4. REVENUE

- State revenue has been upgraded by $18.2 billion (4.9 per cent) over the four years to 2024-25 since the 2020-21 Half-Yearly Review. This is largely the result of improved economic activity, rather than new taxes or higher tax rates.
- The State's revenue upgrade is consistent with the recent pattern of revenue upgrades by other Australian governments, including the Commonwealth.
- GST revenue is expected to be $6.4 billion (7.8 per cent) higher over the four years to 2024-25, due to the stronger outlook for household spending and dwelling investment, supported by government stimulus.
- The outlook for non-tax revenues has similarly improved, with a $2.8 billion (25.5 per cent) upgrade to forecast revenue from other dividends and distributions over the four years to 2024-25, due to strong forecast investment returns.
- For the financial year about to conclude (2020-21), forecast revenue, excluding tied grants, is projected to be $3.4 billion below what was forecast prior to the COVID-19 pandemic. However, this contraction is expected to be short-lived and from 2021-22 onwards, the forecast is set to exceed pre-pandemic expectations.
- The temporary reduction in the payroll tax rate from 5.45 per cent to 4.85 per cent will continue in 2021-22, providing tax relief for thousands of businesses across the State and aiding the economic recovery.
- This Budget builds on the Government's tax reform agenda, with measures to abolish motor vehicle duty for electric vehicles and establish the foundations of a fairer and more efficient distance-based road user charge in the future. These reforms will help reduce the upfront costs of electric vehicles and better link road-related taxes to the use of publicly funded roads.

4.1 Revenue

The updated 2020-21 revenue position

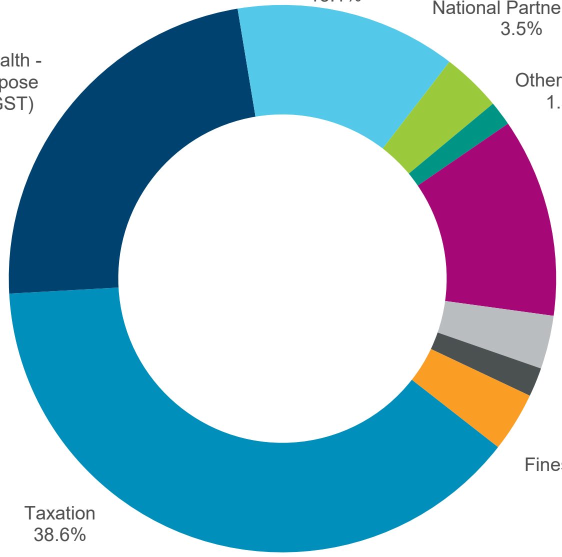
After a decline in 2019-20, Government revenue is projected to increase by 7.7 per cent in 2020-21 to be $87.6 billion. This is $3.0 billion (3.5 per cent) higher than forecast at the 2020-21 Half-Yearly Review in February, although still below pre-COVID forecasts.[1] The main drivers of the change since the Half-Yearly Review are an increase of $1.5 billion in GST revenue, an increase of $1.0 billion in transfer duty and a $542.1 million increase in sales of goods and services revenue.

Revenue for the 2021-22 Budget year

The State expects to generate $93.8 billion in revenue in 2021-22. As Chart 4.1 illustrates, the main sources are taxation revenue (38.6 per cent) and Commonwealth and other grants (41.3 per cent). The 2021-22 outlook for State revenue is $4.0 billion (4.5 per cent) higher than previously forecast.

[1] All references to revenue within this chapter refer to General Government sector revenues. Unless stated otherwise, revisions refer to the 2020-21 Half-Yearly Review, released in February 2021.

Chart 4.1: Composition of total revenue, 2021-22



Revenue across the four-year horizon (2021-22 to 2024-25)

The State's revenue is expected to grow at a compound annual rate of 3.4 per cent over the four years to 2024-25 (Table 4.1). This is a stronger growth rate than previously projected (2.7 per cent). Major drivers include:

- taxation revenue, forecast to grow by 3.2 per cent per annum on average over the four years to 2024-25
- grant revenue (including GST), expected to grow at an average annual rate of 3.4 per cent.

Table 4.1: General government sector – summary of revenue and its components

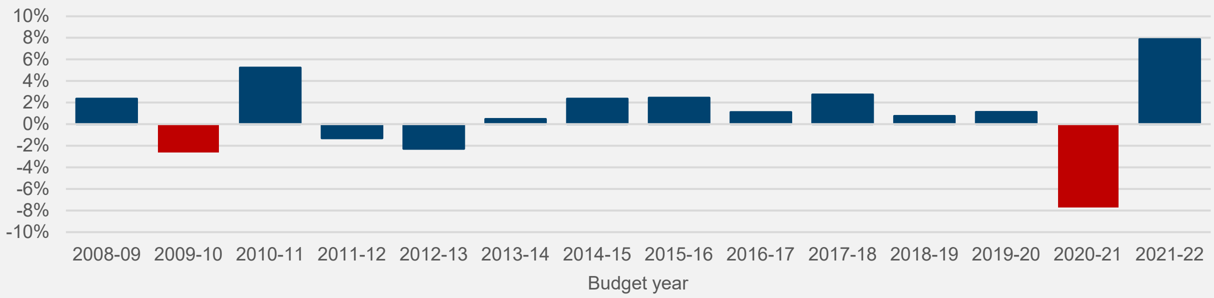
	2019-20 Actual $m	2020-21 Revised $m	2021-22 Budget $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	% Average growth p.a. 2020-21 to 2024-25	% Share of Revenue over 4 years to 2024-25
Revenue from transactions								
Taxation	29,941	33,981	36,201	37,910	38,249	38,501	3.2	38.7%
Grants and subsidies (including GST)	34,306	36,243	38,750	40,166	40,751	41,477	3.4	41.4%
Sale of goods and services	8,713	9,542	11,026	10,156	9,919	8,598	(2.6)	10.2%
Interest	364	316	287	319	337	333	1.3	0.3%
Dividends and income tax equivalents from other sectors	1,354	1,066	682	763	919	2,021	17.3	1.1%
Other dividends and distributions	2,426	2,384	2,276	2,984	3,679	4,859	19.5	3.5%
Royalties	1,683	1,426	1,608	1,575	1,571	1,612	3.1	1.6%
Fines, regulatory fees and other revenues	2,578	2,667	3,014	2,919	3,054	2,927	2.3	3.1%
Total revenue	**81,367**	**87,626**	**93,846**	**96,792**	**98,479**	**100,328**	**3.4**	
Annual change	*-0.4%*	*7.7%*	*7.1%*	*3.1%*	*1.7%*	*1.9%*		

Over the four years to 2024-25, revenue is forecast to be $18.2 billion (4.9 per cent) higher than previously forecast (Table 4.2:). The significant upgrade is consistent with recent revenue upgrades in other jurisdictions' budgets. The drivers of the upgrade are broad-based and include GST revenue (up $6.4 billion), other dividends and distributions (up $2.8 billion), land tax (up $2.4 billion), grant revenues excluding GST (up $2.0 billion), transfer duty (up $1.4 billion) and payroll tax (up $1.2 billion).

Box 4.1: The revenue outlook reflects the strength of the economic recovery

The pandemic had an immediate impact on expected revenue collection. The scale of the initial revenue downgrade was unprecedented, and three times greater than the forecast downgrade at the onset of the Global Financial Crisis (GFC).

Chart 4.2: Percentage change in four-year forecasts for total revenue from previous Budget (excluding tied grants) – GFC and COVID-19



Equally remarkable, however, has been the pace of economic recovery from the height of the pandemic, which has led to a strong rebound in revenue projections both in New South Wales and in other jurisdictions.

Effective government stimulus and the success of the public health response have led to an improved economic outlook, which in turn flows directly into revenue growth. In particular:

- stronger household consumption and dwelling investment increases GST
- confidence in the housing market drives:
  - more property transactions, increasing transfer duty
  - higher land values, increasing land tax revenues
- higher employment increases payroll taxes.

Chart 4.3 illustrates how expectations have changed throughout the pandemic in relation to key revenue drivers. The baseline is the 2019-20 Half-Yearly Review (December 2019), which was before the onset of COVID-19 in Australia.

Chart 4.3: Expectations for level of key economic variables in 2020-21 (2019-20 Half-Yearly Review = 100)

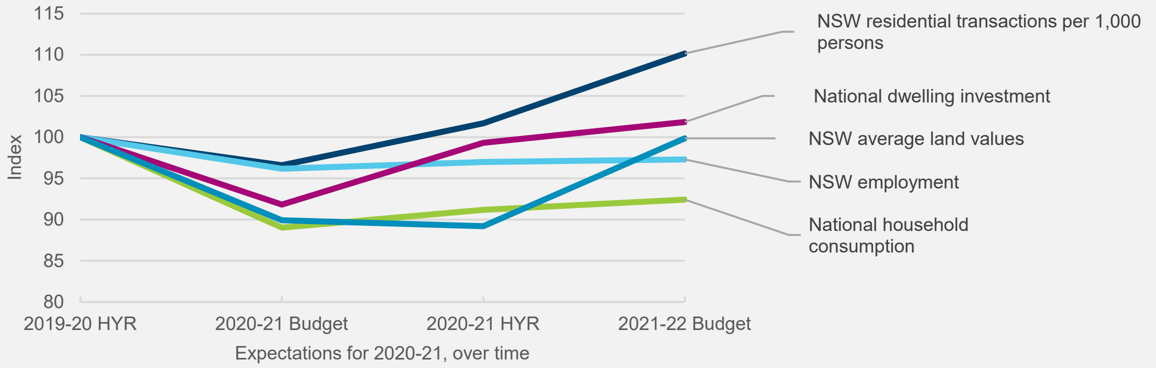


Table 4.2: Revenue reconciliation

	2020-21 Revised	2021-22 Budget	2022-23	2023-24 Forward Estimates	2024-25	Four years to 2024-25
	$m	$m	$m	$m	$m	$m
Revenue - 2020-21 Budget	**82,149**	**87,689**	**90,601**	**92,930**	**n.a.**	**n.a.**
Policy measures	4	203	411	271	n.a.	n.a.
Parameter and other variations	2,500	1,952	1,556	1,294	n.a.	n.a.
Revenue - 2020-21 Half-Yearly Review	**84,654**	**89,845**	**92,568**	**94,496**	**94,298**	**371,207**
Policy changes since 2020-21 Half-Yearly Review	601	440	623	440	253	1,756
Parameter changes since 2020-21 Half-Yearly Review						
Taxation						
Payroll tax	139	163	203	375	499	1,240
Transfer duty	1,006	2,224	891	(640)	(1,080)	1,394
Land tax	1	163	394	741	877	2,176
Motor vehicle stamp duty	26	23	18	18	28	88
Other taxes	(45)	131	170	154	198	654
Grant revenue						
GST	1,514	1,426	1,845	1,709	1,454	6,434
National Agreement payments	250	316	(103)	24	182	418
National Partnership payments	(589)	(1,078)	208	97	1,530	757
Other grant revenue	(162)	117	(4)	(28)	31	115
Sale of goods and services	560	(23)	(149)	706	(90)	444
Interest income	(38)	(43)	(51)	(21)	(17)	(132)
Dividends and income tax equivalents	(1)	(6)	(188)	(130)	1,159	835
Other dividends and distributions	53	163	366	576	1,040	2,145
Royalties	(12)	51	(0)	(22)	2	30
Fines, regulatory fees and other revenues	(331)	(65)	2	(16)	(36)	(116)
Total changes since 2020-21 Half-Yearly Review	**2,973**	**4,001**	**4,225**	**3,983**	**6,030**	**18,238**
Revenue - 2021-22 Budget	**87,626**	**93,846**	**96,792**	**98,479**	**100,328**	**389,445**

4.2 Revenue measures since 2020-21 Half-Yearly Review

NSW Government decisions since the 2020-21 Half-Yearly Review (including those subject to Commonwealth agreements) are forecast to increase revenue by $440.1 million in 2021-22 and by $1.8 billion over the four years to 2024-25.

Exempting electric vehicles from motor vehicle stamp duty

The Government will progressively abolish motor vehicle stamp duty on electric vehicles.

From 1 September 2021, new and second-hand battery electric vehicles and hydrogen fuel cell vehicles (FCEVs) under $78,000 will be exempt from motor vehicle duty. This exemption will be extended to all zero and low emissions vehicles (ZLEVs), new and used, from the start date of the new road user charge. Exempting these vehicles from motor vehicle stamp duty will remove the largest upfront cost in terms of NSW government fees and charges.

This measure is expected to lower motor vehicle stamp duty by $9.7 million in 2021-22 and $200.5 million in total over the four years to 2024-25. It is expected to reduce revenue by around $2.1 billion over the 10 years to 2030-31.

Establishing a distance-based road user charge for ZLEVs

The NSW Government will introduce a road user charge (RUC) on ZLEVs, to commence from the earlier of 1 July 2027 or such time as battery electric vehicles comprise 30 per cent of new vehicle sales in New South Wales. The charge will be levied at a rate of 2.5 cents per kilometre (in 2021-22 dollars) and indexed annually at Sydney Consumer Price Index.

Electric vehicles that receive a duty exemption will be subject to the RUC once it commences. The revenue from the RUC is not expected to be realised until 2027-28 and is expected to increase revenue by $1.2 billion over the 10 years to 2030-31.

Land tax surcharge compliance

Investment in system upgrades and improved data management in Revenue NSW will make it easier for taxpayers to manage their surcharge land tax obligations and facilitate improved compliance, increasing land tax revenue by $194.0 million over the four years to 2024-25.

NSW Generations Fund (NGF) distributions

Additional contributions will be made into the NGF, including redirecting surplus cash, TCorp dividends and income tax equivalents. This is expected to increase investment returns in the NGF by $655.6 million over the four years to 2024-25.

Natural Disaster Relief Arrangements

Under the joint Commonwealth Government-State Disaster Recovery Funding Arrangements, the NSW Government is expected to receive Commonwealth assistance of $362.1 million over the four years to 2024-25.

Extension of levy on point to point services

An extension of the Government's existing $1 levy on all point to point transport trips is expected to raise an additional $154.2 million over the three years to 2024-25. In recognition of ongoing reforms in the point to point sector, this additional revenue will be used to fund an industry assistance package. The Minister administering the *Point to Point Transport (Taxis and Hire Vehicles) Act 2016* may by order published in the Gazette specify the levy repeal day, after which the levy is not payable for any passenger service.

Deregulating the supply of taxi licenses

Removing supply restrictions on taxi licenses in New South Wales and introducing non-transferable taxi licenses available on request for an administrative fee will result in revenue loss of $13.1 million over the four years to 2024-25.

Government response to NSW Bushfire Inquiry - Insurers' Emergency Services Levy and councils' contribution

As a consequence of the Government adopting recommendations from the independent NSW Bushfire Inquiry, insurers' Emergency Services Levy and council's contributions are expected to increase revenue by $148.0 million over the four years to 2024-25 to fund the recommended initiatives. These initiatives provide fleet replacement, personal protective equipment, mental health support and aerial fire-fighting and training.

Domestic and Family Violence Funding

Under a Domestic Violence National Partnership announced in the 2021-22 Commonwealth Budget, the NSW Government is expected to receive an additional $80.0 million in grant revenue from the Commonwealth over the two years to 2022-23.

NSW Electricity Infrastructure Roadmap

The implementation of the NSW Electricity Infrastructure Roadmap is expected to result in an increase in revenue of $21.6 million over the two years to 2024-25.

COVID-19 National Partnership Agreement

Additional Commonwealth revenues of $259.9 million, related to the COVID-19 National Partnership Agreement, are expected in 2021-22.

Table 4.3: New revenue measures

	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	Four years to 2024-25 $m
Exempting electric vehicles from motor vehicle stamp duty from 1 September 2021	(9.7)	(28.3)	(57.5)	(105.0)	**(200.5)**
Land tax surcharge compliance	50.0	87.5	39.0	17.5	**194.0**
NSW Generations Fund (NGF) distributions	79.7	163.0	192.3	220.6	**655.6**
Natural Disaster Relief Arrangements	19.5	238.4	91.4	12.8	**362.1**
Extension of levy on point to point services	...	51.4	51.4	51.4	**154.2**
Deregulating the supply of taxi licenses	(3.2)	(3.2)	(3.3)	(3.4)	**(13.1)**
Government response to NSW Bushfire Inquiry - Insurers' Emergency Services Levy and councils' contribution	7.3	58.3	79.6	2.9	**148.0**
Domestic and Family Violence Funding	40.0	40.0	...	...	**80.0**
NSW Electricity Infrastructure Roadmap	...	...	10.8	10.8	**21.6**
COVID-19 National Partnership Agreement	259.9	...	...	...	...
Other measures	(3.3)	15.9	36.7	45.4	**94.7**
Total - revenue measures	**440.1**	**623.0**	**440.4**	**253.0**	**1,756.5**

The following sections of this Chapter provide a breakdown of State revenue over the next four years. There are three categories of State Revenue:

- state taxation (38.7 per cent of total State revenue over the four years to 2024-25)
- grant revenue (41.4 per cent of total State revenue over the four years to 2024-25) – these are payments made to New South Wales, primarily from the Commonwealth Government
- non-taxation revenue (19.9 per cent of total State revenue over the four years to 2024-25) – this is revenue the State raises through other means, for example mineral royalties.

Box 4.2: Tax reform and incentives to support the shift to electric vehicles

This Budget announces a comprehensive package of incentives to support the take-up of electric vehicles (EVs) in NSW and establish the foundations for a more efficient and sustainable revenue base to support road funding. The package is worth almost $500 million over four years.

The social and economic benefits of EVs are significant: they are cheaper to run, quieter on the road and help reduce air pollution and greenhouse gas emissions. However, EVs currently comprise less than one per cent of vehicle sales in NSW. Increasing the share of EVs on NSW roads will help realise these benefits, as well as contribute to the State's goal of net zero greenhouse gas emissions by 2050.

Lowering the cost of electric vehicles

While the cost of EVs is projected to fall in coming years, the upfront cost currently remains the largest barrier to their take-up. To lower the purchase cost, battery electric and hydrogen fuel cell vehicles costing less than $78,000 will be exempt from vehicle duty from 1 September 2021. The duty exemption will be extended to all zero and low emission vehicles, including battery electric vehicles, fuel cell electric and plug-in hybrid vehicles from the start date of the RUC.

The Government will also provide a rebate of $3,000 for the first 25,000 new battery and fuel cells EVs priced below $68,750. This rebate will commence from 1 September 2021. These policies will provide those purchasing an eligible vehicle with an immediate benefit of up to $5,540.

Investing in charging infrastructure

EV uptake will also be accelerated by investment in charging infrastructure across the State. This will include, where feasible, ultra-fast vehicle chargers at intervals of 100km on major NSW highways, and 5km on major Sydney commuter corridors, and additional charging infrastructure in areas with limited off-street parking, in commuter car parks and in regional tourist areas.

Targets to electrify the NSW Government fleet

The NSW Government will set a target to convert its passenger fleet to electric vehicles. Under the plan, EVs will comprise 50 per cent of new Government passenger fleet vehicles by 2025-26, increasing to 100 per cent by 2029-30.

A more efficient road user charging system

As EVs take-up increases over time, fuel excise revenue needed to help pay for road construction and maintenance is expected to go into long-term structural decline. To address this challenge, the NSW Federal Financial Relations Review recommended the introduction of a road user charging scheme, using electric vehicles as a pilot.

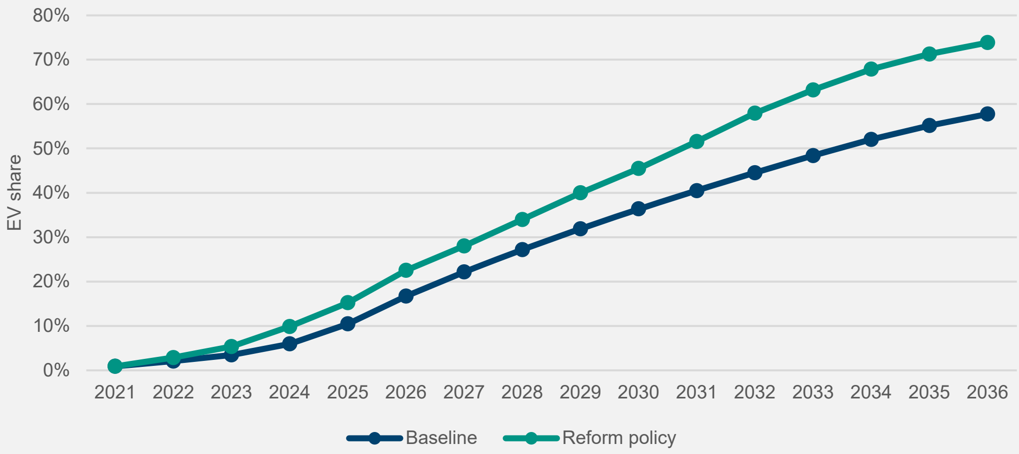
A road user charge will commence from the earlier of 1 July 2027, or the time when battery EVs reach 30 per cent of new vehicle sales in NSW. The RUC will apply to all battery, fuel cell and plug in hybrid EVs that were eligible for a stamp duty exemption at the point of purchase. The RUC will be set at 2.5 cents per kilometre (in 2021-22 dollars, indexed by the Sydney CPI) for battery and fuel cell EVs, and 2 cents per kilometre for plug in hybrids.

Effects of the policy package

The policy package will accelerate take-up of electric vehicles, phase out economically costly vehicle stamp duties and gradually phase in a distance-based road user charge. Replacing vehicle duty with a road user charge will deliver long-run productivity benefits equivalent to a $160 increase in average annual household income. The RUC will also provide a new own-source revenue base, providing NSW with greater autonomy in road expenditure.

Chart 4.4 illustrates the expected effect on EV take-up. This reform is projected to increase the share of electric vehicles as a proportion of total vehicle sales by 9 percentage points by 2030, and 15 percentage points by 2036.

Chart 4.4: Electric vehicles as a share of total vehicle sales in New South Wales



4.3 Taxation revenue

Taxation revenue is expected to be $36.2 billion in 2021-22 (see Table 4.4:), which is $2.7 billion (8.2 per cent) higher than forecast at the 2020-21 Half-Yearly Review. Over the four years to 2024-25, taxation revenue has been revised upwards by $5.8 billion (4.0 per cent).

Transfer duty is expected to overtake payroll tax as the largest source of taxation revenue from 2020-21 to 2022-23, due to both the strength in the residential property market and the impact of temporary payroll tax relief. Transfer duty is expected to account for 31.6 per cent of taxation revenue in 2021-22, while payroll tax is expected to account for 24.7 per cent.

Payroll tax

Payroll tax has been revised up by $1.2 billion (3.1 per cent) over the four years to 2024-25 compared to the 2020-21 Half-Yearly Review. This primarily reflects higher expectations for wages growth, driven by reduced spare capacity in the labour market.

As part of the COVID-19 response, the Government gave all payroll tax-paying businesses in New South Wales the option to defer payroll tax returns and payments until 30 October 2020. As a result, deferred payroll tax for some businesses was not confirmed until deferred annual reconciliations were finalised. This component of deferred 2019-20 payroll tax has been recognised in 2020-21 instead of 2019-20.

Payroll tax revenue is forecast to grow at an average annual rate of 5.5 per cent over the four years to 2024-25 reflecting growth in employment and wages, and the expiry of the temporary reductions in the payroll tax rate in 2022-23 (see Chart 4.5).

Chart 4.5: Annual payroll tax

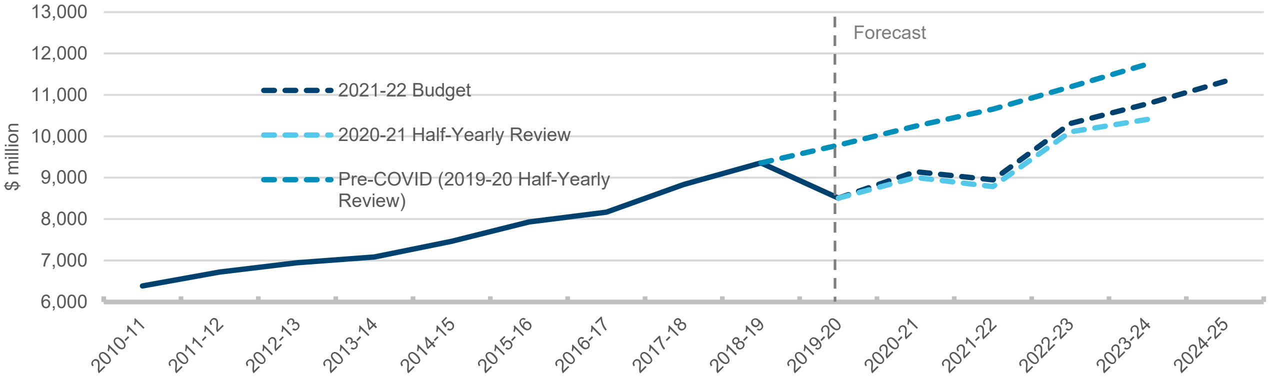


Table 4.4: General government sector – summary of taxation revenue

	2019-20 Actual $m	2020-21 Revised $m	2021-22 Budget $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m	% Average growth p.a. 2020-21 to 2024-25
Stamp duties							
Transfer duty	6,955	9,379	11,448	10,993	10,127	9,227	(0.4)
Insurance	1,091	1,155	1,215	1,272	1,333	1,396	4.8
Motor vehicles	768	938	871	874	879	875	(1.7)
Other	1	3	0	0	0	0	...
	8,815	**11,475**	**13,533**	**13,140**	**12,339**	**11,499**	**0.1**
Payroll tax (a)	8,508	9,144	8,947	10,309	10,786	11,330	5.5
Land tax	4,477	4,663	4,767	5,051	5,418	5,702	5.2
Taxes on motor vehicle ownership and operation							
Weight tax	2,256	2,337	2,460	2,551	2,654	2,771	4.4
Vehicle transfer fees (b)	53	59	61	64	67	71	4.5
Other motor vehicle taxes	35	45	46	47	49	51	3.2
	2,344	**2,441**	**2,567**	**2,662**	**2,770**	**2,893**	**4.3**
Gambling and betting taxes							
Racing	174	214	208	222	238	255	4.5
Club gaming devices	625	830	845	865	890	922	2.6
Hotel gaming devices	756	1,035	1,071	1,131	1,202	1,268	5.2
Lotteries and lotto	473	514	546	527	512	526	0.6
Casino	169	149	219	277	289	304	19.5
Other gambling & betting	10	16	16	17	18	19	5.5
	2,207	**2,757**	**2,905**	**3,040**	**3,149**	**3,293**	**4.5**
Other taxes and levies							
Health insurance levy	214	220	225	231	237	244	2.6
Parking space levy	109	104	109	114	116	118	3.3
Emergency services levy contributions	907	1,087	915	1,024	1,029	951	(3.3)
Emergency services council contributions	175	147	163	163	151	155	1.3
Waste and environment levy	749	751	761	783	832	832	2.6
Government guarantee fee	322	289	358	379	399	441	11.1
Private transport operators levy	68	82	14	56	56	56	(9.0)
Pollution control licences	18	26	26	27	18	18	(8.7)
Other taxes	1,027	795	911	932	949	970	5.1
	3,590	**3,501**	**3,483**	**3,709**	**3,787**	**3,784**	**2.0**
Total taxation revenue	**29,941**	**33,981**	**36,201**	**37,910**	**38,249**	**38,501**	**3.2**
Annual change		*13.5%*	*6.5%*	*4.7%*	*0.9%*	*0.7%*	

(a) Due to the deferral of payroll tax returns, deferred 2019-20 payroll tax for some businesses will not be confirmed until deferred annual reconciliations are finalised. This component of deferred 2019-20 payroll tax is recognised as revenue in 2020-21 instead of 2019-20.

(b) Vehicle registration fees are no longer recorded as taxation revenue as they have been reclassified to fines, regulatory fees and other revenue to comply with accounting standard AASB 15.

Transfer duty

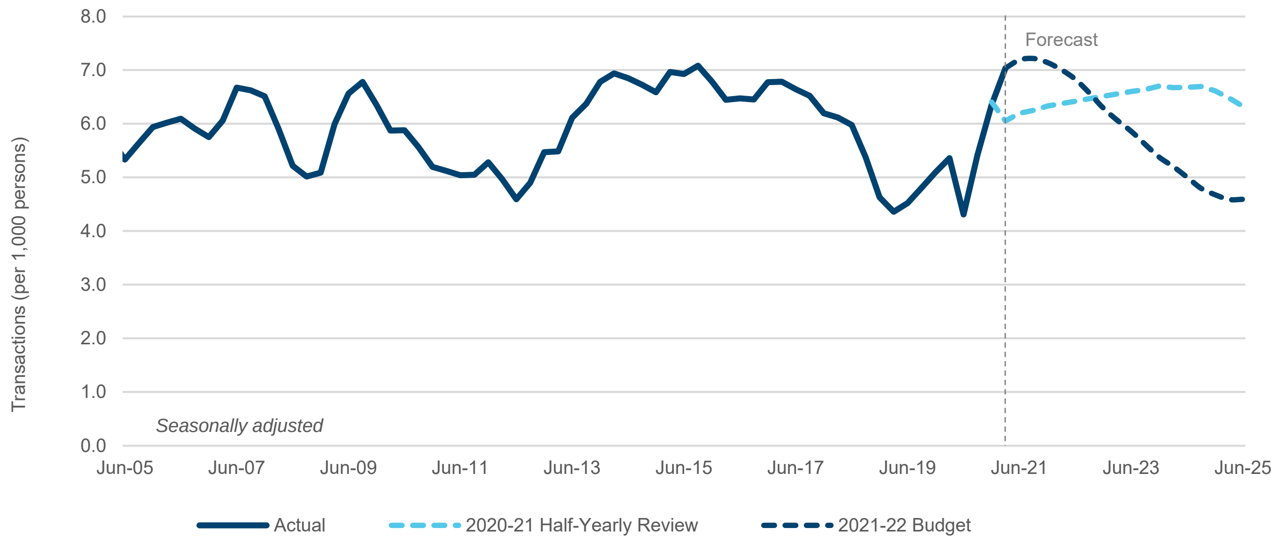
The amount of transfer duty collected is a function of both property prices and sales volumes. Transfer duty revenues have been revised up by $1.0 billion (12.0 per cent) in 2020-21 and $1.4 billion (3.5 per cent) over the four years to 2024-25, although the expected transaction profile has also shifted forward substantially since the 2020-21 Half-Yearly Review. As a result, transfer duty is expected to be:

- $4.1 billion higher over the three years to 2022-23, but
- $1.7 billion lower over the following two years to 2024-25.

This significant reprofiling is largely due to residential property market expectations. Transactional activity in recent months has been much stronger than expected at the time of the 2020-21 Half-Yearly Review. Historical experience suggests this more pronounced cycle will bring transactional activity forward in time rather than increase the aggregate number of transactions over an extended period (see Chart 4.6:). Residential property prices are also expected to be materially higher over the four years to 2024-25.

The outlook for commercial property values has also improved, particularly for industrial and prime office space. This is due to stronger employment growth and business trading conditions, and low interest rates globally. These factors are expected to drive an increase in transfer duty on non-residential property.

Chart 4.6: Residential transactions per 1,000 persons (quarterly)



Land tax

Land tax revenue is expected to be $4.8 billion in 2021-22, $213.4 million (4.7 per cent) above previous expectations. Land tax is forecast to grow by 5.2 per cent on average over the four years to 2024-25, $2.4 billion (12.8 per cent) higher than expected at the 2020-21 Half-Yearly Review. This uplift is largely due to expectations for higher average land values than previously forecast.

Gambling and betting taxes

Gambling tax revenue is expected to be $2.8 billion in 2020-21, a downward revision of $45.7 million (1.6 per cent). Over the four years to 2024-25, forecast gambling receipts have been revised up by $214.6 million (1.8 per cent).

The downgrade in 2020-21 mostly reflects a $51.7 million reduction in hotel and club gaming device revenue, reflecting slightly softer levels of gaming activity relative to expectations at the 2020-21 Half-Yearly Review. From 2021-22, stronger household income is expected to increase forecast gaming device revenue by $127.2 million over the four years to 2024-25.

Racing and sports wagering revenue has been revised up by $141.8 million (18.2 per cent) over the four years to 2024-25. The upward revision reflects continued elevated levels of wagering receipts following the easing of COVID-related restrictions, with significant strength in online wagering.

Taxes on motor vehicle ownership and operation

Motor vehicle taxes are expected to be $2.6 billion in 2021-22, $102.6 million (4.2 per cent) higher than at the 2020-21 Half-Yearly Review. Forecast motor vehicle taxes have increased by $512.5 million (4.9 per cent) over the four years to 2024-25, reflecting lower tolling relief concession claims and higher vehicle fleet growth.

Other stamp duties

This category incorporates insurance duty and motor vehicle registration duty. Revenue is forecast to reach $2.1 billion in 2021-22 and has been revised downwards by $66.9 million (0.8 per cent) over the four years to 2024-25.

Motor vehicle registration duty has been revised downwards by $113.0 million (3.1 per cent) over the four years to 2024-25, due to the decision to remove stamp duty on electric vehicle purchases (see Box 4.2). This is partly offset by an uplift in expectations for stamp duty more broadly due to stronger-than-expected duty collections

Insurance duty revenue has been stronger than previously expected, resulting in an increase in forecast duty revenue of $46.1 million (0.9 per cent) over the four years to 2024-25.

Other taxes and levies

Other taxes and levies are expected to provide $3.5 billion in 2021-22, growing at an average annual rate of 2.0 per cent in the four years to 2024-25.

Revenue from the Emergency Services Levy (ESL), including insurer and council contributions, is forecast to be $1.1 billion in 2021-22 and $4.6 billion over the four years to 2024-25. This is $289.2 million (6.0 per cent) lower over the four years to 2024-25 compared to the 2020-21 Half-Yearly Review. The decrease reflects lower-than-expected claims associated with the workers compensation scheme to provide greater care and support for firefighters diagnosed with one of 12 prescribed cancers. This is partly offset by higher expenditure associated with new and continued measures to implement recommendations from the NSW Bushfire Inquiry. The downgrade in ESL revenue has been partly offset by the extension of the Passenger Services Levy.

4.4 Grant revenue

Most of the State's grant revenue is from the Commonwealth, primarily consisting of:

- general purpose grants (including GST)
- specific purpose payments, in the form of National Agreements and Federation Funding Agreements (including National Partnerships and Project Agreements).

Commonwealth grant revenue is expected to grow by $2.5 billion in 2021-22 to $38.1 billion, and to reach $40.9 billion by 2024-25.

Table 4.5: Grant revenue

	2019-20 Actual $m	2020-21 Revised $m	2021-22 Budget $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	% Average growth p.a. 2020-21 to 2024-25
Commonwealth - general purpose	18,073	18,926	21,819	22,302	22,265	22,432	4.3
GST revenue (including "no worse off" payments	18,066	18,892	21,784	22,274	22,263	22,432	4.4
Other general purpose grants	8	34	35	28	2	...	...
Commonwealth - National Agreements	11,278	12,055	12,261	12,422	13,089	13,760	3.4
Commonwealth - National Partnerships	3,886	4,088	3,300	4,308	4,159	4,064	(0.1)
Other Commonwealth payments	455	525	725	541	575	618	4.1
Total Commonwealth grants	**33,694**	**35,594**	**38,105**	**39,572**	**40,089**	**40,874**	**3.5**
Annual change in Commonwealth grants	*5.8%*	*5.6%*	*7.1%*	*3.8%*	*1.3%*	*2.0%*	
Other grants	613	649	645	594	662	603	(1.8)
Total grant revenue	**34,306**	**36,243**	**38,750**	**40,166**	**40,751**	**41,477**	**3.4**

General purpose grants

New South Wales will receive $18.9 billion in GST revenue in 2020-21, which is $1.5 billion (8.7 per cent) higher than forecast at the 2020-21 Half-Yearly Review. The increase reflects an upgrade in the Commonwealth's forecasts for the national GST pool at the 2021-22 Budget, following stronger-than-expected GST receipts collected by the Australian Taxation Office over the year to April 2021. This reflects an improved economic outlook and repayments of deferred GST.

Over the four years to 2024-25, GST revenue is forecast to grow by an average of 4.4 per cent per year, resulting in an additional $6.4 billion (7.8 per cent) over the same period than expected at the 2020-21 Half-Yearly Review. This is a significant upgrade and reflects an increase in both the size of the national GST pool and NSW's GST share (see Box 4.3:).

Table 4.6: GST (including "no worse off") revenues to New South Wales – reconciliation statement[(a)]

	2020-21 Revised $m	2021-22 Budget $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	Four years to 2024-25 $m
2020-21 Budget	**16,272**	**19,593**	**19,892**	**20,055**	**20,461**	**80,001**
Change due to:						
Change in population	(0)	(1)	(2)	(1)	(0)	(4)
Change in pool	1,106	728	485	589	894	2,695
Change in relativities	…	35	(138)	(346)	(682)	(1,131)
'No worse off' payments	…	4	191	257	306	758
2020-21 Half-Yearly Review	**17,378**	**20,358**	**20,429**	**20,554**	**20,978**	**82,319**
Change due to:						
Change in population	(14)	(33)	(48)	(58)	(8)	(148)
Change in pool	1,528	1,256	1,271	1,010	706	4,244
Change in relativities	…	195	524	598	659	1,976
'No worse off' payments	…	7	98	159	98	362
2021-22 Budget	**18,892**	**21,784**	**22,274**	**22,263**	**22,432**	**88,753**
Change since 2020-21 Half-Yearly Review	**1,514**	**1,426**	**1,845**	**1,709**	**1,454**	**6,434**

(a) The Commonwealth Government will provide separate untied grants from 2021-22 to 2026-27 so that states and territories are not adversely affected by changes to horizontal fiscal equalisation in the form of "no worse off" payments. These payments are not part of the GST pool, are counted as other general purpose grant revenue and are not assessed by the Commonwealth Grants Commission.

Box 4.3: Outlook for GST revenue

New South Wales' share of GST is, in large part, driven by two factors – the size of the national pool and the share of the pool provided to New South Wales (the relativity).

Upgrades to the GST pool

The national GST pool is expected to be $20.6 billion higher over the five years to 2024-25 compared to the forecast at the 2020-21 Half-Yearly Review. The larger pool reflects a stronger outlook for Australia's economy, as well as greater-than-expected repayments of GST debt.

The national GST pool is on track to return to its pre-COVID trajectory in 2020-21 and 2021-22, despite population remaining lower than pre-COVID expectations. This near-term strength is supported by:

- a strengthened outlook for dwelling investment, supported by the Commonwealth's *HomeBuilder* program
- the impact of the closure of international borders – leading to consumers substituting overseas spending (which does not incur GST) with spending on domestic tourism and other discretionary spending.

While the continued improvement in the economy will continue to support GST collections, the effect of the factors mentioned above is likely to taper over time. This is expected to result in a smaller upgrade in the GST pool from 2023-24 relative to the prior two years.

NSW relative share of the GST pool

New South Wales' relativity is expected to be higher over the forecast period. The Commonwealth Grants Commission's (CGC) most recent recommendations for the State's relativity in 2021-22 was higher than expected at the 2020-21 Half-Yearly Review. This has resulted in an upgrade in NSW Treasury's forecasts for New South Wales' GST relativity over the four years to 2023-24. This upward revision compounds the upgrade in NSW relativity following the CGC's comprehensive five-yearly methodology review completed in 2020.

Looking forward, NSW GST revenue forecasts from 2022-23 onwards will be subject to heightened uncertainty because of differences in the way that the COVID-19 pandemic has affected each state and territory.

Box 4.4: Commonwealth changes to how GST is distributed under horizontal fiscal equalisation (HFE) are inequitable and unsustainable

In 2018, the Commonwealth Government legislated changes that changed how GST is distributed amongst states and territories. This included the introduction of a relativity floor (that is, a minimum share of GST) that a state or territory receives. The changes will be implemented over a six-year transition period from 2021-22 to 2026-27.

For New South Wales the changes are expected to reduce GST revenue by around $1.3 billion in both 2022-23 and 2023-24. However, New South Wales is currently protected from the reduction in GST by a temporary, legislated 'no worse off guarantee'. This guarantee requires the Commonwealth to compensate states' shortfalls in GST revenue between the old and new arrangements until 2026-27. All states and territories, other than Western Australia, are reliant on these no worse off payments.

In the meantime, Western Australia is benefiting on two fronts – receiving a GST top-up payment of $1.5 billion in 2021-22, while also enjoying record growth in iron ore royalty revenue. Directing GST revenue to Western Australia, at a time when it is running an average surplus of $1.9 billion, is inequitable and unfair to other states.

Under the Commonwealth's changes, the cost of these payments is progressively transferred onto other states and territories through foregone GST revenue. Once fully implemented by 2026-27, GST will be distributed in a way that effectively subsidises the state with the greatest fiscal capacity. This means the Western Australian Government can provide greater access to potentially higher quality services and more infrastructure to its residents at a lower taxation burden.

The affordability of the changes is also a major concern. The cost of the changes is currently almost twice as much as originally anticipated. The 2021-22 Commonwealth Budget estimates the total cost of the new arrangements will be over $10 billion from 2019-20 to 2023-24. This is significantly more than the $3.7 billion originally estimated by the Commonwealth in 2018. This is contributing to the Commonwealth's own deficit at a time when these dollars could have been better spent on productivity-enhancing reforms that support the post-pandemic recovery.

New South Wales will continue to advocate for a fairer GST distribution that supports productivity growth and economic efficiency, and ensures states and territories can continue to fund and deliver high-quality services and infrastructure in a sustainable way.

National Agreements

This category comprises payments for specific purposes from the Commonwealth to the states and territories under the:

- National Health Reform Agreement
- National School Reform Agreement
- National Housing and Homelessness Agreement
- Specific Purpose Payment made relating to the National Agreement for Skills and Workforce Development.

Revenue from National Agreements is forecast to total $12.3 billion in 2021-22, an increase of $206.6 million (1.7 per cent) on 2020-21. These revenues are expected to grow at an average annual rate of 3.4 per cent over the four years to 2024-25. Table 4.7 summarises National Agreement payments by key service delivery area.

Since the 2020-21 Half-Yearly Review, revenue from National Agreements increased by $250.3 million (2.1 per cent) in 2020-21 primarily due to a $243.5 million increase in expected National Health Reform Agreement (NHRA) payments under the COVID-19 Response National Partnership. The projected additional revenue supports critical elements of the pandemic response including vaccine distribution.

National Agreement revenue has increased by $674.6 million (1.3 per cent) over the four years to 2024-25 since the Half-Yearly Review. This is primarily due to:

- $395.2 million in 2021-22, which is mainly attributable to an increase in expected NHRA payments under the COVID-19 Response National Partnership
- $258.2 million increase in forecast payments under the National School Reform Agreement (NSRA) over the four years to 2024-25, reflecting technical adjustments and revised student enrolment estimates as per the 2021-22 Commonwealth Budget.

Table 4.7: National Agreement payments to New South Wales

	2019-20 Actual	2020-21 Revised	2021-22 Budget	2022-23	2023-24 Forward Estimates	2024-25	% Average growth p.a. 2020-21 to 2024-25
	$m	$m	$m		$m		
Health	7,667	8,255	8,259	8,207	8,698	9,219	2.8
Education	2,637	2,815	3,010	3,212	3,386	3,526	5.8
Skills and workforce development	491	495	499	504	510	515	1.0
Affordable housing	483	489	493	499	495	501	0.6
Total National Agreement payments	**11,278**	**12,055**	**12,261**	**12,422**	**13,089**	**13,760**	**3.4**

National Partnerships (incorporating Federation Funding Agreements)

The Commonwealth provides National Partnership payments to support specified projects, ongoing service delivery or service delivery improvements. This also includes schedules under the five new sector-based Federation Funding Agreements.

NSW Government revenue from National Partnerships is expected to be $3.3 billion in 2021-22, a downgrade of $865.5 million (20.8 per cent) compared to the 2020-21 Half-Yearly Review. This downgrade mainly reflects the anticipated profile of transport infrastructure related revenues from the Commonwealth. Revenue from National Partnerships is expected to remain stable on average over the four years to 2024-25 (see Table 4.8).

Since the Half-Yearly Review, revenue from National Partnerships remained largely unchanged in 2020-21; however, over the four years to 2024-25, revenues are projected to increase by $1.2 billion. This is primarily driven by:

- $362.1 million in projected Commonwealth contributions over four years from 2021-22 under Disaster Recovery Funding Arrangements
- $314.1 million in increased funding under the National Partnership Agreement on Land Transport Infrastructure Projects stemming from announcements in the Commonwealth's 2021-22 Budget including application of methodology changes and relevant accounting standards
- HomeBuilder revenue, which has increased by $288.2 million over 2021-22 and 2022-23 due to the Commonwealth announcement to extend the timeframe for construction to commence from six months to 18 months for eligible applicants. This revenue is passed through to HomeBuilder applicants and therefore has no net impact on the Budget

- $162.2 million in expected revenue for various water infrastructure projects including:
  - $60.0 million in 2021-22 for early works and business cases regarding water security measures in the Lachlan and Peel Valleys
  - $51.2 million over three years from 2021-22 for the Eurobodalla Southern Storage System.
- $80.0 million in expected revenue under the new National Partnership on family, domestic and sexual violence as announced in the 2021-22 Commonwealth Budget.

Transport revenue comprises the largest component of total National Partnership revenues, with $12.0 billion anticipated over the four years to 2024-25, and growth expected at an average annual rate of 11.5 per cent over the same period.

Table 4.8: National Partnership payments to New South Wales

	2019-20 Actual	2020-21 Revised	2021-22 Budget	2022-23	2023-24 Forward Estimates	2024-25	% Average growth p.a. 2020-21 to 2024-25
	$m	$m	$m	$m	$m	$m	
Transport	2,126	2,432	1,834	2,980	3,443	3,759	11.5
Education and skills	244	392	112	...	...	...	-
Disability	607	618	630	350	362	...	-
Health	115	100	90	49	84	130	6.7
Housing	...	187	231	58	...	...	
Environment	696	138	230	447	54	36	(28.5)
Other	99	221	174	425	216	139	(10.9)
Total National Partnership payments	**3,886**	**4,088**	**3,300**	**4,308**	**4,159**	**4,064**	**(0.1)**

Other Commonwealth payments

Other Commonwealth payments are expected to provide $724.9 million in 2021-22, an increase of $199.8 million (38.1 per cent) on 2020-21 levels. Since the Half-Yearly Review revenue in 2020-21 has fallen by $122.5 million (-18.9 per cent), mainly due to revisions to aged care assessment and Home and Community Care payments based on activity levels. Revenue from other Commonwealth grants is expected to grow by 4.1 per cent per annum on average over the four years to 2024-25.

Other grants

Other grants are expected to provide $645.3 million in 2021-22 and decline by 1.8 per cent per annum on average over the four years to 2024-25.

4.5 Non-tax revenues

The NSW Government collects revenue through a number of sources beyond taxation. This section outlines current forecasts.

Sale of goods and services

Sales of goods and services revenue is expected to be $9.5 billion in 2020-21, $542.1 million (6.0 per cent) higher than forecast at the 2020-21 Half-Yearly Review. Revenue is forecast to grow by 15.6 per cent in 2021-22 to $11.0 billion, before declining to $8.6 billion by 2024-25.

Compared to the 2020-21 Half-Yearly Review, revenue has been upgraded by $446.7 million (1.1 per cent) over the four years to 2024-25. The upgrade in revenue is largely driven by:

- increased fee for service revenue for Transport for NSW, to deliver on More Trains, More Services Stage 3A (to integrate Sydney Metro City and Southwest into the rail network)
- stronger revenue associated with specialised medicines. Under the Highly Specialised Drugs arrangements, the Commonwealth provides funding for medicines under this category prescribed by public hospitals.

These upgrades are partially offset by declines in:

- TAFE NSW revenue, arising from reduced demand for TAFE's commercial courses. This is driven by:
  - an increase in the availability of fee-free courses through the JobTrainer Fund
  - other historical Commonwealth changes to VET student loan policies which have reduced the amount that VET students can borrow to undertake study
- Department of Education revenue, stemming from a periodic review of expected school fees and other school-based revenue, based on historical data and forecast student enrolment growth across the forward estimates.

Sales of goods and services revenue is forecast to decline by 2.6 per cent, on average, over the four years to 2024-25. This is primarily due to the profile of the fee for service account line, which includes movements due to the change of the overall delivery schedule of new Transport Asset Holdings Corporation (TAHE) projects, including the New Intercity Fleet, Regional Fast Fleet and Commuter Car Park Program.

Excluding fees for service, revenue from the sale of goods and services has a positive average growth rate of 1.3 per cent over the four years to 2024-25.

Table 4.9: Sales of goods and services revenue

	2019-20 Actual $m	2020-21 Revised $m	2021-22 Budget $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	2024-25 Forward Estimates $m	% Average growth p.a. 2020-21 to 2024-25
Rents and leases	325	334	235	244	246	259	(6.2)
Fee for service	2,145	2,671	3,666	3,244	2,872	1,352	(15.7)
Entry fees	43	20	56	60	68	78	40.3
Patient fees and hospital charges	975	1,161	1,402	1,151	1,163	1,206	1.0
Department of Veterans' Affairs	210	168	177	166	156	147	(3.3)
Court fees	138	124	144	146	150	153	5.4
Road tolls	138	130	163	164	173	177	8.1
Other sales of goods and services	4,739	4,934	5,184	4,981	5,092	5,226	1.4
Sale of goods and services	**8,713**	**9,542**	**11,026**	**10,156**	**9,919**	**8,598**	**(2.6)**

Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits and funding facilities. Interest revenue is expected to be $287.1 million in 2021-22, $41.7 million (12.7 per cent) lower than previously expected. Forecast interest revenue is expected to be $119.2 million (8.5 per cent) lower over the four years to 2024-25.

Dividends and income tax equivalents

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

Dividends and income tax equivalents are expected to be $682.0 million in 2021-22, $6.1 million (0.9 per cent) lower than expected at the 2020-21 Half-Yearly Review. Revenue is expected to be $834.7 million (23.5 per cent) higher over the four years to 2024-25 driven by a forecast increase in dividends from Sydney Water and TCorp, resulting from capital structure optimisation and other initiatives.

Other dividends and distributions

Other dividends and distributions are received from entities other than State-owned corporations and are expected to be $2.3 billion in 2021-22, $242.6 million (11.9 per cent) higher than forecast at the 2020-21 Half-Yearly Review. Over the four years to 2024-25, other dividends and distributions are expected to be $2.8 billion higher (25.5 per cent).

The upward revision reflects strong investment returns over 2020-21, which benefitted from improved financial markets following the COVID-induced downturn, and were supported by greater investor confidence in the economic outlook and interest rates remaining at historic lows. The better-than-expected performance in 2020-21 has resulted in higher fund balances, which are expected to drive higher returns going forward. Additional contributions into the NGF and upwardly revised investment return rates are also expected to contribute to higher fund growth and forecast returns relative to the 2020-21 Half-Yearly Review.

Higher forecast fund returns have been partially offset by a reduction in forecast distributions from the Government's retained interest in Ausgrid and Endeavour, reflecting business decisions to prepay debt and retain cash to manage their credit ratings.

Fines, regulatory fees and other revenue (excluding royalties)

Total revenue from fines, regulatory fees, and other revenue is forecast to be $3.0 billion in 2021-22 and is forecast to grow at an average annual rate of 2.3 per cent over the four years to 2024-25.

Fines revenue is forecast to be $48.6 million higher over the four years to 2024-25 compared to the 2020-21 Half-Yearly Review. This reflects updated estimates of Victim Support Scheme revenues arising from Compensation Levies, Restitution Orders and Confiscation Proceeds, which are driven by the outcomes of court proceedings.[2]

Other revenues have been revised downwards by $103.7 million over the four years to 2024-25. Revenue from donations and contributions has been revised down due to lower voluntary parental education contributions, as a result of ongoing COVID-19 impacts. Downgrades in other revenues have been partly offset by an uplift in developer contributions paid to Transport for NSW.

[2] Compensation paid to the Victims Compensation Tribunal is classified as fine revenue and is subsequently paid to the victims.

Table 4.10: Fines, regulatory fees and other revenues

	2019-20 Actual $m	2020-21 Revised $m	2021-22 Budget $m	2022-23 Forward Estimates $m	2023-24 $m	2024-25 $m	% Average growth p.a. 2020-21 to 2024-25
Fines	596	654	883	885	870	868	7.3
Regulatory fees	174	103	199	161	176	163	12.2
Other revenues	1,808	1,911	1,932	1,874	2,008	1,897	(0.2)
Total fines, regulatory fees and other revenues	**2,578**	**2,667**	**3,014**	**2,919**	**3,054**	**2,927**	**2.3**

Royalties

Mining royalties are forecast to be $1.6 billion in 2021-22, $51.1 million higher than forecast at the 2020-21 Half-Yearly Review. This is partly offset by a $20.6 million downgrade over the three years to 2024-25, resulting in a $30.5 million (0.5 per cent) uplift over the four years to 2024-25.

The short-term increase in mining royalties reflects improved expectations for thermal coal prices, notably in 2021-22, but this is largely offset by higher exchange rate assumptions and weaker expectations for gold prices, relative to the 2020-21 Half-Yearly Review.