



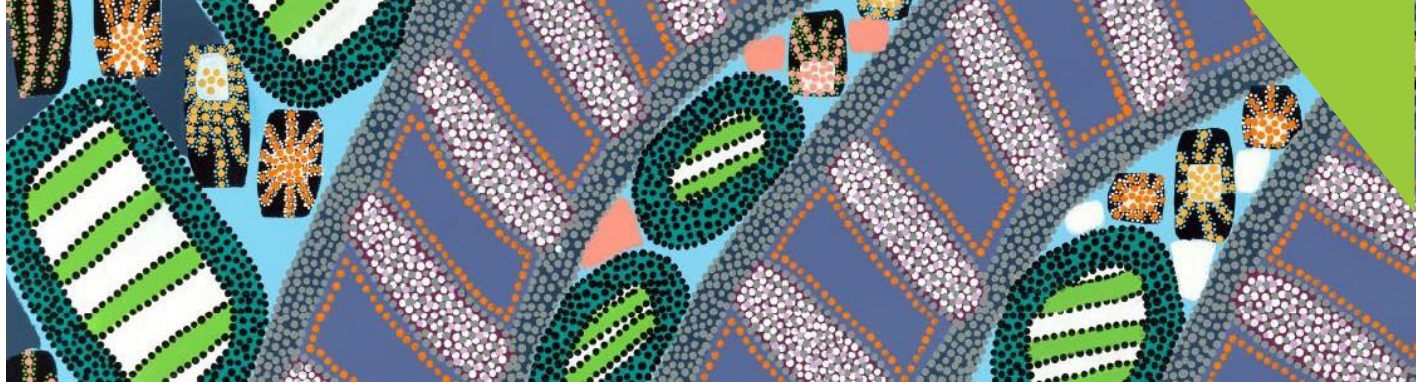
2023-24 HALF-YEARLY REVIEW

NSW Budget

2023-24 Half-Yearly Review



Released by The Hon. Daniel Mookhey MLC, Treasurer



Acknowledgement of Country

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

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

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

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

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

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

Artwork: 'Regeneration' by Josie Rose 2020

The 2023-24 Half-Yearly Review

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

Best available information

Actual financial statements have been prepared based on financial information for the year ending 30 June 2023. At the time of writing the *Total State Sector Accounts 2022-23* has not been released.

The Estimated Financial Statements have been prepared to take account of economic and financial data including Government policy decisions taken up to 6 December 2023.

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

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

Notes when reading this report

The Budget year refers to 2023-24, while the forward estimates period refers to 2024-25, 2025-26 and 2026-27.

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

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1. OVERVIEW

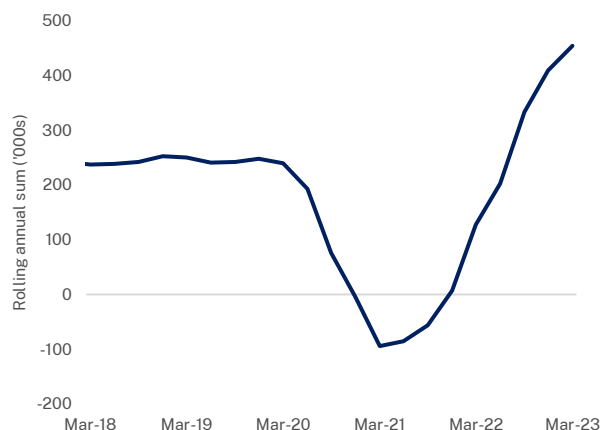
2023-24 Half-Yearly Review Highlights

- Since the 2023-24 Budget, both Moody's and Fitch ratings agencies have reaffirmed the State's triple-A credit rating, underpinned by the Government's prudent financial management. S&P Global has also maintained the State's double-A plus rating.
- The NSW economy has remained resilient – supported by rapid population growth and a strong labour market.
- Inflation is easing but remains at an elevated level. Since the Budget, the Reserve Bank of Australia (RBA) has raised the cash rate to curb upside inflation risks.
- Economic growth is forecast to continue below trend in the near term despite a modest upward revision for 2023-24. The upward revision reflects stronger population growth and the resilience of the economy to date.
- Spending has been tightly controlled since the Budget. However, high inflation, high bond yields, a reduction in the national GST pool and withdrawal of major infrastructure funding by the Australian Government has maintained pressure on the budget result.
- High inflation and rising interest rates are also impacting household consumption, with the State's GST receipts forecast to be \$1.9 billion lower over the four years to 2026-27.
- State revenues have also been impacted by an estimated \$3.2 billion reduction in infrastructure funding following the Infrastructure Investment Program review by the Australian Government. See Box 1.1 for further details.
- Relative to the 2023-24 Budget, the budget result has worsened by \$1.7 billion, largely due to a \$0.8 billion deterioration in the State's projected investment returns, \$0.4 billion reduction in Australian Government funding for infrastructure, and \$0.5 billion in higher interest expenses.
- This is almost solely as a result of factors beyond the Government's control, with Government decisions on new spending measures only accounting for \$169.0 million or less than 10 per cent of the deterioration in 2023-24.
- Despite the pressure on the State's operating position, the Government remains on track to return to a modest budget surplus of \$475.1 million in 2024-25. Surpluses are expected to continue in 2025-26 and 2026-27 at \$1.2 billion and \$288.0 million respectively.

1.1 The NSW economy has remained resilient

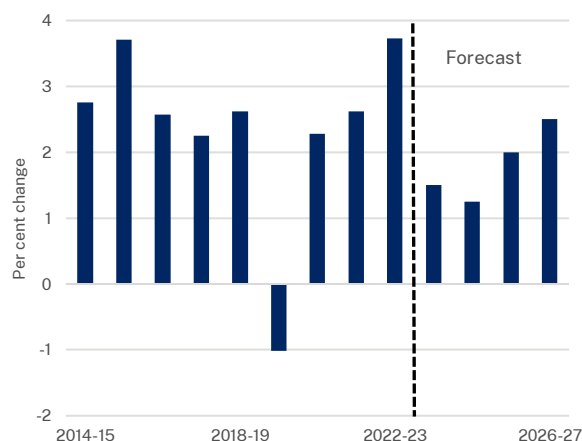
Since the 2023-24 Budget, overall economic activity has been more resilient than expected. Rapid population growth on the back of surging net overseas migration (Chart 1.1) and a strong labour market have continued to support demand. Consequently, the outlook for economic growth has been modestly revised up to 1½ per cent for 2023-24 (Chart 1.2).

Chart 1.1: Net overseas migration, Australia



Source: ABS and NSW Treasury

Chart 1.2: NSW Real Gross State Product



Source: ABS and NSW Treasury

High inflation and rising interest rates continue to place pressure on household budgets. Gross state product (GSP) per person is expected to remain broadly flat over the next two years.

The surge in population is boosting demand for housing with both rents and dwelling prices exceeding budget expectations. The outlook for dwelling prices has been revised higher in the near term, but the pace of growth is expected to ease over coming months.

Employment continues to grow however the unemployment rate has drifted upwards in recent months. The labour market has reached a turning point earlier than expected, but remains tight by historical standards. The unemployment rate is forecast to continue to steadily rise, reaching a peak of around 4½ per cent by mid-2025, slightly below expectations at the Budget.

Headline inflation has continued to ease in line with expectations, driven by a softening in goods prices and additional government rebates. Despite this slowing, the pace of underlying inflation remains high reflecting demand-side pressures. In response, the RBA raised the cash rate in November 2023.

The forecast for inflation has been revised up marginally in 2024-25, reflecting a stickiness in services inflation which can be attributed to various factors, including the persistent strength in rents inflation. However, the slowdown in broader economic growth and easing in the labour market should gradually see inflation return to around 3 per cent by late 2024-25.

For more information, please see Chapter 2 Economic Outlook.

1.2 Revenue is expected to be lower than Budget in a challenging environment

Relative to the 2023-24 Budget, revenue is forecast to decrease by \$1.3 billion in 2023-24 and by \$819.7 million over the four years to 2026-27. This downward revision of revenue is driven by lower GST revenue, the withdrawal of infrastructure funding from the Australian Government and lower mineral royalties. This is partially offset by higher transfer duty and land tax.

A downward revision of GST revenue by \$1.9 billion over the four years to 2026-27 reflects a lower estimated national GST pool, driven by a lower taxable share of consumption. This is the result of combined impacts of high inflation and rising interest rates on discretionary household spending.

Following the release of the *Independent Strategic Review of the Infrastructure Investment Program – Executive Summary*, grants revenue from the Australian Government is projected to decline due to the cancellation of Australian Government contributions for various road and rail projects (see Box 1.1 for further information).

The downward revision of mineral royalties by \$281.9 million over the four years to 2026-27 is driven by lower prices and export volumes of thermal coal, reflecting lower demand from Asia and an anticipated warmer than usual winter in the Northern Hemisphere.

Higher taxation revenue forecasts, particularly for transfer duty and land tax, are largely driven by higher residential property prices and average land values.

For more information, please see Chapter 3.2 Revenue outlook.

1.3 The Government maintains tight control of expenses

The Government continues its prudent financial management by keeping new spending measures to a minimum.

General government sector expenses are projected to increase by \$383.0 million in 2023-24. Over the four years to 2026-27, expenses are projected to increase by \$2.8 billion. This upward revision is largely driven by non-discretionary factors, including:

- higher interest expenses due to higher bond yields and increased borrowings
- higher defined benefit superannuation expense.

For more information, please see Chapter 3.3 Expenses outlook.

Box 1.1: Australian Government Infrastructure Review

The Australian Government released the *Independent Strategic Review of the Infrastructure Investment Program – Executive Summary* on 16 November 2023.

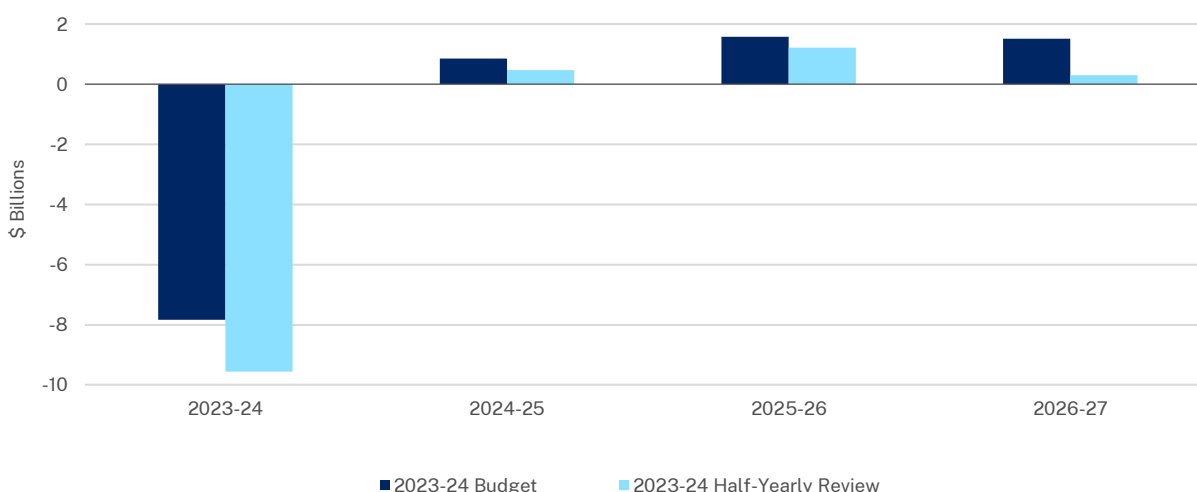
The Review has proposed that some Australian Government contributions under the Infrastructure Investment Program (IIP) be reprofiled or cancelled due to increasing cost pressures. For New South Wales, this has resulted in the cancellation of funding for 17 infrastructure projects, with an estimated reduction in grant revenue of \$3.2 billion. This is expected to deteriorate the budget result by \$1.6 billion over the five years to 2027-28.

The Australian Government has committed to maintaining the IIP pipeline at around \$120.0 billion for all states and territories over the next 10 years. However, this will not be sufficient to address increasing infrastructure-related costs and may impact NSW’s ability to deliver future infrastructure projects.

New South Wales has limited revenue raising capability and is reliant on Australian Government funding agreements, particularly in areas that require high expenditure such as infrastructure, health, housing, and schools. With significant changes occurring in other streams of Australian Government funding, the withdrawal of infrastructure funding may have implications for NSW’s overall fiscal outlook and ability to deliver essential services to the community.

1.4 The NSW Budget remains on track to return to surplus by 2024-25 despite near term pressures

Chart 1.3: NSW budget result comparison 2023-24 Budget to 2023-24 Half-Yearly Review



The Government’s fiscal strategy remains unchanged since the 2023-24 Budget, with two key principles:

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

The Half-Yearly Review reaffirms the Government’s objective to return to surplus by 2024-25 and maintain sustainable debt levels, with surpluses forecast at \$475.1 million in 2024-25, \$1.2 billion in 2025-26 and \$288.0 million in 2026-27.

Since the Budget, the projected deficit for 2023-24 has deteriorated by \$1.7 billion to \$9.6 billion (see Chart 1.3). This revision is primarily driven by:

- higher interest expenses and lower revenues, including reductions in forecast GST
- lower Australian Government grants for infrastructure
- lower investment returns due to volatile global financial markets.

The Government's essential infrastructure program is projected to be \$117.0 billion over the four years to 2026-27, broadly in line with the Budget.

The Government is committed to maintaining debt at sustainable levels. Since the Budget, the projection for net debt to GSP has remained around 13 per cent by June 2027, with the projection for gross debt increasing by \$3.2 billion to \$189.9 billion by June 2027.

For more information, please see Chapter 3.1 Fiscal and budget overview.

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2. ECONOMIC OUTLOOK

Key points

- The NSW economy has remained resilient since the 2023-24 Budget, supported by population growth and a strong labour market.
- Although inflation is slowing, underlying inflation remains high, driven increasingly by services. Since the Budget, the Reserve Bank of Australia (RBA) has raised the cash rate, noting its increasing intolerance to upside inflation risks.
- The economic growth outlook has been revised up modestly for 2023-24, reflecting the recent resilience of the economy and stronger population growth.
- Despite the upward revision, economic growth is forecast to be below trend in the near term as high inflation and interest rates continue to place pressure on household budgets.
- The recent easing in the labour market is expected to continue, which should gradually see inflation return to around 3 per cent by late 2024-25. This will allow economic growth to return to long-run levels in the latter part of the forecast period.

Table 2.1: Economic performance and outlook^(a)

	2022-23 Outcome	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Real state final demand	4.4	1½ (1¼)	1½	2 (2¼)	2¾
Real gross state product	3.7	1½ (1¼)	1¼	2	2½ (2¼)
Employment	5.8	1½ (1¾)	½ (¼)	1	1½
Unemployment rate ^(b)	3.1	3¾	4½ (4¾)	4½	4¼
Sydney consumer price index	7.1	4½ (4¾)	3¼ (3)	2¾	2½
Wage price index	3.3	4	3¾	3¼	3¼
Nominal gross state product	10.0	3¾ (3½)	3 (3½)	4 (4½)	5¼ (4¾)
Population ^(c)	2.0	1.7 (1.4)	1.3	1.3 (1.2)	1.2

(a) Forecasts are rounded to the nearest quarter point and are annual average per cent change, unless otherwise indicated. 2023-24 Budget forecasts in parenthesis where different.

(b) June quarter, per cent.

(c) Per cent change through the year to 30 June. 2022-23 figure remains a NSW Treasury forecast and is rounded to the nearest 0.1 percentage point. The assumption for net overseas migration takes into account partial data to the September quarter 2023 and thereafter is assumed to increase in line with assumptions in the 2023-24 Australian Government Budget.

Note: Commodity prices are assumed to follow Consensus Economics forecasts as of October 2023. The RBA's interest rate path over the course of 2023 and 2024 is assumed to be broadly in line with the assumptions underpinning the RBA Statement on Monetary Policy (November 2023). The Australian dollar trade-weighted index is assumed to average 63.8 across the forecast period.

Source: ABS and NSW Treasury

2.1 The NSW economy remains resilient

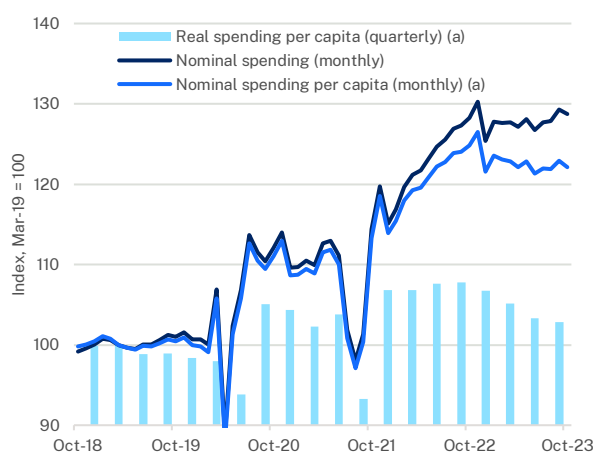
Strong population growth has supported aggregate activity

The NSW economy grew 3.7 per cent in 2022-23 in real terms. This was in line with expectations in the 2023-24 Budget. Despite this growth, high inflation, the removal of the Australian Governments Low to Middle Income Tax Offset in 2022-23 and rising interest rates are squeezing household budgets.

Activity on a per capita basis (adjusting for population) has softened (Chart 2.1), especially for discretionary household goods and services, as households prioritise essential items. This has seen the household saving rate fall to 3.8 per cent in 2022-23, below its pre-pandemic levels.

Recent economic indicators point to some resilience in activity relative to expectations at the time of the Budget. Retail spending has strengthened, with real retail spending rising in the September quarter after having declined in the prior three quarters.

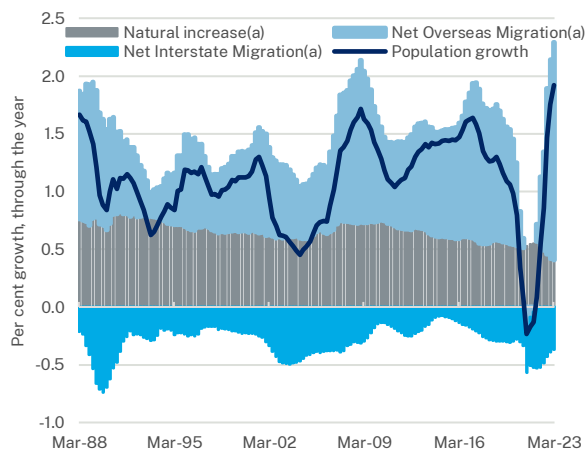
Chart 2.1: Retail spending



(a) Population is estimated using the civilian population 15 years and over

Source: ABS and NSW Treasury

Chart 2.2: Population



(a) Contribution to population growth for components

Source: ABS and NSW Treasury

This resilience in demand has been driven in large part by the continued strength in population growth. Population levels have been supported by the rebound in net overseas migration. The last official population data in March 2023 showed the NSW population had grown 1.9 per cent through the year, significantly higher than the pre-COVID decade average of 1.3 per cent (Chart 2.2).

The rapid increase in net overseas migration is adding to demand predominantly through spending and housing. For housing, migrants are more likely to rent when they arrive in Australia, rather than purchase or construct a new dwelling. This is particularly the case for international students who currently comprise a large share of the inward migration flows.

A historically low rental vacancy rate continues to drive higher rents, which puts upward pressure on dwelling prices. NSW dwelling prices have been higher than expected at the time of the 2023-24 Budget. As of November 2023, dwelling prices are only 1.9 per cent below their peak in January 2022.

While strong net overseas migration has supported aggregate demand, it has also added to the supply capacity of the NSW economy. This is helping ease some of the labour constraints businesses have experienced since the closure of international borders during the COVID-19 pandemic.

Employment has continued to grow in 2023, but the labour market has reached a turning point. The unemployment rate has trended upward to 3.4 per cent in October from its trough of 2.9 per cent in June 2023.

Broader measures of labour market spare capacity also show an easing in labour market tightness. The underutilisation rate, which includes people with jobs who have a preference to work more hours than they currently do, has risen to 9.6 per cent in October from its recent low of 8.5 per cent in November 2022. However, the underutilisation rate remains historically low, well below the average of 12.9 per cent for the decade prior to COVID-19.

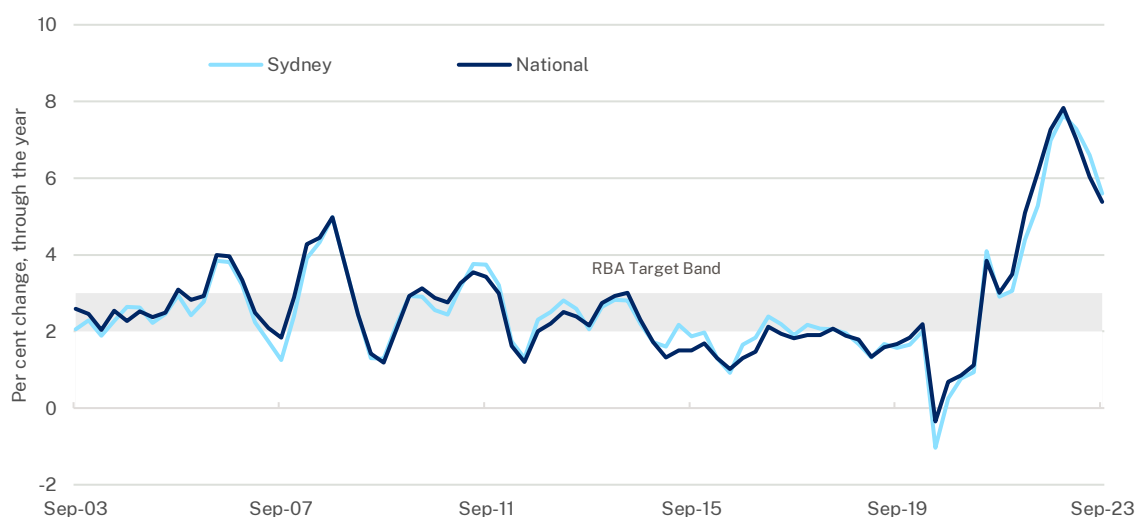
The RBA raised rates in November to combat inflation

The RBA has responded to persistent inflation pressure with a further 25 basis points increase in the cash rate to 4.35 per cent in November, in line with expectation at the Budget. This brings the cumulative increase in the cash rate since May 2022 to 4.25 percentage points.

Having peaked at the end of 2022, national headline inflation has continued to ease as expected to 5.4 per cent through the year to the September quarter 2023. The Sydney consumer price index (CPI), at 5.6 per cent through the year to the September quarter 2023, remains slightly above the national measure (Chart 2.3). This slowing has been driven primarily by a softening in goods inflation. Government policies have also played a part, with cost-of-living measures, such as energy rebates, helping to hold down measured inflation.

The pace of inflation remains above the RBA target band, while the drivers of inflation have shifted. Having initially been driven by global goods prices, inflation is now increasingly being driven by a broad-based increase in services inflation. Over three quarters of service expenditure categories in the September quarter 2023 experienced annual inflation above the top of the RBA's target band.

Chart 2.3: Consumer price index



Source: ABS and NSW Treasury

In response, the RBA raised the cash rate by a further 25 basis points to 4.35 per cent in November. This brings the cumulative increase in the cash rate since May 2022 to 4.25 percentage points. While an increase was expected at the time of the Budget, this decision reinforced the RBA's intolerance to upside inflationary risks. The evolution of the inflation outlook will be significant for interest rates moving forward.

2.2 The NSW economic outlook

Global growth is expected to be subdued

The outlook for the global economy remains subdued. According to the International Monetary Fund (IMF), economic growth in advanced economies is expected to slow to 1.5 per cent and 1.4 per cent in 2023 and 2024 respectively, from 2.6 per cent in 2022. Meanwhile, the IMF has revised its forecast for growth in China to 5.0 per cent in 2023 (from 5.2 per cent) and 4.2 per cent in 2024 (from 4.5 per cent).

Inflation is slowing globally but remains elevated relative to the targets of central banks. The IMF expects this will remain the case until 2025, which suggests that central bank interest rates may need to remain higher for longer.

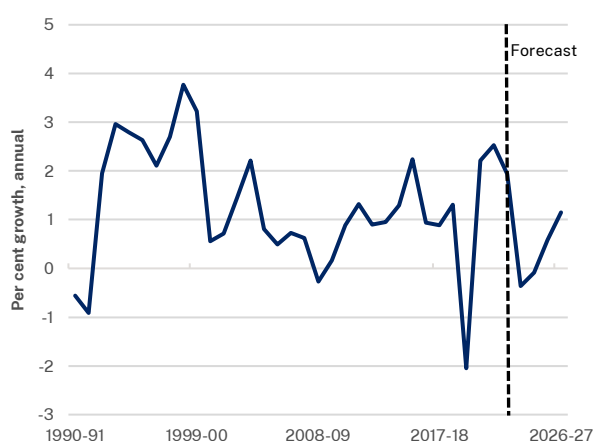
Economic growth is expected to be lower than usual

Economic growth is expected to remain lower than its historical average over the four years to 2026-27 as elevated interest rates continue to constrain demand. However, growth forecasts have been revised slightly higher since the Budget owing to stronger population growth and higher dwellings prices.

Real GSP growth is forecast to be below trend in 2023-24 at 1½ per cent, revised up from 1¼ per cent growth forecast in the Budget. Similarly, real GSP growth is forecast to average 1.8 per cent per annum over the four years to 2026-27, slightly higher than the 1.7 per cent per annum forecast in the Budget. Accounting for the impact of higher population, real GSP per capita is expected to be broadly flat over the next two years before returning to positive growth from 2025-26 (Chart 2.4). This is in line with expectations in the Budget.

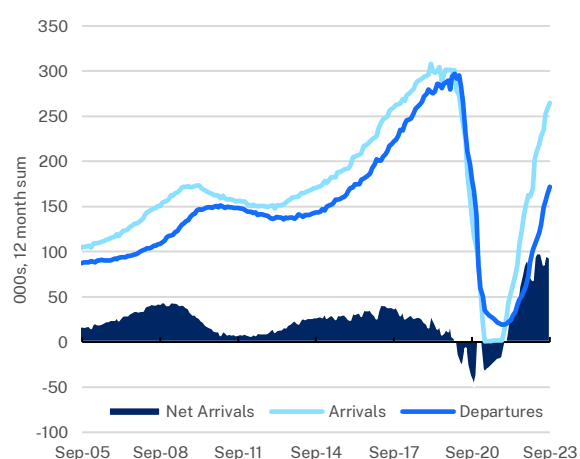
The outlook for dwelling prices has been revised higher in the near term, though the pace of growth is expected to ease over coming months. Reflecting this, the outlook for dwelling construction has been revised slightly higher but is still expected to remain weak in the current fiscal year. This reflects low dwelling approvals, capacity in the construction sector, and cost pressures for residential developers.

Chart 2.4: Real GSP per capita



Source: ABS and NSW Treasury

Chart 2.5: International students in NSW



Source: ABS and NSW Treasury

Household consumption growth is forecast to remain subdued in the near term, largely in line with expectations in the Budget. While higher housing prices in the near term are supporting household consumption through an increase in household wealth, this is being offset by a higher cash rate and continued high inflation.

Despite recent economic headwinds, business investment in New South Wales has continued to be resilient, rising by 11.4 per cent in 2022-23. Looking ahead, business investment should be supported by the recent strength in population growth as well as the ongoing NSW energy transition. The Australian Bureau of Statistics (ABS) capital expenditure survey continues to point to a solid rise in capital expenditure in 2023-24, particularly for non-mining investment.

On balance, the growth in total exports has been revised marginally higher, with net exports expected to make a slightly stronger contribution to GSP growth than at the Budget.

The recovery in international student arrivals has been providing a boost to international education exports, a subcomponent of services exports, in New South Wales. Further strength is expected in the near term on the back of the recent strength in international student arrivals (Chart 2.5).

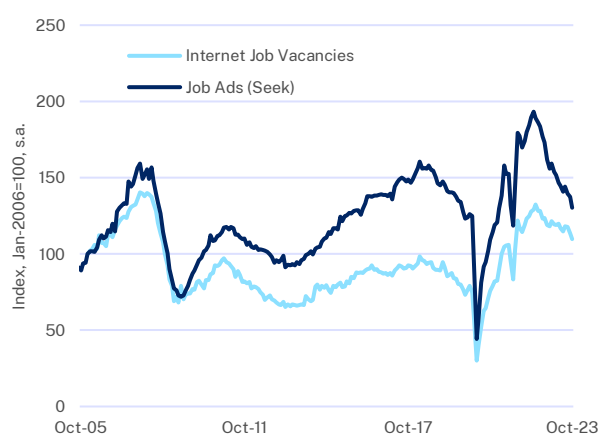
While the outlook for services exports is positive, rural exports are expected to fall from recent highs, reflecting an expected deterioration in climate conditions.

Labour market conditions are expected to soften

Leading indicators point to a further softening in demand for labour, and with it employment growth, over coming months. Job advertisements and vacancies are now well down from their recent peaks (Chart 2.6), while business surveys and the RBA's liaison program all suggest that hiring intentions are on the decline.

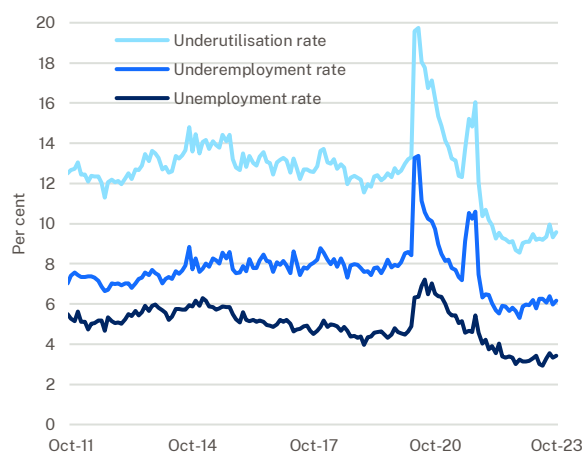
Despite this, employment is still expected to rise modestly, consistent with the 'soft landing' for the economy expected at the time of the Budget. This reflects an expectation that firms will be slow to reduce staffing levels given earlier difficulties in obtaining suitable staff.

Chart 2.6: NSW labour demand leading indicators



Source: Seek Job Ads, Jobs and Skills Australia Job Vacancies and NSW Treasury

Chart 2.7: NSW labour market 'slack'



Source: ABS and NSW Treasury

The unemployment rate is forecast to continue to steadily rise, reaching a peak of around 4½ per cent by mid-2025. The softer growth in employment is not expected to keep pace with the anticipated increase in labour supply due to strong population growth and elevated rates of workforce participation.

Meanwhile, recent and historical trends suggest that reluctance to lose underutilised staff will see the underemployment rate — workers who want to work more hours — grow alongside the unemployment rate as the economy slows (Chart 2.7).

Further ahead, it is expected that employers will seek out gains in labour productivity, after the soft pace of productivity growth, on average, over the past five years. This is expected to see employment growth increase more slowly than the recovery in broader economic activity.

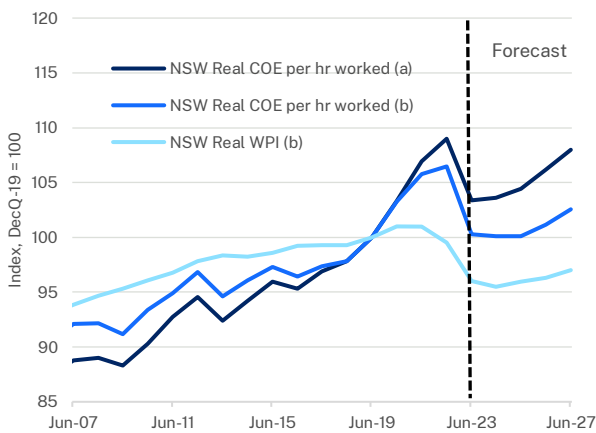
Despite the expected rise in unemployment, the labour market is forecast to remain sufficiently tight to support wages growth. The Fair Work Commission’s decision to increase minimum and award wages has flowed through as expected in the September quarter, resulting in the NSW wage price index (WPI) being 3.8 per cent higher through the year, the highest growth since 2011.

While partial indicators suggest that wages growth may be near its peak, as was the case at the Budget, it is still expected to pick up a little to a peak of 4.0 per cent in 2023-24.

Real wages, as calculated by the WPI deflated by Sydney CPI, is around 5 per cent below pre-COVID levels (Chart 2.8). Real wages rose 0.4 per cent in the September quarter 2023. This was the first quarterly lift in real wages, on this measure, since the September quarter 2021. This is expected to continue as wages growth outpaces inflation across the forecast horizon.

By contrast, broader measures of wages, such as average compensation of employees (a measure of remuneration that includes bonuses, overtime and allowances, as well as promotions and compositional shifts in employment) suggests that the purchasing power of households, on average, has been broadly maintained relative to the pre-COVID trend.

Chart 2.8: NSW real wages



- (a) Deflated by NSW household consumption deflator
- (b) Deflated by Sydney CPI

Source: ABS and NSW Treasury

Chart 2.9: Australian inflation expectations^(a)



- (a) 1-year is average expectations for consumers, union officials, and market economists. 2-year is average of union official and market economists.

Source: RBA and NSW Treasury

Inflation is expected to ease

Goods inflation is expected to ease further from the December quarter 2023 onwards, while services inflation is forecast to remain persistent for longer. This has seen a slight upward revision to the forecast for overall inflation in 2024-25.

Measures of inflation expectations, though well below their recent peaks, have stayed somewhat elevated (Chart 2.9). For the next two years expectations remain around 3 per cent, suggesting that market participants and consumers anticipate that it will be some time before inflation returns to the RBA's target.

2.3 Risks to the economic outlook

Risks to the outlook, while elevated, have recently eased with economic data remaining consistent with a 'soft landing' for the economy. The main uncertainties facing the outlook continue to revolve around:

- the path of inflation back to central bank targets, and the impact this could have for the path of interest rates
- the severity of the lagged impacts on the economy from sharp increases in interest rates over the past 20 months.

Geopolitical tensions have risen since the Budget, with the wars in Ukraine and the Middle East presenting increasing risks of disruptions to energy markets, with implications for inflation.

Climate risks also exist, including the potential for a more severe El Niño weather event for the east coast of Australia. A hot and dry summer could heighten the risk of water restrictions and bushfires, which adversely affect communities. Prolonged dry conditions could threaten the agriculture sector and impact markets for food.

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3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

The budget result in 2023-24 is estimated to be \$9.6 billion in deficit. This result is a \$1.7 billion deterioration due to increased interest expenses, weaker than expected investment returns and a reduction in Australian Government grants for infrastructure.

The State remains on track to return to a budget surplus in 2024-25 (\$475 million) with a projected average surplus of \$0.7 billion over the three years to 2026-27. This is \$0.7 billion lower than projected at the Budget.

New spending decisions made by the NSW Government have had a minor impact on the budget position over the forward estimates. The changes in the budget result are primarily driven by increased projections for interest expenses and downward revisions to forecast revenue. Revenue revisions arise through lower GST payments, lower Australian Government grants for infrastructure and volatile global financial markets driving weaker than expected investment fund performance. See section 3.2 for further information on the State's revenue forecasts.

Table 3.1 below provides a high-level reconciliation of the revised budget result estimates from the Budget.

Table 3.1: *General government sector operating position and outlook reconciliation – 2023-24 Budget to 2023-24 Half-Yearly Review^(a)*

	2023-24 Budget	2024-25	2025-26 Forward Estimates	2026-27
	\$m	\$m	\$m	\$m
Budget result - 2023-24 Budget	(7,847)	844	1,582	1,508
<i>Changes from the 2023-24 Budget to 2023-24 Half-Yearly Review</i>				
• Revenue (\$m)	(1,325)	490	506	(491)
• Expenses (\$m)	(383)	(859)	(869)	(729)
<i>Total budget result impact</i>	<i>(1,708)</i>	<i>(369)</i>	<i>(363)</i>	<i>(1,220)</i>
Budget result - 2023-24 Half-Yearly Review	(9,555)	475	1,219	288
<i>Underlying Budget Result (\$m) (without net impact of NGF investment returns)</i>	<i>(9,632)</i>	<i>(341)</i>	<i>222</i>	<i>(943)</i>

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

Gross debt is projected to increase by \$3.2 billion (0.4 per cent of gross state product) to \$189.9 billion by June 2027. This is primarily driven by a reduction in Australian Government grants for infrastructure and an increase in interest expenses over the forward estimates. Net debt projections have been revised to 13.1 per cent by June 2027.

Since the Budget, the State's credit ratings have either been reaffirmed or maintained. See Box 3.1 for more information on credit ratings.

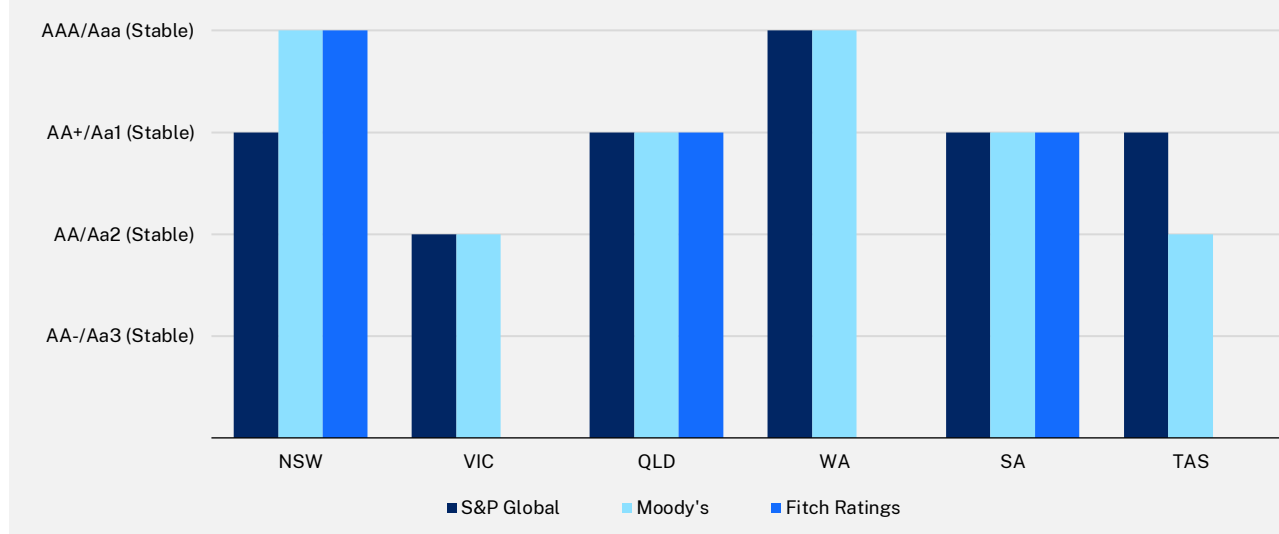
Box 3.1: Effective financial management supports a strong credit rating

Since the 2023-24 Budget, New South Wales has been reviewed by all three credit rating agencies.

In October 2023, Moody's re-affirmed the State's triple-A rating, citing sound management of finances and a large diverse economy. Also in October 2023, Fitch re-affirmed the State's triple-A rating, noting the robust economy.

In November 2023, S&P Global maintained the State's double-A plus rating noting the diverse economy, financial management and liquidity as positives. Overall, New South Wales is still one of the highest rated states in Australia (see Chart 3.1).

Chart 3.1: Australian State Credit Ratings



3.2 Revenue outlook

Since the 2023-24 Budget, total revenue is projected to be \$1.3 billion lower in 2023-24 and \$819.7 million lower over the four years to 2026-27.

The main drivers of the lower forecasts are downward revisions to GST revenue and the Australian Government's withdrawal of funding for several projects in response to its *Independent Strategic Review of the Infrastructure Investment Program – Executive Summary*. This has been partially offset by improvements in transfer duty and land tax due to stronger property market conditions, and higher interest revenue reflecting an upgraded outlook for interest rates.

Table 3.2 provides a summary of revenue in the general government sector.

Table 3.2: General government sector revenue

	2022-23 Est. Actual \$m	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward \$m	2025-26 Estimates \$m	2026-27 Estimates \$m	% Average growth p.a. 2022-23 to 2026-27
Revenue from transactions							
Taxation	39,747	44,862	45,001	47,269	48,678	50,248	6.0
Grant revenue (including GST)	45,572	46,617	45,920	47,946	47,985	47,871	1.2
Sales of goods and services	9,700	10,603	10,479	10,741	10,417	10,568	2.2
Interest income	545	504	664	540	458	493	(2.5)
Dividends and income tax equivalents from other sectors	483	752	774	882	1,337	1,316	28.5
Other dividends and distributions	1,467	2,637	1,868	3,238	3,630	4,036	28.8
Royalties	4,658	3,216	3,057	3,737	3,239	2,949	(10.8)
Fines, regulatory fees and other revenues	3,730	3,189	3,292	3,444	3,469	3,598	(0.9)
Total revenue	105,901	112,379	111,054	117,797	119,212	121,081	3.4
Annual change	2.3%	6.1%	4.9%	6.1%	1.2%	1.6%	

Table 3.3: Revenue reconciliation – 2023-24 Budget to 2023-24 Half-Yearly Review

	2023-24 Budget \$m	2024-25 Forward \$m	2025-26 Forward \$m	2026-27 Forward \$m	Four years to 2026-27 \$m
Revenue - 2023-24 Budget	112,379	117,307	118,706	121,571	469,964
<i>Policy changes since 2023-24 Budget</i>					
Revenue measures	...	...	...	...	...
Revenue related to expense and capital measures	128	155	114	88	485
Total policy measures	128	155	114	88	485
<i>Parameter changes and other variations since Budget</i>					
Taxation					
Transfer duty	89	335	280	253	957
Payroll tax	(80)	49	67	68	104
Land tax	99	434	611	622	1,765
Other taxes	31	(23)	(17)	9	0
Grant revenue					
GST (including no worse off payments)	(386)	(327)	(335)	(811)	(1,859)
Other general purpose grants	7	...	...	...	7
National Agreement payments	...	...	...	...	...
Federation Funding Agreements	(392)	(164)	(276)	(541)	(1,373)
Other grant revenue	(50)	(24)	(0)	(64)	(138)
Sale of goods and services	(124)	(5)	(19)	(25)	(173)
Interest income	158	99	59	32	348
Dividends and income tax equivalents from other sectors	23	66	221	105	414
Other dividends and distributions	(769)	(47)	(54)	(66)	(936)
Royalties	(159)	20	(65)	(77)	(282)
Fines, regulatory fees and other revenues	101	(77)	(80)	(83)	(138)
Total parameter changes and other variations	(1,453)	335	392	(579)	(1,305)
Total changes since 2023-24 Budget	(1,325)	490	506	(491)	(820)
Revenue - 2023-24 Half-Yearly Review	111,054	117,797	119,212	121,081	469,144

(a) The total figures quoted in “Federal Funding Agreement Payments”, “Sales of Goods and Services” and “Interest Income” on page 20 won’t reconcile with the figures presented for these categories in Table 3.3 as part of the movement for these categories is also reflected in the “Revenue related to expense and capital measures” in Table 3.3.

Taxation revenue

Since the 2023-24 Budget, forecast state taxation revenue has been revised up by \$138.6 million in 2023-24 and \$2.8 billion over the four years to 2026-27, driven primarily by higher property and land prices.

Table 3.4: Taxation revenue

	2022-23 Est. Actual \$m	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 \$m	2025-26 Forward Estimates \$m	2026-27 \$m	% Average growth p.a. 2022-23 to 2026-27
Stamp duties							
Transfer duty	9,712	11,737	11,826	12,133	12,182	12,449	6.4
Insurance	1,465	1,559	1,559	1,651	1,746	1,847	6.0
Motor vehicles	1,076	1,149	1,254	1,314	1,379	1,460	7.9
Other	0	0	0	0	0	0	
	12,253	14,445	14,639	15,098	15,307	15,756	6.5
Payroll tax	11,551	12,654	12,574	13,217	14,022	14,837	6.5
Taxes on Land							
Land tax	5,999	6,948	7,047	7,734	7,740	7,562	6.0
Property tax	2	16	12	12	11	10	49.5
	6,001	6,965	7,060	7,745	7,750	7,572	6.0
Taxes on motor vehicle ownership and operation							
Weight tax	2,682	2,998	2,972	3,234	3,446	3,631	7.9
Vehicle transfer fees	53	56	56	60	62	65	5.1
Other motor vehicle taxes	45	48	48	52	55	58	6.6
	2,780	3,101	3,075	3,346	3,563	3,753	7.8
Gambling and betting taxes							
Racing	371	395	349	372	392	411	2.6
Club gaming devices	939	921	921	946	975	1,001	1.6
Hotel gaming devices	1,293	1,337	1,336	1,451	1,564	1,682	6.8
Lotteries and lotto	561	516	530	532	546	560	(0.0)
Casino	195	235	185	207	218	229	4.1
Other gambling & betting	17	18	15	16	17	18	2.0
	3,374	3,421	3,336	3,524	3,710	3,900	3.7
Other taxes and levies							
Health insurance levy	236	253	258	270	287	303	6.4
Parking space levy	95	102	122	128	133	136	9.3
Emergency services levy contributions	1,171	1,392	1,392	1,335	1,204	1,178	0.1
Emergency services council contributions	220	211	212	191	187	189	(3.7)
Waste and environment levy	873	894	899	940	971	998	3.4
Government guarantee fee	324	390	380	450	489	540	13.7
Private transport operators levy	67	70	70	76	83	89	7.5
Pollution control licences	19	18	35	18	18	18	(1.3)
Other taxes	783	946	951	930	953	979	5.7
	3,789	4,277	4,318	4,338	4,325	4,430	4.0
Total taxation revenue	39,747	44,862	45,001	47,269	48,678	50,248	6.0
<i>Annual change</i>	1.9%	12.9%	13.2%	5.0%	3.0%	3.2%	

Transfer duty

Transfer duty revenue has been revised up by \$956.5 million over the four years to 2026-27. Residential property prices have increased by more than expected, despite the rise in mortgage interest rates over recent months. Price growth has been supported by historically low rental vacancy rates and strong population growth boosting demand for housing. Growth in transaction volumes is expected to continue in the near term, albeit at a slower rate than previously anticipated.

Motor vehicle stamp duty

Motor vehicle registration duty has been revised up by \$468.0 million over the four years to 2026-27, supported by strong growth in new motor vehicle registrations. The unwinding of supply chain issues following the pandemic has been making it easier to purchase a car following a period of pent-up demand. Wealth effects associated with higher house prices are also feeding into stronger new vehicle sales.

Payroll tax

Payroll tax has been revised down by \$80.0 million in 2023-24 due to weaker employment and wages growth. Over the forward estimates, payroll tax has been revised up by \$184.2 million reflecting stronger employment growth in 2024-25.

Land tax

Forecast land tax revenue has been revised up by \$1.8 billion in the four years to 2026-27 reflecting higher average land values than previously forecast.

Taxes on motor vehicle ownership and operation

Taxes on motor vehicle ownership and operation has been revised down by \$114.7 million over the four years to 2026-27, driven by weaker-than-expected weight tax collections in the first few months of 2023-24.

Gambling and betting taxes

Gambling and betting taxes has been revised down by \$314.3 million over the four years to 2026-27, as cost-of-living pressures weigh on household budgets leading to less betting activity.

Grant revenue

GST revenue

GST revenue (including no worse off payments) has been revised down by \$1.9 billion over the four years to 2026-27, driven by a lower taxable share of consumption flowing through to a lower national GST pool. This reflects the impact of high inflation and rising interest rates on discretionary household spending, as households prioritise essential goods and services in response to tightening household budgets.

On 6 December 2023, National Cabinet agreed to extend the GST No Worse Off Guarantee in its current form for three years from 2027-28.

Federation Funding Agreement payments

Revenue from Federation Funding Agreements is estimated to be \$930.0 million lower since the 2023-24 Budget over the four years to 2026-27. This decrease is mainly driven by a decrease in funding for transport infrastructure projects following the Australian Government's announcement to withdraw funding for several projects in response to the Independent Strategic Review of the Infrastructure Investment Program. This is partially offset by an increase of \$319.6 million over the four years to 2026-27 due to increased Australian Government payments for Vocational Education and Training activity, including for the new National Skills Agreement finalised in October 2023.

Non-taxation revenue

Sales of goods and services

Sales of goods and services has been revised down by \$167.2 million over the four years to 2026-27, mainly due to the delayed closing of the Fair Go For Safe Drivers Scheme and lower than expected motor vehicle registration fees.

Interest income

Interest income is expected to be \$382.2 million higher over the four years to 2026-27, largely reflecting increased interest rates and higher cash balances.

Dividends and income tax equivalents

Over the four years to 2026-27, dividends and income tax equivalents are forecast to be \$414.3 million higher compared with the 2023-24 Budget following the reprofiling of capital projects (see Chapter 3.6 Commercial performance in the broader public sector).

Other dividends and distributions

Estimated revenue from other dividends and distributions has been revised down by \$935.9 million over the four years to 2026-27, mainly reflecting financial market volatility in September and October 2023.

Mineral royalties

Mineral royalties have been revised down by \$281.9 million over the four years to 2026-27, driven by lower global thermal coal prices. This is in response to an increase in China's domestic coal production and an anticipated warmer-than-usual Northern Hemisphere winter pushing down energy demand. Export volumes have also been revised down due to weaker demand from major export partners in Asia. This downgrade is partially offset by a weaker Australian dollar.

3.3 Expenses outlook

The Government continues to maintain a disciplined approach to expenses. Expenses are projected to be \$120.6 billion in 2023-24, 0.3 per cent higher than the expectation in the 2023-24 Budget. This small uplift is mainly attributed to the signing of the National Skills Agreement and higher interest expenses associated with higher forecast bond yields.

Table 3.5: General government sector expenses by category and year

	2022-23	2023-24	2023-24	2024-25	2025-26	2026-27	% Average growth p.a. 2022-23 to 2026-27
	Est. Actual \$m	Budget \$m	Revised \$m	Forward Estimates \$m			
Employee	42,490	43,530	44,017	46,041	47,543	49,558	3.9
Superannuation	5,642	5,780	5,997	6,034	6,086	6,142	2.1
Depreciation & Amortisation	7,884	8,551	8,602	8,802	9,223	9,815	5.6
Interest	4,232	5,501	6,001	6,584	7,082	7,736	16.3
Other Operating Expense	28,765	28,738	28,831	26,099	25,764	25,968	(2.5)
Grants, Subsidies and Other Transfers	27,454	28,125	27,162	23,762	22,295	21,574	(5.8)
Total expenses	116,467	120,227	120,610	117,322	117,993	120,793	0.9
Annual change %	(2.0)	3.2	3.6	(2.7)	0.6	2.4	n.a.

The Government remains on track to be within its expense growth target under the *Fiscal Responsibility Act 2012*.

Table 3.6: Expense reconciliation – 2023-24 Budget to 2023-24 Half-Yearly Review

	2023-24	2024-25	2025-26	2026-27
	Revised \$m	Forward Estimates \$m		
Expenses – 2023-24 Budget	120,227	116,463	117,124	120,063
Policy measures - new expenses	293	267	224	161
Policy measures - savings and offsets ^(a)	(124)	(96)	(96)	(63)
Parameter and other budget variations	214	688	740	631
Expenses – 2023-24 Half-Yearly Review^(b)	120,610	117,322	117,993	120,793

(a) The savings and offsets line does not include the revenue impacts of the National Skills Agreement. This revenue measure offsets \$443.5 million of new expenses between 2023-24 and 2026-27.

(b) As noted in the 2023-24 Budget (Chapter 5 of Budget Paper No. 1 *Budget Statement*), the total estimated expenses include an annual allowance for the established tendency for parameter and technical adjustments (PTAs) to increase expenses over time, along with an allowance for the established tendency of expenditure to slip and be carried forward to future years (Carry Forwards).

New policy measures since the 2023-24 Budget have increased expenses by \$945.4 million to 2026-27. This is partially offset by \$378.5 million in measures that reduce or offset costs. The material new policy measures since the Budget include:

- the NSW Government signing the National Skills Agreement, which is a 5-year joint agreement between the Australian Government, states and territories to strengthen the vocational education and training sector (\$314.6 million in expenses to 2026-27, which is fully offset by Australian Government revenue)
- paying student police officers while they study at the Goulburn Police Academy (\$168.3 million in expenses to 2026-27)
- additional TAFE NSW funding to support its operations (\$130.8 million in expenses to 2026-27, of which \$72.1 million is funded from the National Skills Agreement)

- delivering the extension of the Australian Government’s Fee Free TAFE program (\$128.9 million in expenses to 2026-27, which is fully offset by Australian Government revenue)
- upgrading the Department of Education’s Human Capital Management program and its core payroll, finance and reporting system (\$91.2 million in expenses to 2026-27)
- establishing the NSW Drought Ready and Resilient Fund loan facility (\$45.6 million in expenses to 2026-27)
- recruiting an additional 20 firefighters this financial year (\$18.2 million in expenses to 2026-27).

Since the 2023-24 Budget, the majority of increased expenses are associated with parameter and other budget variations (\$2.3 billion to 2026-27). The largest upward revisions are due to higher forecast bond yields flowing into higher:

- interest expenses¹ (upwards revision of \$2.7 billion to 2026-27)
- defined benefit superannuation costs (upwards revision of \$359.0 million to 2026-27).

This is partially offset by lower projected grant expenses in 2023-24.

3.4 Capital expenditure outlook

The State’s infrastructure program (including State-Owned Corporations) is projected to be \$117.0 billion over the four years to 2026-27, broadly in line with the Budget. The general government sector capital program is projected to be \$85.9 billion over the four years to 2026-27 (see Table 3.7).

There have been significant changes to Australian Government funding for infrastructure projects since the Budget. In response to the *Independent Strategic Review of the Infrastructure Investment Program – Executive Summary*, the Australian Government withdrew funding for 17 projects in New South Wales, with an estimated \$3.2 billion loss in project funding (see Box 1.1 in Chapter 1 Overview).

The sustained high level of infrastructure investment across Australia continues to present challenges to both project deliverability and affordability. Local and global supply constraints for key materials alongside high freight costs and skilled trade shortages means more competition for these scarce resources, driving cost escalation.

The Government is implementing the Strategic Infrastructure Review’s key recommendations, including stronger central oversight and coordination of the infrastructure program and strengthening of the alignment between infrastructure planning and housing completions.

Sydney Metro West is a once-in-a-generation investment that provides an opportunity to shape the future of the city and increase the delivery of new housing supply along the Sydney Metro West alignment.

The Government is exploring options to expand the alignment to include potential additional stations west of Sydney Olympic Park. The Government announced in November 2023 that it has signed a Memorandum of Understanding with the Australian Turf Club to explore the opportunity of delivering a new station and residential community of 25,000 homes on the site of the Rosehill Racecourse.

Table 3.7 provides a reconciliation of capital expenditure between the 2023-24 Budget and the Half-Yearly Review.

¹ Interest expenses are primarily driven higher by the Infrastructure Investment Program Strategic Review as well as SiCorp’s insurance and compensation schemes.

Table 3.7: General government capital reconciliation – 2023-24 Budget to 2023-24 Half-Yearly Review

	2023-24 Revised \$m	2024-25 \$m	2025-26 Forward Estimates \$m	2026-27 \$m
Capital – 2023-24 Budget	22,227	22,973	20,456	19,919
Variations since 2023-24 Budget	69	56	169	11
Capital – 2023-24 Half-Yearly Review^(a)	22,296	23,029	20,624	19,930

(a) Includes reprofiling of capital expenditure across years to align with revised project delivery schedules. This also includes an allowance for the established tendency for capital expenditure to slip each year due to multiple factors including market capacity constraints and supply chain disruptions. For further information see Appendix D – Fiscal Risks.

Since the 2023-24 Budget, additional investments in the following projects have occurred:

- \$100.0 million for the upgrading of Richmond Road north of the Elara Boulevard (New South Wales and Australian Government funded)
- \$40.0 million for the Western Distributor Smart Motorway (New South Wales and Australian Government funded).

3.5 Managing the State’s assets and liabilities

The Government continues to manage its balance sheet prudently, despite significant pressure from external factors.

Since the Budget, gross debt² projections have been revised up by \$3.2 billion (0.4 per cent of GSP) to \$189.9 billion by June 2027 (21.2 per cent of GSP). This increase is primarily driven by lower Australian Government grants for infrastructure and increased interest expenses.

Since the Budget, net debt projections have also been revised up by \$2.2 billion to \$94.9 billion by June 2024 (see Table 3.8).

Table 3.8: Net debt reconciliation

	June 2024 \$m	June 2025 \$m	June 2026 \$m	June 2027 \$m
Net Debt – 2023-24 Budget	92,624	100,974	107,815	113,571
Variations in gross debt	1,857	1,652	1,953	3,186
Variations in financial assets included in the calculation of net debt	(384)	(706)	(903)	(1,153)
Net Debt – 2023-24 Half-Yearly Review	94,864	103,332	110,671	117,911
<i>Per cent of GSP</i>	<i>11.9</i>	<i>12.6</i>	<i>13.0</i>	<i>13.1</i>
Gross Debt – 2023-24 Half-Yearly Review	147,645	161,162	175,326	189,874
<i>Per cent of GSP</i>	<i>18.5</i>	<i>19.7</i>	<i>20.6</i>	<i>21.2</i>

² Gross debt is the financial liability included in the calculation of net debt. It includes deposits held, borrowings and derivatives at fair value, borrowings at amortised cost and advances received.

Financial assets included in the calculation of net debt³ (such as the State's investment funds) are projected to be \$52.8 billion at June 2024, \$0.4 billion lower than estimated at the 2023-24 Budget. Weaker than expected fund performance in September and October 2023, driven by volatility in global financial markets, has impacted the year-to-date returns for the State's investment funds (see Table 3.9).

Table 3.9: State investment funds as of 31 October 2023

	Inception Date	Fund Balance \$b	Investment Objective %	FYTD Returns ^(a) %	Returns since Inception ^(b) %
NSW Generations Fund	Nov-18	15.8	CPI + 4.5 ^(c)	(1.8)	5.6
NSW Infrastructure Future Fund	Dec-16	7.5	CPI + 2.0	0.2	3.7
Social and Affordable Housing Fund	Aug-17	1.5	CPI + 4.0	(1.8)	5.6
Treasury Managed Fund	Mar-99	15.7	CPI + 3.5	(2.2)	6.5
Snowy Hydro Legacy Fund	Dec-21	1.7	CPI + 1.0	1.0	(1.5)
Long Service Corporation Investment Fund	Nov-13	2.2	AWOTE ^(d) +1.0	(2.2)	5.8

(a) FYTD: Financial Year to Date.

(b) Annualised.

(c) CPI: Consumer Price Index.

(d) AWOTE: Average Weekly Ordinary Time Earnings (AWOTE), this reflects increases in wage inflation.

Interest expenses are projected to be \$7.7 billion in 2026-27 (6.4 per cent of revenue), \$0.8 billion higher than estimated at the 2023-24 Budget. This is primarily driven by gross debt revisions and higher cost of borrowings since the Budget, with the TCorp 10-year bond yield rising to over 5.0 per cent in October and November 2023. Rising interest expenses continue to pressure the Government's operating position.

In 2023-24, net cash flows from operating activities have been revised down by \$0.6 billion to a \$0.5 billion deficit since the Budget, primarily driven by lower projected cash receipts. There is a technical correction of approximately \$1.4 billion in repayment of borrowings and purchases of non-financial assets within the cash flow statement. This correction has no material impact on borrowings in 2023-24.

Net worth is projected to be \$355.7 billion by June 2024, \$35.1 billion higher than in the 2023-24 Budget. This is primarily driven by a change in the asset valuation methodology of Transport Asset Holding Entity of NSW to reflect the transition from its current operating model as a statutory State-Owned Corporation with a commercial imperative to a non-commercial Public Non-Financial Corporation.

³ Financial assets included in the calculation of net debt include cash and cash equivalents, financial assets at fair value, other financial assets and advances paid.

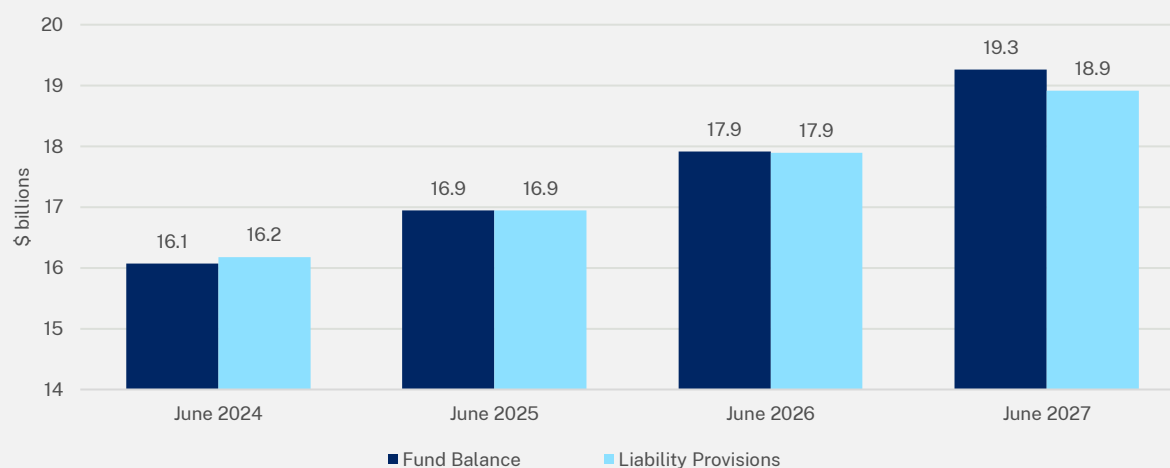
Box 3.2: Managing the State's self-insurance scheme

The State self-insures its assets and certain liability risks through the Treasury Managed Fund, which icare administers.

This scheme continues to face pressures, contributing to a \$0.9 billion deterioration in the budget result over the four years to 2026-27 since the 2023-24 Budget.

The Government actively manages scheme funding and will continue to ensure the scheme is adequately capitalised to meet all future costs when they fall due (see Chart 3.2).

Chart 3.2: Treasury Managed Fund balance and liability provisions



3.6 Commercial performance in the broader public sector

Commercial operations of the public sector are guided by a Commercial Policy Framework and delivered through agencies in the public non-financial corporation (PNFC) sector and the public financial corporation (PFC) sector.

Dividends and tax equivalent payments

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

In 2023-24, dividend and tax equivalent payments are forecast at \$815.2 million, which is \$24.5 million higher compared to the 2023-24 Budget. Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be \$4.5 billion, which is \$394.1 million higher compared with the 2023-24 Budget.

Table 3.10 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors from 2023-24 to 2026-27.

Table 3.10: Dividend and tax equivalent payments from the PNFC and PFC sectors

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forecast \$m	2025-26 Estimates \$m	2026-27 Estimates \$m
Public non-financial corporation					
Essential Energy	16	14	22	38	54
Forestry Corporation of NSW	3	3	8	13	41
Hunter Water Corporation	56	57	45	66	83
Landcom ^(a)	24	26	27	21	29
Port Authority of NSW	48	51	56	58	51
Sydney Water Corporation	361	377	458	860	747
WaterNSW	61	58	62	62	75
Public financial corporation					
NSW Treasury Corporation	183	186	203	219	236
Total Dividend and Tax Equivalent Payments in Revenue from Transactions section	752	774	882	1,337	1,316
Public non-financial corporation					
Landcom	39	43	40	34	48
Total Dividends in Other Economic Flows section^(b)	39	43	40	34	48
TOTAL DIVIDEND AND TAX EQUIVALENT PAYMENTS	791	815	922	1,371	1,364

(a) Landcom's returns classified under the 'Revenue from Transactions' section in the General Government Operating Statement relate to tax equivalent payments.

(b) Dividends paid by Landcom across the four years to 2026-27 are classified as income within the 'Other Economic Flows' section of the General Government Operating Statement, rather than the 'Revenue from Transactions' section.

Capital expenditure

In 2023-24, capital expenditure within the PNFC sector is forecast to be \$7.3 billion, which is \$352.3 million lower than the 2023-24 Budget. This variance is primarily attributable to a reprofiling of Sydney Water and WaterNSW projects.

Capital expenditure within the sector over the budget and forward estimates period is estimated to be \$31.1 billion, in line with the 2023-24 Budget.

A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

A.1 Scope of the Estimated Financial Statements for the General Government Sector

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

The GGS comprises government agencies controlled by the State that:

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

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

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

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

The 2023-24 Budget information included in the GGS Estimated Financial Statements reflects the original budget tabled in Parliament on 19 September 2023. The revised budget estimates relate to the current year ending 30 June 2024, and estimates for the three forward years ending 30 June 2025, 2026 and 2027.

Basis of preparation

The GGS Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2023-24 Budget and based on the assumptions outlined below.

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

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

The revised GGS estimates for the 2023-24 financial year are based on updated year-end projections provided by agencies. They have been prepared to take into account economic and financial data available to NSW Treasury as at 6 December 2023.

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

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

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

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

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

Accounting policies

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

The GGS Estimated Financial Statements follow the presentation and principles in the 2023-24 Budget. The revised estimates have been prepared in accordance with the accounting policies expected to be used in the preparation of the *Total State Sector Accounts* for 2023-24.

Except for the matters set out below under: *Changes in accounting policies*, the accounting policies applied in preparing the GGS Estimated Financial Statements are not materially different from those applied in the audited 2021-22 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors*.

Note 1 Statement of Significant Accounting Policies of the 2021-22 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenue, expenses, other comprehensive income, assets and liabilities.

Changes in accounting policies

Changes in AAS are considered when preparing the GGS Estimated Financial Statements.

The accounting policies applied in the 2023-24 Budget are consistent with those of the previous 2022-23 Budget and the 2021-22 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors*. There are no significant changes to AAS or accounting policies adopted in 2023-24 that materially impact the GGS Estimated Financial Statements.

New accounting standards issued but not effective

AASB 17 Insurance Contracts replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

In December 2022, the Australian Accounting Standards Board (AASB) issued AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector* to include modifications that apply to public sector entities. This standard applies to annual reporting periods beginning on or after 1 July 2026 with earlier application permitted. The estimated impact of AASB 2022-9 on the GGS Estimated Financial Statements has not been sufficiently identified and quantified at this stage and thus not disclosed.

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

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 39 of the 2021-22 *Total State Sector Accounts* and in the Glossary to the 2023-24 *Budget How to Read the Budget Papers*.

Presentation of the GGS Estimated Financial Statements

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

AASB 1049 harmonises Generally Accepted Accounting Principles (GAAP) with Government Financial Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics (ABS).

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

AASB 1049 requirements include the following:

- The statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective
- In the operating statement:
 - the *net operating balance* is the net result of *revenue and expenses from transactions*. Transactions are the result of mutually agreed interactions between parties. It excludes *other economic flows*, which represents changes in the volume or value of assets or liabilities that do not arise from transactions with other entities (and which are often outside the control of government)
 - the *operating result* includes the *net operating balance* and certain *other economic flows*. It is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

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

- where options exist in GAAP, the GGS Estimated Financial Statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS and/or
- where only one approach is allowed in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

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

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

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

Tables may not add in all instances due to rounding.

Presentation changes

There have been no significant presentation changes since the release of the 2023-24 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Material economic and other assumptions

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

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

	2022-23 Outcomes	2023-24 Forecasts	2024-25 Forecasts	2025-26 Projections	2026-27 Projections
New South Wales population (persons) ^(b)	8,332,000	8,471,000	8,581,000	8,690,000	8,798,000
Nominal gross state product (\$million)	777,300	805,900	829,200	863,200	908,100
Real gross state product (per cent)	3.7	1½	1¼	2	2 1/2
Real state final demand (per cent)	4.4	1½	1½	2	2¾
Employment (per cent)	5.8	1½	½	1	1½
Unemployment rate (per cent) ^(c)	3.1	3¾	4½	4½	4¼
Sydney consumer price index (per cent)	7.1	4½	3¼	2¾	2½
Sydney consumer price index excluding tobacco excise effect (per cent)	7.1	4½	3	2¾	2½
Wage price index (per cent) ^(d)	3.3	4	3¾	3¼	3¼
Nominal gross state product (per cent)	10.0	3¾	3	4	5¼

(a) Forecasts are rounded to the nearest quarter point and are annual average per cent change, unless otherwise indicated.

(b) As at 30 June each year. 2022-23 figure remains a NSW Treasury forecast.

(c) As at June quarter, per cent.

(d) Weighted average of private and public sector wages.

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

Summary of other key assumptions

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

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

Revenue from transactions

Taxation revenue

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. Payroll tax, for example, involves an assessment of the outlook for employment and wages, and builds upon NSW Treasury's own forecasts of the relevant macroeconomic indicators. Forecasts of government debt guarantee fees take into account an assessment of the level of debt of public non-financial corporations (PNFCs) 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 Australian Government are based on the latest available information from the Australian Government and projections of timing of payments at the time of preparation of the Half-Yearly Review. This takes into account the conditions, payment timetable, escalation factors relevant to each type of grant and, where relevant, estimated progress against grant obligations.

Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by NSW Treasury. For 2023-24, the GST forecast is based on the assessed relativity for New South Wales in 2023-24 and the Australian Government's population projections. The assessed relativity is based on the three-year average of actual data (2019-20, 2020-21 and 2021-22) as published by the Commonwealth Grants Commission.

Beyond 2023-24, the State's share of GST is based on NSW Treasury's forecast relativities, national GST pool estimates, and the Australian Government's state population projections. NSW Treasury's forecast per capita annual relativities are based on its forecasts of 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 taking into account factors including:

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

Dividend and income tax equivalents from other sectors

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

Other dividends and distributions

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

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

Fines, regulatory fees and other revenues

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

Expenses from transactions

To improve the accuracy of Half-Yearly Review estimates, consistent with longstanding practice and reflecting historic trends, the GGS Estimated Financial Statements include adjustments that:

- account for parameter and technical adjustments expected to be required to maintain service provision on a 'no policy change' basis consistent with the policy set out in TPG2111 NSW Treasury Policy and Guidelines: *Parameter and Technical Adjustments and New Policy Proposals (Measures)*, reflecting the historic conservative bias in aggregate spending estimates
- 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 TPG2205 NSW Treasury Policy and Guidelines: *Carry Forwards Policy*
- 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. These can vary depending on:

- approved wage agreements and other wage determinations in place
- future wage agreements and determinations
- new initiatives
- other policy changes.

Superannuation expense (and liabilities)

Superannuation expense comprises:

- defined contribution plans, the forecast accrued contributions for the period
- 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 Half-Yearly Review and forward estimates period.

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

	2023-24 Forecast %	2024-25 Forecast %	2025-26 Forecast %	2026-27 Forecast %
Liability discount rate ^(a)	4.76	4.45	3.84	3.73
Expected return on investments ^(b)	3.50/3.00	7.00/6.20	7.00/6.20	7.00/6.20
Expected salary increases ^(c)	5.74	3.65	3.20	3.20
Expected rate of CPI	4.50	3.25	2.75	2.50

(a) The liability discount rate is at 30 June for each financial year.

(b) The expected long-term return on investments is 7.0 per cent on assets backing pension liabilities and 6.2 per cent on assets backing non-pension liabilities.

(c) Note that this input includes promotions and other factors, in addition to the expected increase in base salary.

Depreciation and amortisation

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

Depreciation is forecast on:

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

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

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

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

Interest expense

The forecasts for the interest expense are based on:

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

Other operating expenses

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

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

Grants, subsidies and other transfers expenses

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

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

Other economic flows

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

Revaluations

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

Superannuation actuarial gains / losses

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

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

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

Net acquisition of non-financial assets

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

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

Assets

Property, plant and equipment

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

Right-of-use assets are based on the State's best estimate of the timing of renewals of lease arrangements and the impact of depreciation. Service concession assets are measured at estimated current replacement cost.

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

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

- account for capital expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in TPG22-05 NSW Treasury Policy and Guidelines: *Carry Forwards Policy*
- reflect government decisions on capital expenditure that are not yet included in agency estimates, for example due to timing, or because they are commercial in confidence or subject to further requirements.

Liabilities

Borrowings

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

Employee provisions

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

Superannuation provisions

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

Other provisions

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

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B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Framework tables

The NSW Government's 2023-24 Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS). These revised estimates take into account fiscal and economic developments since the Budget.

The Uniform Presentation Framework (UPF) tables have been prepared consistent with the 2023-24 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-AAS reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-5 of 2023-24 Budget Paper No.1 *Budget Statement*.

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

The UPF financial aggregates:

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

Table B.1: General government sector operating statement

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Revenue from Transactions					
Taxation	44,862	45,001	47,269	48,678	50,248
Grants and Subsidies	46,617	45,920	47,946	47,985	47,871
Sale of Goods and Services	10,603	10,479	10,741	10,417	10,568
Interest	504	664	540	458	493
Dividend and Income Tax Equivalents from Other Sectors	752	774	882	1,337	1,316
Other Dividends and Distributions	2,637	1,868	3,238	3,630	4,036
Fines, Regulatory Fees and Other	6,405	6,349	7,181	6,708	6,547
Total Revenue from Transactions	112,379	111,054	117,797	119,212	121,081
Expenses from Transactions					
Employee	43,530	44,017	46,041	47,543	49,558
Superannuation					
Superannuation Interest Cost	1,618	1,657	1,698	1,645	1,534
Other Superannuation	4,162	4,340	4,336	4,442	4,608
Depreciation and Amortisation	8,551	8,602	8,802	9,223	9,815
Interest	5,501	6,001	6,584	7,082	7,736
Other Operating Expense	28,738	28,831	26,099	25,764	25,968
Grants and Subsidies	28,125	27,162	23,762	22,295	21,574
Total Expenses from Transactions	120,227	120,610	117,322	117,993	120,793
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	(7,847)	(9,555)	475	1,219	288

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(667)	513	(198)	(471)	(84)
Other Net Gains/(Losses)	1,218	491	1,429	528	971
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(25)	(25)	(233)	(122)	(291)
Dividends from Asset Sale Proceeds	39	43	40	34	48
Deferred Income Tax from Other Sectors	(103)	(84)	(2)	14	8
Other	(42)	(66)	(42)	(42)	(42)
Other Economic Flows - included in Operating Result	421	871	994	(58)	610
Operating Result	(7,426)	(8,684)	1,469	1,161	898
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result					
Revaluations	4,907	4,895	1,918	1,979	1,859
Remeasurements of Post-Employment Benefits	(1,819)	5,134	(1,314)	(3,204)	111
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(1,312)	32,307	(3,917)	(2,408)	1,654
Deferred Tax Direct to Equity	136	78	66	64	67
Other	20	32	20	19	19
Items that may be Reclassified Subsequently to Operating Result	...	(0)	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	...	(0)	...	...	...
Other Economic Flows - Other Comprehensive Income	1,931	42,446	(3,227)	(3,550)	3,710
Comprehensive Result - Total Change in Net Worth	(5,495)	33,761	(1,758)	(2,389)	4,608
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	(5,495)	33,761	(1,758)	(2,389)	4,608
Less: Net Other Economic Flows	(2,352)	(43,317)	2,233	3,607	(4,320)
Equals: Budget Result - Net Operating Balance	(7,847)	(9,555)	475	1,219	288
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets ^(a)	20,329	20,449	21,405	19,801	18,773
Sales of Non-Financial Assets	(1,267)	(496)	(2,686)	(733)	(563)
Less: Depreciation	(8,551)	(8,602)	(8,802)	(9,223)	(9,815)
Plus: Change in Inventories	(50)	(21)	(9)	0	(2)
Plus: Other Movements in Non-Financials Assets					
Assets Acquired Using Leases ^(a)	809	888	872	528	996
Assets Acquired Using Service Concession Finance Liability Model ^(a)	1,089	959	752	295	161
Grant of Right to the Operator Model	441	441	620	230	...
Other	(1,005)	(816)	(1,218)	(935)	(719)
Equals: Total Net Acquisition of Non-Financial Assets	11,794	12,802	10,934	9,962	8,832
Equals: Net Lending/(Borrowing) [Fiscal Balance]	(19,642)	(22,357)	(10,459)	(8,743)	(8,544)
OTHER FISCAL AGGREGATES					
Capital Expenditure ^(a)	22,227	22,296	23,029	20,624	19,930

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

Table B.2: General government sector balance sheet

	June 2024 Budget \$m	June 2024 Revised \$m	June 2025 \$m	June 2026 Forward Estimates \$m	June 2027 \$m
Assets					
Financial Assets					
Cash and Cash Equivalents	244	281	294	279	249
Receivables	11,691	11,979	11,805	11,721	11,612
Investments, Loans and Placements					
Financial Assets at Fair Value	49,393	48,868	53,600	60,495	68,343
Other Financial Assets	2,533	2,640	2,817	2,761	2,329
Advances Paid	995	992	1,119	1,120	1,043
Tax Equivalents Receivable	61	135	157	344	418
Deferred Tax Equivalent Assets	3,407	3,573	3,637	3,716	3,792
Equity Investments					
Investments in Other Public Sector Entities	125,876	155,114	150,264	147,856	149,510
Investments in Associates	8,831	10,378	10,160	10,038	9,807
Other Equity Investments	15	15	15	15	15
Total Financial Assets	203,046	233,975	233,869	238,346	247,117
Non-Financial Assets					
Contract Assets	499	481	61	61	62
Inventories	1,148	1,329	1,376	1,392	1,394
Forestry Stock and Other Biological Assets	16	11	11	11	11
Assets Classified as Held for Sale	151	327	477	366	173
Property, Plant and Equipment					
Land and Buildings	134,858	133,486	138,235	141,666	144,306
Plant and Equipment	15,097	14,887	14,740	14,452	15,435
Infrastructure Systems	216,252	217,856	227,276	236,586	243,976
Right-of-Use Assets	6,174	6,104	6,121	5,831	5,982
Intangibles	5,472	5,415	5,407	5,148	4,877
Other Non-Financial Assets	1,906	1,528	1,231	1,232	1,233
Total Non-Financial Assets	381,572	381,424	394,936	406,746	417,449
Total Assets	584,618	615,399	628,804	645,092	664,566
Liabilities					
Deposits Held	328	327	328	327	327
Payables	9,876	10,392	10,506	10,654	10,681
Contract Liabilities	848	811	811	814	817
Borrowings and Derivatives at Fair Value	17	10	10	10	9
Borrowings at Amortised Cost	144,999	146,866	160,431	174,636	189,225
Advances Received	445	443	393	354	313
Employee Benefit Liabilities	27,198	26,849	28,127	29,837	31,005
Superannuation Provision ^(a)	42,686	36,652	38,000	41,083	40,644
Tax Equivalents Payable	0	62	62	64	65
Deferred Tax Equivalent Provision	48	45	45	45	46
Other Provisions	16,225	15,922	15,759	15,657	15,731
Other Liabilities	21,342	21,302	20,372	20,040	19,522
Total Liabilities	264,011	259,681	274,844	293,520	308,386
NET ASSETS	320,606	355,718	353,961	351,572	356,180

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

	June 2024 Budget \$m	June 2024 Revised \$m	June 2025 \$m	June 2026 Forward Estimates \$m	June 2027 \$m
NET WORTH					
Accumulated Funds	63,348	70,702	72,259	71,617	74,027
Reserves	257,258	285,016	281,702	279,955	282,153
TOTAL NET WORTH	320,606	355,718	353,961	351,572	356,180
OTHER FISCAL AGGREGATES					
Net Debt^(b)	92,624	94,864	103,332	110,671	117,911
Net Financial Liabilities^(c)	186,841	180,820	191,239	203,030	210,779
Net Financial Worth^(d)	(60,966)	(25,706)	(40,975)	(55,174)	(61,269)

(a) The superannuation provision is reported net of the fair value of fund assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.3: General government sector cash flow statement

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Cash Receipts from Operating Activities					
Taxation	44,825	45,132	47,231	48,670	50,234
Sales of Goods and Services	10,993	10,519	11,118	10,756	10,961
Grant and Subsidies Received	45,963	45,289	47,617	48,062	47,997
Interest	458	577	489	407	389
Dividends and Income Tax Equivalents from Other Sectors	933	732	772	922	1,343
Other	11,140	9,970	9,929	9,369	9,436
Total Cash Receipts from Operating Activities	114,312	112,220	117,156	118,186	120,361
Cash Payments from Operating Activities					
Employee Related	(42,569)	(42,857)	(45,306)	(46,626)	(48,824)
Superannuation	(5,717)	(5,894)	(5,999)	(6,208)	(6,470)
Payments for Goods and Services	(27,966)	(28,020)	(25,155)	(25,473)	(25,511)
Grants and Subsidies	(26,838)	(26,389)	(22,262)	(21,100)	(20,563)
Interest	(4,356)	(4,415)	(4,817)	(5,233)	(5,951)
Other	(6,770)	(5,109)	(4,614)	(4,366)	(4,462)
Total Cash Payments from Operating Activities	(114,210)	(112,684)	(108,154)	(109,006)	(111,782)
Net Cash Flows from Operating Activities	102	(464)	9,002	9,180	8,579
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	1,895	861	3,002	1,039	556
Purchases	(18,845)	(20,351)	(21,074)	(19,664)	(18,690)
Net Cash Flows from Investments in Non-Financial Assets	(16,950)	(19,490)	(18,073)	(18,625)	(18,135)
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	192	141	247	270	737
Payments	(362)	(239)	(226)	(122)	(44)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	(170)	(98)	20	148	693
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	2,372	2,169	4,142	2,906	1,880
Purchase of Investments	(223)	(280)	(5,608)	(5,685)	(5,471)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	2,149	1,889	(1,466)	(2,778)	(3,592)
Net Cash Flows from Investing Activities	(14,971)	(17,699)	(19,518)	(21,255)	(21,033)
Cash Flows from Financing Activities					
Advances (Net)	(55)	(85)	(78)	(164)	(68)
Proceeds from Borrowings	12,174	14,117	12,121	14,344	14,885
Repayment of Borrowings	(3,350)	(1,920)	(1,517)	(2,120)	(2,397)
Deposits (Net)	...	0	1	...	...
Other (Net)	(0)	0	(0)	(0)	(0)
Net Cash Flows from Financing Activities	8,769	12,113	10,527	12,059	12,421
Net Increase/(Decrease) in Cash Held	(6,100)	(6,050)	11	(16)	(33)
Derivation of Cash Result					
Net Cash Flows from Operating Activities	102	(464)	9,002	9,180	8,579
Net Cash Flows from Investments in Non-Financial Assets	(16,950)	(19,490)	(18,073)	(18,625)	(18,135)
Cash Surplus/(Deficit)	(16,848)	(19,954)	(9,071)	(9,446)	(9,555)

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Revenue from Transactions	5,958	5,910	5,435	4,983	5,167
Sale of Goods and Services	8,475	8,475	9,090	9,927	10,404
Interest	112	102	67	64	64
Other Dividends and Distributions	21	21	21	21	21
Fines, Regulatory Fees and Other	657	616	1,068	1,373	1,621
Total Revenue from Transactions	15,224	15,124	15,681	16,368	17,277
Expenses from Transactions					
Employee	2,689	2,756	2,664	2,729	2,760
Personnel Services Expense	331	332	332	345	353
Superannuation					
Superannuation Interest Cost	49	51	46	47	47
Other Superannuation	256	277	278	285	288
Depreciation and Amortisation	3,105	4,074	4,162	4,374	4,473
Interest	1,250	1,137	1,654	1,800	1,957
Income Tax Expense	285	303	318	533	620
Other Operating Expense	6,203	6,007	6,213	6,482	6,491
Grants and Subsidies	74	74	66	66	68
Total Expenses from Transactions	14,241	15,011	15,735	16,661	17,056
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	982	112	(54)	(293)	221

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	...	(1)	...	...	...
Other Net Gains/(Losses)	(205)	(202)	(169)	(161)	(9)
Deferred Income Tax from Other Sectors	103	84	2	(14)	(8)
Other	(3)	(4)	(4)	(4)	(4)
Other Economic Flows - included in Operating Result	(105)	(123)	(171)	(179)	(21)
Operating Result	878	(10)	(225)	(472)	201
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result					
Revaluations	479	30,404	2,150	2,264	2,378
Remeasurements of Post-Employment Benefits	(116)	228	(119)	(228)	(40)
Deferred Tax Direct to Equity	(136)	(78)	(66)	(64)	(67)
Other	(243)	(24)	(0)	...	...
Items that may be Reclassified Subsequently to Operating Result					
Net Gain/(Loss) on Financial Instruments at Fair Value	(0)	...	...	...	...
Other Economic Flows - Other Comprehensive Income	(15)	30,530	1,965	1,972	2,271
Comprehensive Result - Before Transactions with Owners in their capacity as Owners					
Dividends Distributed	(323)	(326)	(401)	(619)	(508)
Net Equity Injections	(196)	(196)	(933)	...	...
Total Change in Net Worth	343	29,998	406	881	1,964
Key Fiscal Aggregates					
Comprehensive Result - Before Transactions with Owners in their capacity as Owners					
Less: Net Other Economic Flows	120	(30,407)	(1,794)	(1,793)	(2,250)
Equals: Budget Result - Net Operating Balance	982	112	(54)	(293)	221
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets ^(a)	7,573	7,221	8,755	7,816	7,030
Sales of Non-Financial Assets	(211)	(217)	(324)	(353)	(266)
Less: Depreciation	(3,105)	(4,074)	(4,162)	(4,374)	(4,473)
Plus: Change in Inventories	393	325	48	295	7
Plus: Other Movements in Non-Financials Assets					
Assets Acquired Using Leases ^(a)	65	65	90	62	76
Assets Acquired Using Service Concession Finance Liability Model ^(a)	...	...	...	...	...
Grant of Right to the Operator Model	...	...	...	...	...
Other	440	413	346	359	360
Equals: Total Net Acquisition of Non-Financial Assets	5,155	3,733	4,752	3,805	2,735
Equals: Net Lending/(Borrowing) [Fiscal Balance]	(4,173)	(3,621)	(4,806)	(4,098)	(2,514)
OTHER FISCAL AGGREGATES					
Capital Expenditure ^(a)	7,638	7,286	8,845	7,878	7,107
Dividends Accrued ^(b)	323	326	401	619	508

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

(b) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

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

	June 2024 Budget \$m	June 2024 Revised \$m	June 2025 \$m	June 2026 Forward Estimates \$m	June 2027 \$m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,497	2,737	1,678	593	406
Receivables	1,702	1,655	1,673	1,904	2,035
Investments, Loans and Placements					
Financial Assets at Fair Value	519	520	520	520	520
Other Financial Assets	767	770	756	711	674
Advances Paid	22	22	26	...	...
Tax Equivalents Receivable	...	62	62	64	65
Deferred Tax Equivalent Assets	48	45	45	45	46
Total Financial Assets	5,556	5,810	4,760	3,837	3,746
Non-Financial Assets					
Contract Assets	14	13	...	...	...
Inventories	1,028	959	1,008	1,303	1,310
Forestry Stock and Other Biological Assets	626	626	626	626	626
Assets Classified as Held for Sale	6	10	10	10	10
Investment Properties	606	612	606	606	606
Property, Plant and Equipment					
Land and Buildings	85,914	95,178	96,132	97,760	99,107
Plant and Equipment	5,106	5,905	6,534	6,911	7,346
Infrastructure Systems	56,110	70,334	74,594	78,336	81,871
Right-of-Use Assets	4,015	4,021	3,858	3,663	3,482
Intangibles	1,241	1,374	1,596	1,764	1,865
Other Non-Financial Assets	410	417	425	426	330
Total Non-Financial Assets	155,076	179,449	185,388	191,406	196,553
Total Assets	160,632	185,260	190,148	195,242	200,298
Liabilities					
Deposits Held	35	33	33	33	33
Payables	2,484	2,234	2,605	2,545	2,555
Contract Liabilities	92	145	169	166	187
Borrowings and Derivatives at Fair Value	3	3	3	3	3
Borrowings at Amortised Cost	36,907	36,448	40,341	43,953	46,985
Advanced Received	282	282	267	250	232
Employee Benefit Liabilities	1,285	1,267	1,274	1,303	1,332
Superannuation Provision ^(a)	1,278	1,017	1,088	1,265	1,251
Tax Equivalents Payable	47	130	146	333	406
Deferred Tax Equivalent Provision	3,407	3,573	3,637	3,716	3,792
Other Provisions	619	640	712	922	805
Other Liabilities	243	259	238	237	237
Total Liabilities	46,682	46,030	50,513	54,726	57,818
NET ASSETS	113,950	139,230	139,636	140,517	142,481
NET WORTH					
Accumulated Funds	55,809	52,761	51,205	50,043	49,793
Reserves	58,141	86,469	88,431	90,474	92,688
TOTAL NET WORTH	113,950	139,230	139,636	140,517	142,481
OTHER FISCAL AGGREGATES					
Net Debt^(b)	33,422	32,716	37,663	42,415	45,653
Net Financial Liabilities^(c)	41,126	40,219	45,753	50,889	54,072
Net Financial Worth^(d)	(41,126)	(40,219)	(45,753)	(50,889)	(54,072)

(a) The superannuation provision is reported net of the fair value of fund assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total financial liabilities.

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Cash Receipts from Operating Activities					
Sales of Goods and Services	8,575	8,542	9,315	10,010	10,872
Grant and Subsidies	5,949	5,901	5,421	4,979	5,163
Interest	90	75	38	34	32
Other	1,261	1,319	1,949	2,214	2,469
Total Cash Receipts from Operating Activities	15,876	15,838	16,724	17,235	18,535
Cash Payments from Operating Activities					
Employee Related	(2,881)	(2,974)	(2,836)	(2,881)	(2,914)
Personnel Services	(331)	(332)	(332)	(345)	(353)
Superannuation	(373)	(314)	(372)	(382)	(388)
Payments for Goods and Services	(6,281)	(6,059)	(6,367)	(6,895)	(6,801)
Grants and Subsidies	(74)	(80)	(66)	(66)	(67)
Interest	(1,230)	(1,354)	(1,567)	(1,703)	(1,861)
Distributions Paid	(480)	(190)	(301)	(347)	(547)
Other	(1,303)	(1,189)	(1,163)	(1,197)	(1,196)
Total Cash Payments from Operating Activities	(12,954)	(12,492)	(13,004)	(13,817)	(14,127)
Net Cash Flows from Operating Activities	2,922	3,346	3,720	3,418	4,408
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	211	217	324	353	265
Purchases	(7,614)	(7,284)	(8,240)	(7,690)	(7,081)
Net Cash Flows from Investments in Non-Financial Assets	(7,403)	(7,067)	(7,916)	(7,338)	(6,815)
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	15	15	...	21	...
Payments	(6)	(6)	(4)	...	...
Net Cash Flows from Investments in Financial Assets for Policy Purposes	9	9	(4)	21	0
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	59	31	18	54	23
Purchase of Investments	...	...	...	...	...
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	59	31	18	54	23
Net Cash Flows from Investing Activities	(7,335)	(7,028)	(7,902)	(7,263)	(6,792)
Cash Flows from Financing Activities					
Advances (Net)	(31)	(31)	(30)	(31)	(33)
Proceeds from Borrowings	3,628	3,162	4,094	3,926	4,152
Repayment of Borrowings	(533)	(560)	(614)	(735)	(1,305)
Dividends Paid	(333)	(333)	(326)	(401)	(619)
Deposits (Net)	(0)	(3)	...	...	...
Other (Net)	(6)	(3)	(0)	(0)	(1)
Net Cash Flows from Financing Activities	2,725	2,232	3,123	2,759	2,195
Net Increase/(Decrease) in Cash Held	(1,689)	(1,449)	(1,059)	(1,084)	(188)
Derivation of Cash Result					
Net Cash Flows from Operating Activities	2,922	3,346	3,720	3,420	4,410
Net Cash Flows from Investments in Non-Financial Assets	(7,403)	(7,067)	(7,916)	(7,338)	(6,815)
Dividends Paid	(333)	(333)	(326)	(401)	(619)
Cash Surplus/(Deficit)	(4,815)	(4,054)	(4,522)	(4,319)	(3,025)

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Revenue from Transactions					
Taxation	44,236	44,370	46,569	47,937	49,450
Grants and Subsidies	46,437	45,694	47,749	47,798	47,686
Sale of Goods and Services	15,365	15,238	16,581	17,534	18,232
Interest	493	672	538	433	475
Dividend and Income Tax Equivalents from Other Sectors	183	187	203	219	236
Other Dividends and Distributions	2,658	1,889	3,259	3,651	4,057
Fines, Regulatory Fees and Other	7,010	6,898	8,207	8,046	8,132
Total Revenue from Transactions	116,381	114,949	123,106	125,617	128,268
Expenses from Transactions					
Employee	46,172	46,764	48,683	50,255	52,301
Superannuation					
Superannuation Interest Cost	1,666	1,708	1,744	1,691	1,581
Other Superannuation	4,415	4,616	4,614	4,726	4,895
Depreciation and Amortisation	11,639	12,653	12,947	13,580	14,270
Interest	6,628	6,994	8,109	8,751	9,577
Other Operating Expense	30,834	30,674	28,578	28,927	29,157
Grants and Subsidies	22,173	21,230	18,321	17,290	16,391
Total Expenses from Transactions	123,528	124,640	122,996	125,221	128,172
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	(7,146)	(9,691)	111	396	96

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(667)	512	(198)	(471)	(84)
Other Net Gains/(Losses)	1,014	289	1,260	367	962
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(25)	(25)	(233)	(122)	(291)
Deferred Income Tax from Other Sectors	0	...	(0)	(0)	(0)
Other	(45)	(70)	(46)	(46)	(46)
Other Economic Flows - included in Operating Result	277	706	783	(271)	542
Operating Result	(6,869)	(8,985)	894	125	638
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result					
Revaluations	5,386	35,299	4,068	4,243	4,237
Remeasurements of Post-Employment Benefits	(1,935)	5,363	(1,433)	(3,432)	70
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(1,858)	2,074	(5,310)	(3,348)	(361)
Deferred Tax Direct to Equity	(0)	...	0	0	0
Other	(219)	12	24	23	23
Items that may be Reclassified Subsequently to Operating Result					
Net Gain/(Loss) on Financial Instruments at Fair Value	0	(0)	...	...	...
Other Economic Flows - Other Comprehensive Income	1,374	42,746	(2,652)	(2,514)	3,970
Total Change in Net Worth	(5,495)	33,761	(1,758)	(2,389)	4,608
Key Fiscal Aggregates					
Total Change in Net Worth	(5,495)	33,761	(1,758)	(2,389)	4,608
Less: Net Other Economic Flows	(1,651)	(43,452)	1,869	2,785	(4,512)
Equals: Budget Result - Net Operating Balance	(7,146)	(9,691)	111	396	96
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets ^(a)	27,902	27,669	30,159	27,617	25,804
Sales of Non-Financial Assets	(1,477)	(712)	(3,009)	(1,084)	(827)
Less: Depreciation	(11,639)	(12,653)	(12,947)	(13,580)	(14,270)
Plus: Change in Inventories	343	304	39	295	5
Plus: Other Movements in Non-Financials Assets					
Assets Acquired Using Leases ^(a)	875	953	962	590	1,071
Assets Acquired Using Service Concession Finance Liability Model ^(a)	1,089	959	752	295	161
Grant of Right to the Operator Model	441	441	620	230	...
Other	(568)	(406)	(875)	(578)	(361)
Equals: Total Net Acquisition of Non-Financial Assets	16,965	16,556	15,702	13,784	11,582
Equals: Net Lending/(Borrowing) [Fiscal Balance]^(b)	(24,112)	(26,246)	(15,592)	(13,388)	(11,486)
OTHER FISCAL AGGREGATES					
Capital Expenditure ^(a)	29,865	29,582	31,874	28,502	27,036

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

(b) Net borrowing for the NFPS sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

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

	June 2024 Budget \$m	June 2024 Revised \$m	June 2025 \$m	June 2026 Forward Estimates \$m	June 2027 \$m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,754	3,071	2,091	1,033	849
Receivables	12,309	12,525	12,236	12,132	12,223
Investments, Loans and Placements					
Financial Assets at Fair Value	49,912	49,387	54,120	61,015	68,862
Other Financial Assets	2,633	2,742	2,726	2,420	2,437
Advances Paid	736	733	879	870	811
Tax Equivalents Receivable	14	5	11	11	12
Deferred Tax Equivalents	(0)	(0)	(0)	(0)	(0)
Equity Investments					
Investments in Other Public Sector Entities	11,983	15,908	10,598	7,250	6,889
Investments in Associates	8,831	10,378	10,160	10,038	9,807
Other Equity Investments	15	15	15	15	15
Total Financial Assets	89,187	94,764	92,834	94,784	101,905
Non-Financial Assets					
Contract Assets	513	494	61	61	62
Inventories	2,175	2,288	2,384	2,695	2,703
Forestry Stock and Other Biological Assets	642	638	638	638	638
Assets Classified as Held for Sale	157	337	486	375	183
Investment Properties	606	612	606	606	606
Property, Plant and Equipment					
Land and Buildings	220,772	228,664	234,367	239,426	243,412
Plant and Equipment	20,251	20,840	21,321	21,411	22,829
Infrastructure Systems	272,362	288,191	301,870	314,922	325,847
Right-of-Use Assets	9,973	9,914	9,785	9,317	9,304
Intangibles	6,713	6,789	7,003	6,912	6,742
Other Liabilities	2,313	1,943	1,654	1,656	1,560
Total Non-Financial Assets	536,476	560,707	580,175	598,020	613,886
Total Assets	625,663	655,471	673,010	692,804	715,792
Liabilities					
Deposits Held	363	360	361	360	360
Payables	11,581	11,854	12,280	12,334	12,330
Contract Liabilities	938	954	978	977	1,002
Borrowings and Derivatives at Fair Value	20	14	13	13	13
Borrowings at Amortised Cost	181,184	182,596	199,875	217,488	235,594
Advanced Received	445	443	393	354	313
Employee Benefits Liabilities	28,471	28,104	29,388	31,127	32,324
Superannuation Provision ^(a)	43,964	37,668	39,088	42,348	41,896
Deferred Tax Equivalent Provision	0	(0)	...	...	...
Other Provisions	16,519	16,234	16,068	15,959	16,026
Other Liabilities	21,572	21,527	20,605	20,272	19,754
Total Liabilities	305,057	299,753	319,049	341,232	359,612
NET ASSETS	320,606	355,718	353,961	351,572	356,180

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

	June 2024 Budget \$m	June 2024 Revised \$m	June 2025 \$m	June 2026 Forward Estimates \$m	June 2027 \$m
NET WORTH					
Accumulated Funds	110,152	114,491	115,480	113,735	115,945
Reserves	210,454	241,227	238,481	237,837	240,235
TOTAL NET WORTH	320,606	355,718	353,961	351,572	356,180
OTHER FISCAL AGGREGATES					
Net Debt^(b)	125,978	127,478	140,827	152,877	163,320
Net Financial Liabilities^(c)	227,853	220,896	236,812	253,698	264,595
Net Financial Worth^(d)	(215,870)	(204,989)	(226,214)	(246,448)	(257,706)

(a) The superannuation provision is reported net of the fair value of fund assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total liabilities.

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

	2023-24 Budget \$m	2023-24 Revised \$m	2024-25 Forward Estimates \$m	2025-26 Forward Estimates \$m	2026-27 Forward Estimates \$m
Cash Receipts from Operating Activities					
Taxation	44,253	44,551	46,597	47,969	49,482
Sales of Goods and Services	15,820	15,259	17,225	17,985	19,107
Grant and Subsidies	45,780	45,061	47,417	47,872	47,809
Interest	441	574	473	367	354
Dividends and Income Tax Equivalents	159	215	190	207	223
Other	12,294	11,184	11,852	11,565	11,887
Total Cash Receipts from Operating Activities	118,747	116,844	123,755	125,966	128,861
Cash Payments from Operating Activities					
Employee Related	(45,227)	(45,642)	(47,941)	(49,310)	(51,538)
Superannuation	(6,088)	(6,208)	(6,371)	(6,590)	(6,858)
Payments for Goods and Services	(30,371)	(30,119)	(28,010)	(29,284)	(29,231)
Grants and Subsidies	(20,886)	(20,463)	(16,821)	(16,095)	(15,380)
Interest	(5,479)	(5,640)	(6,271)	(6,821)	(7,711)
Other	(8,041)	(6,210)	(5,842)	(5,592)	(5,693)
Total Cash Payments from Operating Activities	(116,092)	(114,283)	(111,256)	(113,691)	(116,410)
Net Cash Flows from Operating Activities	2,655	2,561	12,498	12,274	12,451
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	2,105	1,076	3,326	1,390	819
Purchases	(26,389)	(27,563)	(29,312)	(27,353)	(25,770)
Net Cash Flows from Investments in Non-Financial Assets	(24,284)	(26,488)	(25,986)	(25,963)	(24,950)
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	97	43	109	158	127
Payments	(368)	(245)	(230)	(122)	(44)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	(271)	(202)	(121)	36	83
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	2,429	2,193	4,153	2,953	1,895
Purchase of Investments	(223)	(280)	(5,608)	(5,685)	(5,471)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	2,206	1,913	(1,455)	(2,732)	(3,576)
Net Cash Flows from Investing Activities	(22,348)	(24,776)	(27,562)	(28,659)	(28,443)
Cash Flows from Financing Activities					
Advances (Net)	(16)	(46)	(10)	(97)	462
Proceeds from Borrowings	15,802	17,279	16,207	18,244	18,556
Repayment of Borrowings	(3,881)	(2,472)	(2,117)	(2,822)	(3,213)
Deposits (Net)	(0)	(3)	1	...	...
Other (Net)	(0)	0	(0)	(0)	(0)
Net Cash Flows from Financing Activities	11,905	14,758	14,082	15,325	15,805
Net Increase/(Decrease) in Cash Held	(7,788)	(7,457)	(982)	(1,060)	(187)
Derivation of Cash Result					
Net Cash Flows from Operating Activities	2,655	2,561	12,498	12,274	12,451
Net Cash Flows from Investments in Non-Financial Assets	(24,284)	(26,488)	(25,986)	(25,963)	(24,950)
Cash Surplus/(Deficit)	(21,629)	(23,927)	(13,488)	(13,689)	(12,499)

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C. VARIATIONS ON REVISED 2023-24 BUDGET

C.1 Revised 2023-24 Budget

The revised budget result for 2023-24 is a deficit of \$9.6 billion, an increase of \$1.7 billion compared to a forecast deficit of \$7.8 billion at the time of the 2023-24 Budget.

Total revenue in 2023-24 is estimated to be \$111.1 billion, which is \$1.3 billion lower than the Budget estimate of \$112.4 billion.

Total expenses in 2023-24 are estimated to be \$120.6 billion, which is \$383 million higher than the Budget estimate of \$120.2 billion.

C.2 Operating statement

Total revenue in 2023-24 is estimated to be \$1.3 billion lower than forecast in the 2023-24 Budget, primarily reflecting weaker economic activity in certain sectors that has led to downward revisions in grants and subsidies and dividends and distribution.

Key decreases to estimated revenue include:

- other dividends and distributions have been revised down by \$769 million in 2023-24 due to financial market volatility resulting in lower than anticipated returns and fund balances
- grants and subsidies have been revised down by \$697 million in 2023-24, mainly in GST revenue and Australian Government National Partnership Payments.

These decreases are partially offset by higher interest revenue of \$160 million from higher interest rates and increased cash balances.

Total expenses in 2023-24 are estimated to be \$383 million higher than the budget estimate. This is due in part to:

- an increase in interest expenses of \$500 million predominately due to higher interest rates on borrowings and higher borrowing balances
- an increase in superannuation interest expense of \$177 million due to higher interest rates
- an increase in other operating expenses of \$93 million.

C.3 Balance sheet

Net debt is estimated to be \$94.9 billion at June 2024, an increase of \$2.2 billion compared to the Budget estimate. This is primarily due to the \$1.9 billion increase in borrowings and the \$525 million decrease in financial assets at fair value, mainly TCorpIM funds, partially offset by the \$107 million increase in other financial assets, mainly finance lease receivable, and the \$37 million increase in cash and cash equivalents.

The State's net worth is estimated to increase to \$355.7 billion at June 2024. This represents an increase of \$35.1 billion since the Budget and primarily reflects the \$30.8 billion higher equity investments driven by the increase in the fair value of non-financial assets reported by Transport Asset Holding Entity of NSW and the \$6.0 billion lower superannuation provision.

C.4 Cash flow statement

The State's forecast cash deficit is \$20.0 billion, which is an increase of \$3.1 billion since the time of the Budget. The increase is mainly driven by lower proceeds from sales of non-financial assets of \$1.0 billion, higher purchases of non-financial assets of \$1.5 billion, and lower net cash flows from operating activities of \$566 million.

Table C.1: General government sector operating statement

	2022-23		2023-24		Variance %	4 Months to
	Est. Actual \$m	Budget \$m	Revised \$m	Variance \$m		31/10/2023 Actual \$m
Revenue from Transactions						
Taxation	39,747	44,862	45,001	139	0.3	11,971
Grants and Subsidies	45,572	46,617	45,920	(697)	(1.5)	14,175
Sale of Goods and Services	9,700	10,603	10,479	(124)	(1.2)	3,191
Interest	545	504	664	160	31.9	239
Dividend and Income Tax Equivalents from Other Sectors	483	752	774	23	3.0	120
Other Dividends and Distributions	1,467	2,637	1,868	(769)	(29.2)	658
Fines, Regulatory Fees and Other	8,388	6,405	6,349	(57)	(0.9)	1,800
Total Revenue from Transactions	105,901	112,379	111,054	(1,325)	(1.2)	32,154
Expenses from Transactions						
Employee	42,490	43,530	44,017	487	1.1	15,092
Superannuation						
Superannuation Interest Cost	1,583	1,618	1,657	39	2.4	539
Other Superannuation	4,059	4,162	4,340	177	4.3	1,495
Depreciation and Amortisation	7,884	8,551	8,602	51	0.6	2,796
Interest	4,232	5,501	6,001	500	9.1	1,873
Other Operating Expense	28,765	28,738	28,831	93	0.3	8,550
Grants and Subsidies	27,454	28,125	27,162	(964)	(3.4)	7,191
Total Expenses from Transactions	116,467	120,227	120,610	383	0.3	37,536
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	(10,565)	(7,847)	(9,555)	(1,708)	21.8	(5,383)

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

	2022-23		2023-24		Variance \$m	Variance %	4 Months to
	Est. Actual \$m	Budget \$m	Revised \$m	Budget \$m			Actual \$m
Other Economic Flows - Included in the Operating Result							
Gain/(Loss) from Other Liabilities	(186)	(667)	513		1,180	(176.9)	201
Other Net Gains/(Losses)	2,215	1,218	491		(727)	(59.7)	(1,153)
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(13)	(25)	(25)		0	(0.0)	(179)
Dividends from Asset Sale Proceeds	120	39	43		4	9.1	14
Deferred Income Tax from Other Sectors	129	(103)	(84)		19	(18.3)	(28)
Other	(90)	(42)	(66)		(25)	59.4	(37)
Other Economic Flows - included in Operating Result	2,175	421	871		450	106.8	(1,182)
Operating Result	(8,390)	(7,426)	(8,684)		(1,258)	16.9	(6,564)
Other Economic Flows - Other Comprehensive Income							
Items that will not be Reclassified to Operating Result							
	44,463	1,931	42,446		40,515	2,098.1	10,995
Revaluations	33,225	4,907	4,895		(12)	(0.2)	758
Share of Earnings from Associates from Revaluations that will not be Reclassified Subsequently to Operating Result	1,706	...	...		...	...	...
Remeasurements of Post-Employment Benefits	2,369	(1,819)	5,134		6,953	(382.3)	(593)
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	6,265	(1,312)	32,307		33,619	(2,562.1)	10,769
Deferred Tax direct to Equity	495	136	78		(58)	(42.5)	26
Other	403	20	32		12	58.7	35
Items that may be Reclassified Subsequently to Operating Result							
	0	...	(0)		(0)	...	1
Net Gain/(Loss) on Financial Instruments at Fair Value	0	...	(0)		(0)	...	1
Other Economic Flows - Other Comprehensive Income	44,463	1,931	42,445		40,514	2,098.1	10,996
Comprehensive Result - Total Change in Net Worth	36,072	(5,495)	33,761		39,256	(714.4)	4,431
Key Fiscal Aggregates							
Comprehensive Result - Total Change in Net Worth	36,072	(5,495)	33,761		39,256	(714.4)	4,431
Less: Net Other Economic Flows	(46,638)	(2,352)	(43,317)		(40,964)	1,741.4	(9,814)
Equals: Budget Result - Net Operating Balance	(10,565)	(7,847)	(9,555)		(1,708)	21.8	(5,383)
Less: Net Acquisition of Non-Financial Assets							
Purchases of Non-Financial Assets	21,208	20,329	20,449		120	0.6	6,691
Sales of Non-Financial Assets	(369)	(1,267)	(496)		772	(60.9)	(13)
Less: Depreciation	(7,884)	(8,551)	(8,602)		(51)	0.6	(2,796)
Plus: Change in Inventories	(117)	(50)	(21)		29	(57.3)	31
Plus: Other Movements in Non-Financial Assets							
Assets Acquired Using Leases	37	809	888		78	9.7	128
Assets Acquired Using Service							
Concession Finance Liability Model	827	1,089	959		(130)	(11.9)	249
Grant of Right to the Operator Model	273	441	441		...	...	18
Other	31	(1,005)	(816)		189	(18.8)	(5)
Equals: Total Net Acquisition of Non-Financial Assets	14,005	11,794	12,802		1,007	8.5	4,304
Equals: Net Lending/(Borrowing) [Fiscal Balance]	(24,570)	(19,642)	(22,357)		(2,715)	13.8	(9,686)
OTHER FISCAL AGGREGATES							
Capital Expenditure ^(a)	22,071	22,227	22,296		69	0.3	7,068

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

Table C.2: General government sector balance sheet

	2022-23		2023-24		Variance %	4 Months to
	Est. Actual \$m	Budget \$m	Revised \$m	Variance \$m		31/10/2023 Actual \$m
Assets						
Financial Assets						
Cash and Cash Equivalents	6,344	244	281	37	15.0	2,452
Receivables	12,001	11,691	11,979	288	2.5	11,963
Investments, Loans and Placements						
Financial Assets at Fair Value	48,383	49,393	48,868	(525)	(1.1)	48,966
Other Financial Assets	2,378	2,533	2,640	107	4.2	2,432
Advances Paid	936	995	992	(3)	(0.3)	953
Tax Equivalents Receivable	43	61	135	74	122.2	103
Deferred Tax Equivalent	3,607	3,407	3,573	166	4.9	3,605
Equity						
Investments in Other Public Sector Entities	123,003	125,876	155,114	29,239	23.2	133,772
Investments in Associates	10,545	8,831	10,378	1,547	17.5	10,223
Other Equity Investments	15	15	15	...	...	15
Total Financial Assets	207,255	203,046	233,975	30,930	15.2	214,486
Non- Financial Assets						
Contract Assets	77	499	481	(18)	(3.6)	79
Inventories	1,088	1,148	1,329	182	15.8	1,116
Forestry Stock and Other Biological Assets	16	16	11	(5)	(28.9)	11
Assets Classified as Held for Sale	151	151	327	176	116.0	239
Property, Plant and Equipment						
Land and Buildings	129,648	134,858	133,486	(1,372)	(1.0)	130,081
Plant and Equipment	15,161	15,097	14,887	(210)	(1.4)	15,108
Infrastructure Systems	204,909	216,252	217,856	1,604	0.7	209,399
Right-of-Use Assets	6,185	6,174	6,104	(70)	(1.1)	6,048
Intangibles	5,176	5,472	5,415	(57)	(1.0)	5,380
Other Non-Financial Assets	2,009	1,906	1,528	(378)	(19.8)	2,494
Total Non- Financial Assets	364,419	381,572	381,424	(148)	(0.0)	369,955
Total Assets	571,674	584,618	615,399	30,782	5.3	584,441
Liabilities						
Deposits Held	327	328	327	(1)	(0.3)	333
Payables	9,963	9,876	10,392	516	5.2	9,017
Contract Liabilities	858	848	811	(37)	(4.4)	909
Borrowings and Derivatives at Fair Value	17	17	10	(7)	(39.6)	6
Borrowings at Amortised Cost	132,079	144,999	146,866	1,866	1.3	140,874
Advances Received	492	445	443	(2)	(0.5)	483
Employee Benefit Liabilities	25,971	27,198	26,849	(348)	(1.3)	27,090
Superannuation Provision ^(a)	41,678	42,686	36,652	(6,035)	(14.1)	42,350
Tax Equivalents Payable	73	0	62	62	0	16
Deferred Tax Equivalent Provision	42	48	45	(3)	(6.4)	43
Other Provisions	16,614	16,225	15,922	(303)	(1.9)	16,211
Other Liabilities	21,603	21,342	21,302	(40)	(0.2)	20,721
Total Liabilities	249,717	264,011	259,681	(4,331)	(1.6)	258,052
NET ASSETS	321,957	320,606	355,718	35,112	11.0	326,388

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

	2022-23		2023-24		Variance \$m	Variance %	4 Months to
	Est. Actual \$m	Budget \$m	Revised \$m	Budget \$m			31/10/2023 Actual \$m
NET WORTH							
Accumulated Funds	72,533	63,348	70,702		7,354	11.6	65,155
Reserves	249,424	257,258	285,016		27,758	10.8	261,234
TOTAL NET WORTH	321,957	320,606	355,718		35,112	11.0	326,388
OTHER FISCAL AGGREGATES							
Net Debt^(b)	74,873	92,624	94,864		2,240	2.4	86,893
Net Financial Liabilities^(c)	165,465	186,841	180,820		(6,022)	(3.2)	177,339
Net Financial Worth^(d)	(42,462)	(60,966)	(25,706)		35,260	(57.8)	(43,567)

(a) The superannuation provision is reported net of the fair value of fund assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total financial liabilities.

Table C.3: General government sector cash flow statement

	2022-23		2023-24		Variance %	4 Months to	
	Est. Actual \$m	Actual \$m	Budget \$m	Revised \$m		Variance \$m	31/10/2023 Actual \$m
Cash Receipts from Operating Activities							
Taxation	39,831		44,825	45,132	307	0.7	13,198
Sales of Goods and Services	10,629		10,993	10,519	(474)	(4.3)	2,310
Grant and Subsidies Received	45,234		45,963	45,289	(673)	(1.5)	13,465
Interest	464		458	577	118	25.8	217
Dividends and Income Tax Equivalents from other sectors	421		933	732	(201)	(21.5)	219
Other	13,873		11,140	9,970	(1,170)	(10.5)	4,481
Total Cash Receipts from Operating Activities	110,453		114,312	112,220	(2,092)	(1.8)	33,891
Cash Payments from Operating Activities							
Employee Related	(40,003)		(42,569)	(42,857)	(288)	0.7	(14,280)
Superannuation	(5,137)		(5,717)	(5,894)	(177)	3.1	(1,961)
Payments for Goods and Services	(27,448)		(27,966)	(28,020)	(54)	0.2	(8,811)
Grants and Subsidies Paid	(26,212)		(26,838)	(26,389)	449	(1.7)	(7,538)
Interest	(3,163)		(4,356)	(4,415)	(59)	1.4	(1,483)
Distribution Paid	(0)		6	3	(3)	(50.3)	1
Other	(8,649)		(6,770)	(5,109)	1,661	(24.5)	(3,201)
Total Cash Payments from Operating Activities	(110,613)		(114,210)	(112,684)	1,526	(1.3)	(37,273)
Net Cash Flows from Operating Activities	(160)		102	(464)	(566)	(554.5)	(3,382)
Cash Flows from Investments in Non-Financial Assets							
Proceeds from Sales of Non-Financial Assets	280		1,895	861	(1,034)	(54.5)	12
Purchases	(22,056)		(18,845)	(20,351)	(1,506)	8.0	(6,832)
Net Cash Flows from Investments in Non-Financial Assets	(21,777)		(16,950)	(19,490)	(2,540)	15.0	(6,819)
Cash Flows from Investments in Financial Assets for Policy Purposes							
Receipts	268		192	141	(51)	(26.6)	46
Payments	(127)		(362)	(239)	123	(34.1)	(109)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	140		(170)	(98)	72	(42.6)	(64)
Cash Flows from Investments in Financial Assets for Liquidity Purposes							
Proceeds from Sale of Investments	4,847		2,372	2,169	(203)	(8.5)	126
Purchase of Investments	(3,295)		(223)	(280)	(57)	25.6	(1,364)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	1,552		2,149	1,889	(260)	(12.1)	(1,238)
Net Cash Flows from Investing Activities	(20,084)		(14,971)	(17,699)	(2,727)	18.2	(8,121)
Cash Flows from Financing Activities							
Advances (Net)	(78)		(55)	(85)	(30)	54.7	(10)
Proceeds from Borrowings	28,457		12,174	14,117	1,943	16.0	7,982
Repayment of Borrowings	(4,983)		(3,350)	(1,920)	1,430	(42.7)	(355)
Deposits (Net)	(26)		...	0	0	...	6
Other (Net)	0		(0)	0	0	(169.2)	0
Net Cash Flows from Financing Activities	23,370		8,769	12,113	3,343	38.1	7,624
Net Increase/(Decrease) in Cash Held	3,126		(6,100)	(6,050)	50	(0.8)	(3,879)
Derivation of Cash Result							
Net Cash Flows from Operating Activities	(160)		102	(464)	(566)	(554.5)	(3,382)
Net Cash Flows from Investments in Non-Financial Assets	(21,777)		(16,950)	(19,490)	(2,540)	15.0	(6,819)
Cash Surplus/(Deficit)	(21,936)		(16,848)	(19,954)	(3,106)	18.4	(10,201)

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D. FISCAL RISKS

This Appendix:

- focuses on updates to fiscal risks and sensitivities that have changed since the Budget
- does not consider policy risks associated with the future changes to financial decisions and agreements made by the New South Wales or the Australian Government.

D.1 Operating statement risks and sensitivities

Road user charge revenue

On 18 October 2023, the High Court of Australia held the *Zero and Low Emission Vehicle Distance-based Charge Act 2021* (VIC) to be invalid in *Vanderstock & Anor v State of Victoria* [2023] HCA 30, on the basis that it imposes a duty of excise within the meaning of section 90 of the Australian Constitution.

Work is underway to determine the potential implications of the decision on the EV RUC and any potential broader impacts on the NSW tax base. Revenues from the EV QW are currently forecast at \$53.6 million in 2027-28.

Australian Government infrastructure funding

The Australian Government's *Independent Strategic Review of the Infrastructure Investment Program – Executive Summary* has proposed that contributions to certain projects under the Infrastructure Investment Program (IIP) be reprofiled or withdrawn. This is intended to allow for reallocation to merit based projects and relieve cost pressures. For New South Wales, this has resulted in the withdrawal of Australian Government funding for 17 infrastructure projects, with an estimated loss of \$3.2 billion in project funding.

The Australian Government has committed to maintaining the IIP pipeline at around \$120 billion for all states and territories over the next 10 years. Nevertheless, this will not be sufficient to address increasing infrastructure-related costs and may impact New South Wales's ability to deliver future infrastructure projects.

The Australian Government, following the passage of the *Water Amendment (Restoring our Rivers) Bill 2023* on 30 November 2023, is negotiating with New South Wales to continue and increase funding arrangements for water infrastructure projects within the Murray-Darling Basin. The potential impact of an increase in funding is not included in the 2023-24 Half-Yearly Review.

Upcoming industrial relations bargaining

The State's largest operating expense is 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, public sector wages policy and the workforce size. Changes in these parameters can impact the budget result. As the Government shifts to a more consultative interest-based bargaining arrangement, it is possible that the final budget outcome for 2023-24 deviates from current projections. The published budget contains the impact of the Government's current offer to employees. Under the Government's interest-based bargaining approach, the final profile of this measure may change to reflect an agreed outcome. It is also possible that the projection beyond 2023-24 varies in future releases. The Essential Services Fund has been created to support higher wages that may arise as a result of service improvements as part of a new interest-based bargaining system.

Investment revenue and borrowing costs

Investment revenue

Investment returns vary with the performance of financial markets. In 2023-24 so far, financial markets remain volatile due to ongoing uncertainty about global geopolitical risk and the economic outlook, including inflation. NSW Treasury works closely with TCorp to manage risk and navigate through the current volatile interest rate environment.

Investment returns may be above or below estimates which would impact revenue. Adopting the Attribution Managed Investment Trust regime for most government investment funds can help reduce investment revenue volatility impacts on the budget result by smoothing fund distributions over time.

The large size of the State's investments means that a one percentage point movement in assumed investment return rates can have a material impact on the Government's budget result.

Borrowing costs

The Government's interest expenses are partially a function of the interest rates it must pay on its new and refinanced borrowings. While most of the Government's existing debt portfolio is fixed-rate debt (and hence, not affected by movements in interest rates), new and refinanced debt will be adversely affected by rising interest rates.

D.2 Balance sheet risks

Borrowing requirements

As noted in Chapter 5 of the 2023-24 Budget Paper No.1 *Budget Statement*, assumptions are included in the Budget around the total recurrent and capital expenses that may be underspent in 2023-24 and carried forward to future years.

A later than usual Budget has meant there is heightened uncertainty around these underspends and therefore the State's borrowing requirements in 2023-24. If projected underspends in recurrent and capital expenses assumed at the 2023-24 Budget are not fully realised, the Government will need to reprofile some borrowings from the forward estimates into 2023-24.

If market capacity is better than expected and capital slippage moves closer to 10-15 per cent, this would result in around \$2.0 billion to \$4.0 billion increase in borrowings in 2023-24, with a commensurate decrease in borrowings across the forward estimates.

D.3 Specific fiscal risks

Lagged impacts of high interest rates

The Reserve Bank of Australia (RBA) is committed to its stance to return inflation to target, as evidenced by its decision in November to increase the cash rate. Due to the lagged effect of monetary policy, the full impact of the last increase will not be seen until early to mid-2024. To date, most households have managed to service their debts, although the RBA has indicated there is a small but rising share of households on the cusp of financial stress.

The economy may prove to be more susceptible to these higher interest rates than currently assumed, which could see a sharper decline in both household consumption and business activity, coupled with a larger rise in unemployment, than is currently expected. This would have fiscal implications on both the revenue and expenses.

Uncertainty over the path of inflation back to central bank targets

Inflation has been easing recently, but generally remains elevated in many advanced economies, including Australia. Strong domestic demand, low productivity and an acceleration in wages suggest that services price inflation could remain elevated for an extended period. Should high inflation become further entrenched in the wage and price setting behaviour of households and businesses, this could convince the RBA to both raise interest rates further and hold interest rates higher for longer. That would potentially affect revenue and impact government interest expenses.

Global risks

Geopolitical risks are increasing, especially given Russia's ongoing invasion of Ukraine and the war in the Middle East. A further escalation of these tensions could again disrupt commodity markets and supply chains, increase the (already elevated) price for energy, and negatively impact global and domestic economic activity. The NSW fiscal position would likely deteriorate under such a scenario.

The outlook for China is also important to the NSW economy. The weakness in the real estate sector, should it persist or intensify, has the potential to drag investment and subdue foreign demand. Uncertainty over the outlook for Chinese growth could unsettle commodity markets and impact prices or the demand for key NSW exports (including coal).

Extreme weather events and impacts of climate change

Climate change exposes governments, communities, and businesses to three types of risks:

- the impacts of changing climate conditions and extreme weather events ('physical risk')
- the changes in domestic and international policy and regulatory settings, technological innovation, social adaptation and market changes ('transition risk')
- climate-related litigation ('liability risk').

Over the last few years, New South Wales has faced a significant number of natural disasters ranging from drought, bushfires, and floods. Climate-driven natural hazards are expected to become more frequent and intense. The recent declaration of an El Niño weather event has the potential to add to food inflation should drier weather significantly disrupt food production (particularly crops). In addition to the macro risks from higher inflation, a hotter and drier summer also increases the fiscal expenditure risks from bushfires and drought.