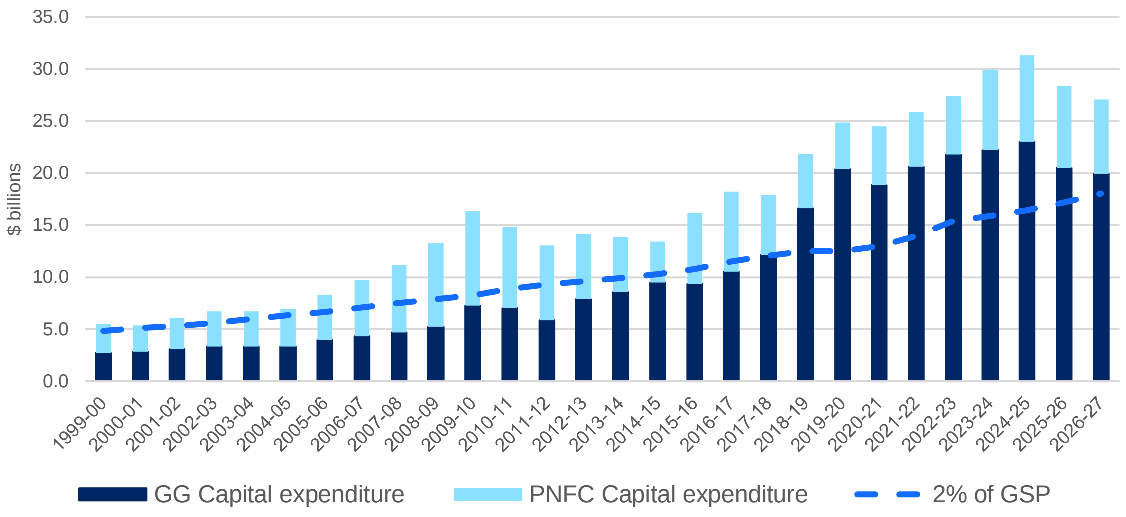


Table E.4: Fiscal Responsibility Act 2012 – Principle 2

FRA principles of sound financial management
Principle No 2 is effective financial and asset management, including sound policies and processes for: (a) performance management and reporting (b) asset maintenance and enhancement (c) funding decisions (d) risk management practices.

The Government has continued to actively manage the State's balance sheet, investment decisions and risk management supported by advice from the Treasury-chaired Asset and Liability Committee.

Following an inquiry by the NSW Parliament's Standing Committee on State Development, the Government will temporarily suspend contributions in 2023-24 to the NSW Generations Fund (NGF), reducing NSW gross debt by $7.7 billion in the interim. Contributions are budgeted to recommence from 2024-25 to 2026-27.

The NGF balance is now projected to be around $55 billion by June 2032, compared to the $94 billion projected in the 2022-23 Budget. This financially responsible approach to managing the NGF will significantly reduce the potential impact to the State's finances from investing a larger balance in volatile financial markets over the longer-term.

Additionally, the Government will investigate alternative approaches to managing the State's investment funds more efficiently, including the potential consolidation of separate government funds totalling $43 billion into a more cost-effective structure.

The Government is aiming to maintain a responsible gross debt trajectory to ensure interest expenses continue to remain manageable (see Chart E.4). Gross debt is projected to be $145.8 billion in 2023-24, $8.9 billion lower than projected at the 2023 Pre-election Budget Update.

Chart E.4: Principle 2 – General government gross debt and interest expenses as a per cent of revenue

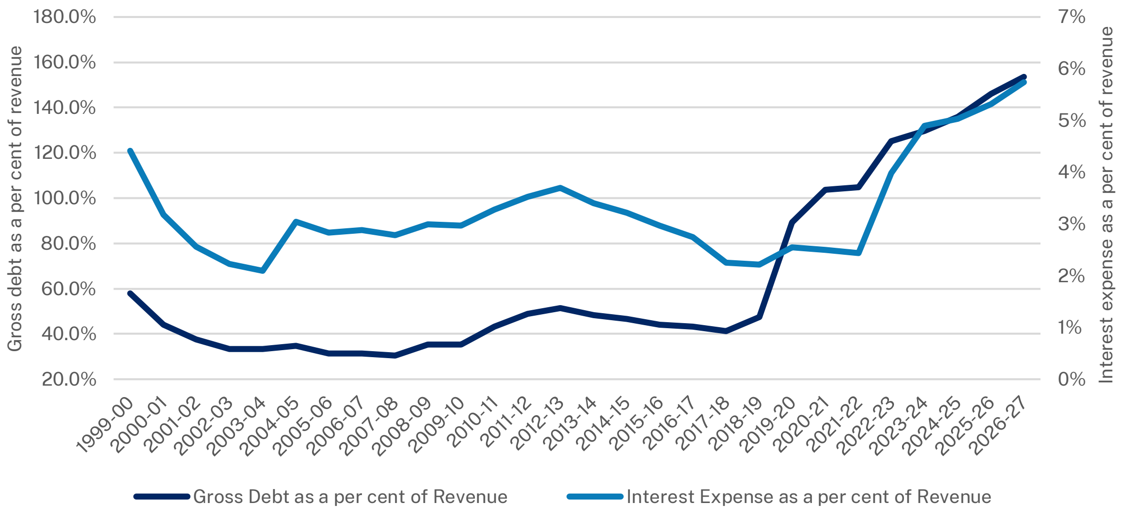


Table E.5: Fiscal Responsibility Act 2012 – Principle 3

FRA principles of sound financial management
Principle No 3 is achieving intergenerational equity, including ensuring that: (a) policy decisions are made having regard to their financial effects on future generations (b) the current generation funds the cost of its services.

Managing debt in the long term is key to supporting intergenerational equity. The 2023 Pre-Election Budget Update forecast borrowings to reach $188.2 billion in June 2026.

Measures announces in this Budget are projected to reduce borrowings levels by $14.8 billion, to $173.4 billion in June 2026. As a result, interest payments are forecast to reduce by $1.6 billion between 2022-23 to 2025-26.

The 2021-22 NSW Intergenerational Report (IGR) provided an update on the State's long-term fiscal gap. The report found there is an expected build-up of fiscal pressures over the long-term in the absence of no change in current government policy, no corrective measures taken, and economic and demographic trends persisting.

The 2021-22 IGR projects that as a result of the long-term structural imbalance between growth in Government revenues and expenditure, the fiscal gap will reach 2.6 per cent of GSP by 2060-61.

As per the requirements of s8 (d) of the *Fiscal Responsibility Act 2012*, the measures announced in this Budget are projected to lead to a 0.1 percentage point deterioration in the fiscal gap, to 3.0 per cent of GSP by 2060-61. This is compared to 2.9 per cent estimated in the 2022-23 Budget. Noting that as per the IGR this calculation does not include the impact of the NGF or any changes announced to the NGF as part of this Budget.