3. FISCAL STRATEGY AND OUTLOOK

- The COVID-19 pandemic has placed significant pressure on the Government’s fiscal and economic outlook. The Government acted decisively to implement a successful health response and to support businesses and the community throughout this pandemic.

- The Government’s strong fiscal position coming into the crisis allowed significant response and recovery measures to be taken, with the average surplus since 2011-12 exceeding $2 billion per annum and negative net debt of $10.4 billion at June 2019.

- The 2020-21 Budget is the first major update to capture the impacts of COVID-19 and the 2019-20 summer bushfires on the State’s fiscal position, including:
  - $17.6 billion in revenue losses over the five years to 2023-24
  - around $29 billion in COVID-19 response, recovery and reform measures
  - $4.4 billion in bushfire response and recovery measures.

- The Government’s immediate priority is to continue to support the NSW economy by delivering job-creating initiatives, productivity-enabling reforms and a record $107.1 billion infrastructure program. By ensuring stimulus measures are targeted and timed to when they are needed most (i.e. 2020-21 and 2021-22) and are limited in duration, the Government is able to support the community and economy while maintaining fiscal discipline over the medium term.

- The 2020-21 Budget lays out the Government’s medium-term fiscal strategy, which is to ensure the State’s finances remain sustainable and to begin rebuilding fiscal capacity to respond to any future natural disasters or economic shocks.

- The Government has already begun reinforcing its operating position and reinvesting these savings into stimulus and support measures. This Budget includes a new wages policy of 1.5 per cent over the forward estimates and the Industrial Relations Commission’s determination to limit public servant wage increases to 0.3 per cent in 2020-21 for 170,000 employees, delivering $4.3 billion in savings over the next four years.

- This Budget is driving more efficient procurement spending, with savings of $729 million over the next four years. A program of work is also underway to ensure Government is to deliver outcomes using taxpayer dollars in an efficient and effective manner.

- The Government’s operating position is projected to improve over the forward estimates to a $0.5 billion deficit in 2023-24 with a return to surplus by 2024-25, based on the current economic, revenue and expense forecasts.

- Net debt is projected to increase to 14.7 per cent of GSP by June 2024 driven by the impact of revenue write-downs, stimulus measures, and infrastructure investment to support the community and the economy. With the Government continuing its innovative balance sheet reform including further asset recycling, net debt will decrease towards 7 per cent of GSP over the medium term.
3.1 Supporting the economy through an extraordinary fiscal challenge

Over the past year, New South Wales has faced unprecedented challenges with continued drought, 2019 summer bushfires and the COVID-19 pandemic.

To support NSW business and the community through the shutdown, the Government is responding with around $29 billion in economic response, recovery and reform measures including $3.0 billion in additional health support measures to respond to the COVID-19 health crisis, tax deferrals and waivers, fee waivers, cash grants, additional cleaners, and accelerated capital investments.

With low rates of COVID-19 community transmission across the State, the NSW Government is shifting from response to recovery. In the short-term, the Government’s fiscal strategy is to continue to support the economy to help boost employment and confidence. The 2020-21 Budget sees further investments in infrastructure, fiscal stimulus to support job recovery, and productivity reform to help grow the NSW economy longer-term.

The NSW Government’s infrastructure program is now projected to hit a record $107.1 billion over the four years to 2023-24, which will help support employment and economic growth over the medium-term (see Chapter 2 for details on how public investment is contributing to economic growth). With investments such as Sydney Metro West and redevelopment of the Royal Prince Alfred Hospital, Shoalhaven Hospital and Shellharbour Hospital, the Government continues to build the key economic and social infrastructure needed to support the future growth of New South Wales.

Over the medium term, the Government will shift its focus from economic response to rebuilding fiscal capacity through its fiscal reinforcement program (see Box 3.1) to restore capacity to respond to possible future natural disasters or economic shocks. As the New South Wales economy recovers, the Government’s fiscal objective is to repair the operating position by returning the budget to surplus by 2024-25 and rebuilding balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium-term. Having surpluses and a strong balance sheet has allowed a fast and effective response to the extraordinary events of the 2019 summer bushfires and the COVID-19 pandemic.

The outcomes budgeting framework will be used to drive a more efficient and effective public sector to help repair the State’s operating position over the medium-term while also supporting the economy. The key focus will be on value-for-money spending to ensure the Government continues to deploy taxpayer dollars as efficiently and effectively as possible.

The Government will also continue its successful asset recycling program to unlock the value from the State’s balance sheet, allowing the record investment in productive infrastructure to continue. Asset recycling allows the State to build the world-class infrastructure needed while rebuilding balance sheet capacity over the medium term (see Box 3.4). Other reforms that help support this approach have been to establish the NSW Generations Fund in late 2018 (see Box 3.2) and maximising the value of every dollar on the State’s balance sheet.

Announced in this Budget, but not included until the transaction is finalised, is the sale of the State’s residual 49 per cent share of WestConnex. Additionally, this Budget announces a scoping study into Lotteries Duties.
Box 3.1: Reinforcing the State’s sound financial management

This Government has a strong record of responsible financial management. From 2011, the Government has brought expenses back under control after a decade of expense growth averaging well above revenue growth.

The Government also embarked on an ambitious decade of balance sheet reform, including centralising cash management, asset recycling, and investment optimisation through innovative funds such as the NSW Generations Fund (NGF) and the NSW Infrastructure Future Fund.

This Budget sees the Government continuing to build on its strong record of financial management with a program of fiscal reinforcement which identifies $12 billion in savings over the four years to 2023-24 to help mitigate the impacts of COVID-19 and bushfires.

This program will give the Government more fiscal capacity to respond to future shocks, while ensuring any measures undertaken have minimal economic impact.

To help support the operating position, this Budget includes $5.6 billion of expense savings (see Box 5.5) including:

- $4.3 billion from lower wages growth for public sector workers
- $729 million from additional procurement savings.

To help rebuild balance sheet capacity and bring net debt down towards 7 per cent of GSP over the medium term, this Budget will:

- continue the Government’s successful program of asset recycling. This will include the sale of the Government’s residual 49 per cent share of WestConnex
- re-anchor the State’s superannuation target to 2040 which will reduce net debt by $5.1 billion over four years to 2023-24
- re-direct surplus cash, State Owned Corporation dividends and mining royalties into the NGF. This redirection of income from the State’s natural resources will improve intergenerational equity by ensuring future generations also see the financial benefit from royalties. The overall budget benefit of these measures is $1.0 billion over four years to 2023-24.
Box 3.2: The NSW Generations Fund protects future generations from the greatest fiscal challenge since the Great Depression

The New South Wales balance sheet was well-positioned to meet the extraordinary fiscal challenges of 2019-20. With innovative balance sheet reform, such as the NGF, this Government is ensuring that future taxpayers are not burdened with repaying debt at the expense of current public services and infrastructure our State needs.

To ensure future generations continue to benefit from the Government’s disciplined financial management, the NGF is projected to grow to more than $70 billion over the next decade from measures including directing future dividends from State Owned Corporations and mining royalties to the NGF.

Mining royalties are very important for NSW, but these markets are changing. Demand for coal is shifting as the global economy transitions away from fossil fuels. By redirecting these royalties into our State’s sovereign wealth fund, the Government is ensuring that future generations can benefit from the sale of today’s non-renewable resources.

The Government’s investment strategy for the NGF remains sound. Even with recent market volatility, the NGF remains well-positioned to deliver its return objective of CPI + 4.5 per cent over the medium term.

The NGF supports the State’s triple-A credit rating, allowing debt to be maintained at sustainable levels over the long term. Without the NGF, the State net debt position would be $19 billion worse off by the end of the decade, and future generations of taxpayers would be the ones to carry this burden with higher taxes or lower levels of service delivery and infrastructure investment.

Chart 3.1: NGF Projected Fund Balance

The anchor of the Government’s fiscal strategy is the Fiscal Responsibility Act 2012 (FRA). The FRA establishes the Government’s commitment to manage taxpayers money in a prudent manner, by mandating the State maintains a fiscal position in line with the highest credit rating possible.

The fiscal discipline inherent in managing to the FRA will help provide fiscal capacity for the State to respond to future crises such as the extraordinary events of this year that included drought, bushfires and a pandemic.
Box 3.3: NSW triple-A credit rating and sound financial management has allowed it to respond to the economic crisis and return the budget to sustainability

Prior to COVID-19, New South Wales is one of only two Australian states and one of four international sub-sovereigns rated triple-A by both major credit rating agencies.

The State’s triple-A credit rating was reaffirmed by both major global credit rating agencies, Moody’s and S&P Global, in September 2019. This rating is the highest possible that can be assigned by ratings agencies and generally leads to the State paying lower relative levels of interest.

In April 2020, S&P Global placed Australia’s triple-A credit rating on negative outlook. This automatically flows through to the NSW credit rating as the States cannot have a higher rating than the Commonwealth. By extension, if the Commonwealth is downgraded this would flow through to New South Wales if this were to occur. The NSW Government will do what it takes to maintain a fiscal position consistent with a triple-A credit rating over the medium term while responding to the economic situation with temporary and targeted support measures in the short term.

By maintaining discipline on expense growth, the Government will return the operating position to surplus once the economic crisis has eased (see Chart 3.2). In addition, a continuation of the Government’s successful asset recycling strategy will rebuild balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium term (see Box 3.4).

Chart 3.2: Medium term projection for general government operating position over GSP¹

³Note that there remains significant uncertainty in the economic and fiscal outlook and any changes in the underlying assumptions would flow through to changes in the projection. For further information please refer to Chapter 2 – The Economy or Appendix B – Fiscal Risks and Sensitivities.

3.2 Building the path back to surplus

The COVID-19 recession has placed significant pressure on the State’s operating position, resulting in both lower revenue and higher spending in the short term. The budget result in 2020-21 is expected to be a deficit of $16.0 billion and improves over the forward estimates to $0.5 billion deficit in 2023-24 (see Table 3.1). Based on current forecasts, the operating position will return to surplus by 2024-25. This is possible due to the Government’s tight grip on expense growth supported by wages constraint, procurement savings and the NGF.
COVID-19 has led to major revenue write-downs

The economic contraction due to the COVID-19 shutdown is driving a significant deterioration in State revenue. Relative to the 2019-20 Half Yearly Review, revenue has been written down by $17.6 billion over the five years to 2023-24.

Revenue growth is forecast to average 3.4 per cent over the four years to 2023-24, which is marginally higher than the 3.3 per cent forecast at the 2019-20 Half Yearly Review. Further detail on revenue can be found in Chapter 4.

Temporary and targeted support to kick-start the economic recovery

During 2019-20, general government expenses increased by 9.7 per cent to $88.3 billion, which is above the long-term average rate of revenue growth of 5.6 per cent, as a result of the Government’s health and economic response measures.

In 2020-21, total expenses are expected to grow by 11.2 per cent to $98.1 billion in 2020-21, above the long-term revenue growth rate of 5.6 per cent. From 2021-22 onwards, the temporary and targeted health and economic response measures will phase out and tight expense controls will ensure the efficient and effective use of taxpayers’ dollars. This reflects the Government’s disciplined approach to financial management and commitment to its FRA targets.

Chart 3.3: Revenue and Expenses from 2011-12 to 2023-24

![Graph showing revenue and expenses from 2011-12 to 2023-24]

- Higher expenditure as the Government provides stimulus and support measures
- Temporary revenue decline due to COVID-19 containment measures
- Expense decreases in 2021-22 and 2022-23 reflecting the phasing-out of stimulus measures and tight expense control
Changes in the budget result since 2019-20 Budget

The projected budget result in 2020-21 has been revised down since the 2019-20 Budget, primarily driven by lower State revenue and higher spending from temporary and targeted COVID-19 response and economic recovery measures (see Table 4.3 in Chapter 4).

Table 3.2: Reconciliation of 2019-20 Budget to 2020-21 Budget(a)

<table>
<thead>
<tr>
<th></th>
<th>2019-20 Actual</th>
<th>2020-21 Budget</th>
<th>2021-22 Forward Estimates</th>
<th>2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget result: 2019-20 Budget</td>
<td>1,016</td>
<td>1,227</td>
<td>2,002</td>
<td>2,599</td>
</tr>
<tr>
<td>Changes from 2019-20 Budget to 2019-20 Half Yearly Review</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>(159)</td>
<td>639</td>
<td>660</td>
<td>1,063</td>
</tr>
<tr>
<td>Expenses</td>
<td>(156)</td>
<td>(494)</td>
<td>(59)</td>
<td>(725)</td>
</tr>
<tr>
<td>Total budget result impact</td>
<td>(315)</td>
<td>145</td>
<td>601</td>
<td>338</td>
</tr>
<tr>
<td>Budget result: 2019-20 Half Yearly Review</td>
<td>702</td>
<td>1,372</td>
<td>2,603</td>
<td>2,937</td>
</tr>
<tr>
<td>Changes from 2019-20 Half Yearly Review to 2020-21 Budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>(2,791)</td>
<td>(6,121)</td>
<td>(2,988)</td>
<td>(2,470)</td>
</tr>
<tr>
<td>Expenses</td>
<td>(4,827)</td>
<td>(11,234)</td>
<td>(6,444)</td>
<td>(2,557)</td>
</tr>
<tr>
<td>Total budget result impact</td>
<td>(7,618)</td>
<td>(17,355)</td>
<td>(9,432)</td>
<td>(5,027)</td>
</tr>
<tr>
<td>Budget result: 2020-21 Budget</td>
<td>(6,916)</td>
<td>(15,984)</td>
<td>(6,830)</td>
<td>(2,091)</td>
</tr>
</tbody>
</table>

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

NSW is delivering a record program of world-class infrastructure for generations to come

This Budget announces a record infrastructure program for the general government sector of $84.2 billion. This includes $4.3 billion in new and accelerated projects to help support the NSW economy during COVID-19.

New and expanded projects in this Budget include:

• metro projects such as Sydney Metro West and Sydney Metro City and Southwest
• major road projects such as the Sydney Gateway, Pacific Highway Upgrade and Princes Highway Upgrade
• major investments in health, including the redevelopment of the Royal Prince Alfred Hospital and expansion of Sydney’s Children’s Hospital at Randwick
• new public schools in Googong, Murrumbateman and Edmondson Park to meet the needs of growing communities and $120.0 million to upgrade school facilities throughout regional New South Wales.

Non-financial public sector (NFPS) capital expenditure is projected to reach $107.1 billion over the next four years. Road, rail and other transport infrastructure accounts for 67 per cent of this investment. The Government is also investing in other priority areas with health, education and stronger communities related infrastructure making up 20 per cent of the four-year total (see Chart 3.4 and Budget Paper No. 3 Infrastructure Statement).
Chart 3.4: Non-financial public sector (NFPS) capital expenditure by cluster over the four years to 2023-24(a)

Numbers represented in the chart are on an eliminated NFPS basis. This chart does not agree with individual agencies reporting which is done on an uneliminated basis, predominately due to showing the impact of leases transacted between clusters.

The Government is funding the State’s record infrastructure program while ensuring net debt is maintained at manageable levels. This has been made possible by funding capital expenditure through operating surpluses over the forward estimates, reinvesting asset recycling proceeds, and maintaining manageable borrowing levels (see Box 3.4).
Box 3.4: Using the balance sheet to fund record infrastructure investment

Maintaining strong fiscal discipline and manageable levels of debt has helped mitigate the financial impact of drought, bushfires and COVID-19. This allowed the Government to support the State’s economy as these events unfolded, even as COVID-19 dramatically reduced the Government’s cash operating surpluses.

The Government’s cash operating surpluses were funding 44 per cent of the State’s 5-year infrastructure program as at the 2019-20 Half-Yearly Review. Since then, COVID-19 has had a significant impact on the State’s operating cashflows with a higher proportion of the Government’s record infrastructure program required to be funded through borrowings (see Chart 3.5).

Rather than cutting back on infrastructure investment when the State’s economy needs it the most, the Government is taking advantage of historically low interest rates to grow its record infrastructure program. This vital public investment is supporting jobs that will help stimulate private demand through the recovery.

This does not mean future generations will be left holding the bill. The Government is pursuing further asset recycling opportunities and continuing to grow the NGF to help ensure net debt levels remain sustainable over the medium-term.

Chart 3.5: How the balance sheet is supporting the GGS 5-year capital program

Rebuilding balance sheet capacity over the medium-term

Net debt, which is a measure of the State’s capacity to immediately repay debt, is projected to be $53.2 billion (8.4 per cent of GSP forecast) at June 2021, a low level compared to other jurisdictions across Australia despite the significant impact on the State’s finances from the pandemic. The State’s sustainable level of net debt is a result of the Government’s strong financial management and successful asset recycling program in previous financial years and other ongoing balance sheet reforms (see Chapter 6 for more details).
Box 3.5: Asset recycling paves the way forward for infrastructure

The Government’s successful asset recycling program has unlocked over $60 billion in gross proceeds to date, which has been reinvested to benefit the people of New South Wales. Restart NSW has invested over $25 billion (see Budget Paper No. 3 Infrastructure Statement, Chapter 3) to provide much needed infrastructure, including Sydney Metro City and Southwest, WestConnex and various regional projects.

Since the 2019-20 Budget, the Government has committed to additional infrastructure projects, taking its 4-year capital program to $107.1 billion. This is significantly larger than any other State or even the Commonwealth Government’s program over the next four years and is key to New South Wales’ future economic prosperity. This record capital program is being invested in state-shaping and investments including:

- Sydney Metro West
- Sydney Metro Western Sydney Airport
- Western Harbour Tunnel and Warringah Freeway Upgrade
- $1.6 billion Digital Restart Fund
- $3 billion Infrastructure and Job Acceleration Fund

The Government will continue its successful asset recycling program in the 2020-21 Budget, progressing the sale of the State’s residual 49 per cent share in WestConnex, with the net proceeds to be invested into the NSW Generations Fund. The Government in this budget also announces a scoping study into Lotteries Duties.

Through asset recycling and other balance sheet reform measures, the Government is aiming to rebuild balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium term (see Chart 3.6).

Chart 3.6: Projected net debt to GSP over the medium-term (a)

(a) Chart 3.6 does not include the impact of upcoming asset recycling