# E. Performance and Reporting Under the Fiscal Responsibility Act 2012

## Performance Reporting under the *Fiscal Responsibility Act 2012*

The *Fiscal Responsibility Act 2012* (FRA) requires the Government to report on its performance against the Act’s object, targets and principles – see Tables E.1, E.2 and E.3 respectively.

The FRA sets a policy objective of maintaining the State’s triple-A credit rating, supported by two fiscal targets and three principles of sound financial management. In December 2020, following the 2020‑21 Budget, New South Wales’ triple-A credit rating was reaffirmed by Moody’s (stable outlook) but downgraded by S&P Global to double-A plus (stable outlook).

The FRA requires the Government to outline the reasons for a departure from the mandated object, targets or principles, and how the Government plans to achieve these targets by the end of the forward estimates (2024-25). Relevant actions are listed in Tables E.1 and E.2.

1. Fiscal Responsibility Act 2012 – Object, Update and Relevant Actions

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| **Object of the FRA** | **Credit Ratings Agencies** | **Relevant NSW action within the forward estimates to achieve or maintain the Object of the FRA** |
| **Maintain the triple-A credit rating** | **Moody's** On 1 December 2020, Moody's reaffirmed the State's triple-A credit rating, citing:* the State's mature and stable institutional framework, which underpins fiscal strength and flexibility
* large and diverse economic base
* proven history of strong fiscal resolve.

New South Wales remains one of only six sub-sovereign governments worldwide to retain a triple-A credit rating from Moody’s. | This Budget sees the State’s fiscal position and outlook improve significantly. To ensure the State achieves the object of the FRA, NSW is targeting to: 1. achieve a surplus by 2024-25
2. bring net debt towards 7 per cent of GSP over the medium-term.

The Government, through its strong economic and financial management during the pandemic, supported the health response and economic recovery via its $29 billion stimulus and support program. This allowed for a stronger than expected economic recovery and higher State revenues. As a result, the Government is now projecting a budget surplus in 2024-25, in line with the target set at the 2020‑21 Budget. To help reach the surplus, New South Wales will continue to maintain tight control of expense growth, including through wages restraint in 2020-21 and procurement savings.A surplus will help fund the State's infrastructure program, while also lowering the State’s overall borrowing requirements and net debt. To help lower net debt, NSW will also:1. continue its program of balance sheet reforms, including cash management and investment optimisation
2. facilitate the growth of the NSW Generations Fund
3. continue its successful program of asset recycling, including the sale of the State's 49 per cent share of WestConnex and a potential monetisation of Lotteries Duty.
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| **S&P Global**On 7 December 2020, S&P lowered the State's rating by one notch from triple-A to double-A plus. At the time, S&P indicated large operating deficits and a sharp rise in debt was the driving factors of the downgrade (see Box E.1) S&P noted the State was quick to control COVID-19, has a strong economy, excellent financial management and exceptional liquidity.Since the onset of the pandemic, three triple-A rated sub-sovereign governments worldwide have had their ratings lowered by S&P, including Victoria which was downgraded two notches from triple-A to double-A. There are only two sub-sovereign governments worldwide which remain rated triple-A by both Moody’s and S&P. |

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| Box E.1: Impact of COVID-19 on Net Lending and Net Debt One of the main factors contributing to the State’s downgrade by S&P Global was the sharp rise in debt, due to the deterioration in S&P’s ‘balance after capital' metric. This is similar to the General Government net lending metric, that approximates the annual borrowing requirement to fund the State’s operating and capital expenditure. The Government’s pandemic health response, targeted (and temporary) economic stimulus, and record infrastructure investment, alongside lower taxation revenues due to the impacts of COVID-19 have resulted in higher net lending and net debt compared with pre-pandemic levels.An earlier than forecast economic recovery has led to an improvement in State revenues since the Half-Yearly Review, and lower net debt levels are projected in this Budget.S&P has stated that future asset recycling proceeds will be a credit positive to New South Wales. The Government has been successful to date in its asset recycling program and has outlined plans for further asset recycling through the sale of the State’s remaining stake in WestConnex, and a potential monetisation of Lotteries Duty. Asset recycling proceeds will both improve net lending and reduce net debt.The Government will continue to use its strong balance sheet at a time of low interest rates to continue the record infrastructure program, supporting the economic recovery and tens of thousands of jobs. 1. Net Lending in 2019-20 Budget, 2020-21 Budget and 2021-22 Budget
2. Net Debt in 2019-20 Budget, 2020-21 Budget and 2021-22 Budget
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1. Fiscal Responsibility Act 2012 – Targets, Update and Relevant Actions

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| **Fiscal targets** | **2020-21** | **2021-22** | **2022-23** | **2023-24** | **2024-25** | **Relevant NSW action within the forward estimates to achieve fiscal targets of the FRA** |
| Annual expense growth kept below long-term average revenue growth (5.6 per cent)(*General Government expense growth*) | 8.2% | 7.3% | -3.8% | 0.2% | 1.1% | The Budget forecasts 2020-21 and 2021-22 expense growth to exceed the long-term revenue growth rate. This is primarily due to expense measures to support households, businesses and the economy through the COVID-19 pandemic. From 2022-23 onwards, the Government is forecasting annual expense growth to remain below the long-term revenue growth rate with temporary stimulus measures easing off and restraint on expense growth over the medium term.For further information see Chapter 5 – Expenditure.  |
| The elimination of the State’s unfunded superannuation liability by 2030*(Net unfunded superannuation liability)* | $13.1b | $14.1b | $14.0b | $13.8b | $13.6b | Following the onset of COVID-19, New South Wales re-anchored its superannuation liability target to be fully funded by 2040. Re-anchoring this target frees up fiscal capacity to support the Government’s response COVID-19.The Government has previously announced that the targets in the FRA will be updated as a clearer picture of the broader outlook emerges.For further information see Chapter 6 – Managing the State’s Assets and Liabilities.  |

1. Fiscal Responsibility Act 2012 – Principles and Update

| **FRA principles of sound financial management**  | **Report on performance on fiscal principles**  |
| --- | --- |
| **Principle No 1** is responsible and sustainable spending, taxation and infrastructure investment, including:1. aligning general government revenue and expense growth
2. stable and predictable taxation policies
3. investment in infrastructure that has the highest benefit for the community.
 | * From 2022-23 onwards, the Governments annual expense growth rates are projected to remain below the long-term average revenue growth rate of 5.6 per cent, in line with the FRA target, which demonstrates the commitment to responsible and sustainable spending.
* State taxation policies have been stable and predictable.
* The Government is providing further tax relief of $200 million in 2021-22. This Budget includes an exemption from stamp duty for electric vehicles, and the 2020-21 Budget temporarily reduced payroll tax rates and permanently increased thresholds.
* The ratio of tax receipts to Gross State Product (GSP) is projected to be around 5.3 per cent in 2020-21 and slightly decreases to 5.1 per cent by 2024-25.
* The Government uses a comprehensive capital investment framework to inform and evaluate investment decisions. This framework integrates planning, project selection, funding and delivery, and is designed to ensure the Government invests in infrastructure projects that provide the greatest benefit at the most efficient cost for the taxpayer.
* The Government’s capital investment is also guided by the rigorous analysis and stakeholder consultation captured in key strategies and plans including the *State Infrastructure Strategy 2018-2038: Building Momentum, the Greater Sydney Region Plan – A Metropolis of Three Cities, the Future Transport Strategy 2056, Digital NSW: Designing our Digital Future* and the *Regional Development Framework*.
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| **Principle No 2** is effective financial and asset management, including sound policies and processes for:1. performance management and reporting
2. asset maintenance and enhancement
3. funding decisions
4. risk management practices.
 | * The Government has continued to actively manage the State’s balance sheet, investment decisions and risk management through the Treasury-chaired Asset and Liability Committee (ALCO).
* Reforms and policies implemented include:
	+ strengthened reporting and management of contingent assets and liabilities, including collection of Government guarantee obligations
	+ debt management measures including the broadening of the State’s investor base (through the issuance of new longer-dated bonds, floating rate notes, offshore notes and sustainability bonds) as well as interest rate risk mitigation strategies
	+ redirecting new income streams into the NGF, including State Owned Corporation (SOC) and NSW Treasury Corporation dividends and income tax equivalents, additional cash from optimising management across the Treasury Banking System (TBS) and coal royalties. Future asset sales proceeds (including the 49 per cent share in WestConnex) will also be directed into the NGF.
	+ a new Asset Management Policy (2020) as a best-practice framework for managing the State’s existing physical assets.
* Outcome Budgeting continues to provide the Government with greater ability to monitor the performance of its total budget, and scrutinise and prioritise the use of every dollar. This ensures that Government spending can provide the highest benefit and delivery of outcomes for communities and businesses across NSW.
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*Table E.3: Fiscal Responsibility Act 2012 – Principles and Update (cont.)*

| **FRA principles of sound financial management**  | **Report on performance on fiscal principles**  |
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| **Principle No 3** is achieving intergenerational equity, including ensuring that:1. policy decisions are made having regard to their financial effects on future generations
2. the current generation funds the cost of its services.
 | * The 2021-22 NSW Intergenerational Report (IGR) provides an update on the State’s long-term fiscal gap, which is the expected build-up of fiscal pressures over the long-term on the basis there would be no change in current government policy, no corrective measures taken, and economic and demographic trends persist.
* The 2021 IGR projects that as a result of the long-term structural imbalance between growth in Government revenues and expenditure, the fiscal gap will reach 2.6 per cent of GSP by 2060-61.
* The fiscal gap is lower than the 2016 IGR (3.4 per cent in 2055-56). A number of factors account for this – in particular, changes to modelling methods to better estimate both health expenses as we age, and account for growth in health funding from the Commonwealth (which is now projected to be more in line with hospital expenses). Updated economic and demographic assumptions since the previous Report have also impacted the fiscal gap.
* The measures announced in this budget are projected to lead to a 0.1 percentage point deterioration in the fiscal gap, to 2.7 per cent of GSP by 2060-61, compared to 2.6 per cent of GSP announced in the 2021 IGR.
* The build-up in debt as a result of the fiscal gap can be partially addressed by the growing NSW Generations Fund (NGF), which is forecast to grow to more than $90 billion by 2031 and will help bring net debt down towards 7 per cent of GSP over the medium term.
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