

How to Read the Budget Papers

2020-21



FOREWORD

The Budget is the Government's principle financial, economic and policy statement and is released once a year.

The Budget Papers are an important resource for the citizens of New South Wales – they provide insight and transparency into how the NSW Government is allocating taxpayer dollars.

How to Read the Budget Papers has been prepared to help readers understand the structure and content of the Budget Papers. This document serves a dual purpose:

- to provide a plain English guide for the readers to help understand and interpret key economic, financial and performance information in the Budget Papers
- to provide a technical accompaniment for the Actual and Estimated Financial Statements for the general government sector, including how they are prepared in accordance with the principles and rules contained in Australian Accounting Standards and Australian Bureau of Statistics (ABS) Cat No. 5514.0 *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015*.

This document also contains a glossary of key terms used across the Budget.

The Budget Papers constitute the most comprehensive explanation of how financial resources are allocated to deliver outcomes in the Budget year (2020-21). It details the Government's main expense, revenue and capital measures, as well detailing the Government's financial position. Because decisions are made with regard to their sustainability over time, the Budget also outlines expected financial impacts for years beyond the Budget year.

Readers of this year's Budget Papers may notice a structural change to last year. The Papers continue to present all the high-quality financial analysis of the past, but with an even greater level of insight into the expected impacts and performance.

Accompanying the Budget Papers is the annual Appropriation Bill, which is also explained in this document. The Appropriation Bill, when passed by Parliament, enables the Government to spend money from the Consolidated Fund.

The full range of Budget Papers and associated products can be found on the NSW Budget website, www.budget.nsw.gov.au.

TABLE OF CONTENTS

Understanding the budget process	i
Basis and scope of the Budget Papers	ii
Scope of the Budget Papers	ii
Reporting of Budget data	iv
Overview of budget papers	vii
Budget Paper No. 1: Budget Statement.....	vii
Budget Paper No. 2: Outcomes Statement.....	vii
Budget Paper No. 3: Infrastructure Statement.....	vii
Budget Paper No. 4: Agency Financial Statements.....	viii
Budget Paper No. 5: Appropriation Bills.....	viii
Understanding key terms and concepts used in the budget papers	ix
Concepts used to measure production and spending.....	ix
Concepts used to measure the State’s overall financial position and performance	x
Concepts used in Outcome Budgeting.....	xi
Concepts used to measure growth or change	xii
Reading and understanding financial statements	xiii
Financial statements presented in the Budget papers	xiv
Statement of significant accounting policies and forecast assumptions	xx
Scope of the Statement of Finances	xx
Basis of preparation	xx
Accounting policies	xxii
Changes in accounting policies.....	xxii
Presentation of the Estimated Financial Statements	xxiv
Definitions.....	xxv
Material economic	xxvi
Summary of other key assumptions.....	xxvi
Glossary	xxxiii

UNDERSTANDING THE BUDGET PROCESS

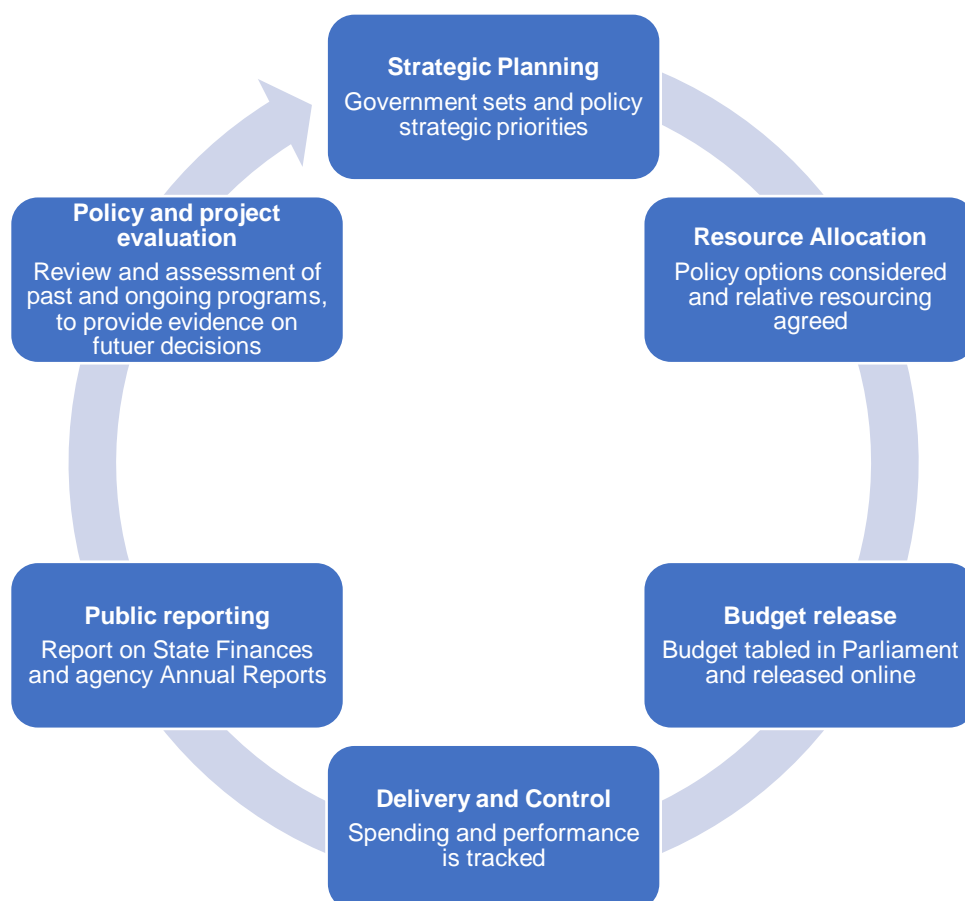
The Budget is a forward-looking document, with data presented by financial year (July to June). When the Budget is tabled in Parliament, it marks the culmination of an annual process.

For the past few years, the Budget has been delivered in June, prior to the new financial year commencing. The Government then prepares and releases a 'Report of State Finances (Total State Sector Accounts)' a few months later which focuses on the financial year that just ended. That document includes:

- an overview of the financial performance and position of the General Government and Total State Sector Accounts
- audited consolidated financial statements for the General Government and Total State Sector Accounts for the previous financial year
- an Outcomes Report on Government Finances for different government sectors (called the general government, public non-financial and public financial corporations sectors) for the previous financial year.

This year the preparation of both the Budget and the Report of State Finances have been impacted by the pandemic. Both have been released on the same day this year – 17 November 2020.

Figure 1: Typical budget process cycle in a non-pandemic year.



BASIS AND SCOPE OF THE BUDGET PAPERS

The Budget Papers deliver a number of objectives. It:

- informs the public of the State's economic and fiscal position
- sets out the NSW Government's fiscal strategy
- provides Parliament with financial and service delivery information, to inform consideration of the Appropriation Bill
- delivers requirements set out in the *Government Sector Finance Act 2018*)
- delivers requirements set out in the *Fiscal Responsibility Act 2012*, including:
 - a report on performance against fiscal objectives, targets and principles contained in the Act
 - an assessment of the impact of any budget measures on the State's long-term fiscal gap
- provides a clear and detailed report on the State's infrastructure expenditure strategy, covering both new works and works-in-progress
- provides advice and insight on how resources are expected to deliver outcomes.

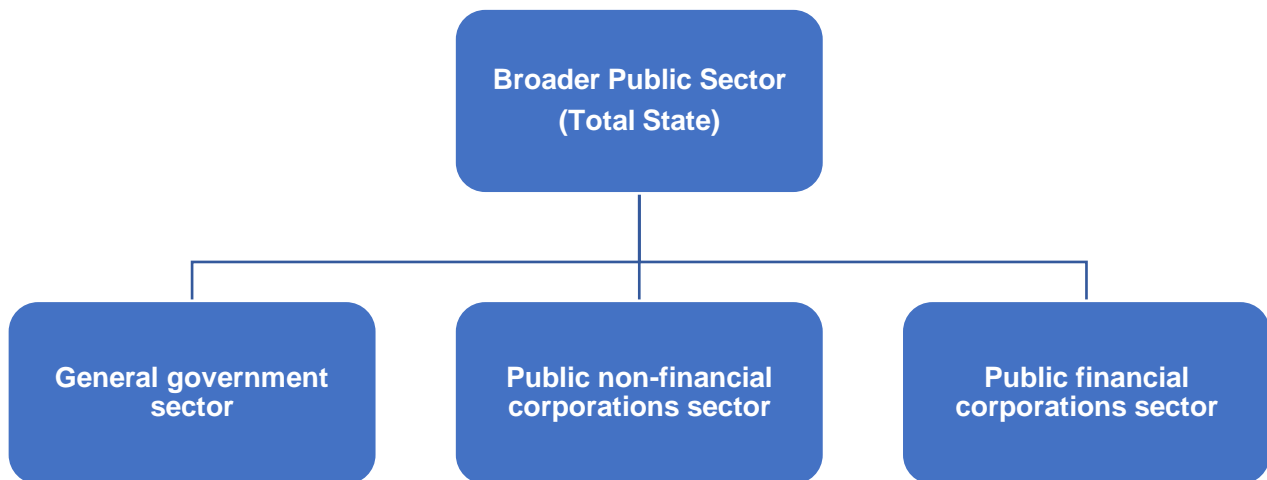
Scope of the Budget Papers

The entities in the NSW Government are classified into three categories in accordance with the principles and rules contained in the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (ABS cat. No. 5514)*. These three categories are:

- **general government sector (GGS)** – this includes all government-controlled entities that perform regulatory functions, redistribute income and wealth and deliver non-market goods and services. Non-market goods and services include policy advice, regulatory and service delivery. Examples of entities in this sector include the Department of Education, NSW Police Force and Ministry of Health.
- **public non-financial corporations (PNFC)** – this covers all government-controlled entities that provide market goods or services and have a relatively higher share of own-source revenue. The NSW Government classifies entities in this sector as commercial or non-commercial:
 - commercial entities deliver services to customers from which they receive income. An example is Sydney Water.
 - non-commercial entities address social objectives and levy subsidised charges to their customers. An example is New South Wales Land and Housing Corporation
- **public financial corporations (PFC)** - entities in this sector are government-controlled entities involved in providing financial services. An example includes the NSW Treasury Corporation.

When combined, these three sectors make up the total state sector.

Figure 2: Overview of the broader total state sector



The Budget Papers primarily cover activities, financial statements, financial aggregates and performance information for the general government sector, apart from where it is explicitly stated otherwise.

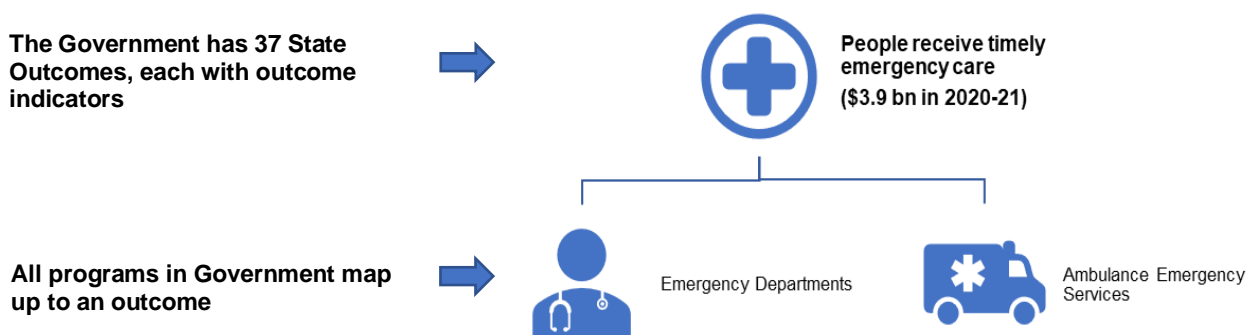
Budget Paper No. 1 *Budget Statement* also includes actual and estimated financial statements for the public non-financial corporations sector and the non-financial public sector (which is the combined general government and public non-financial corporations sectors). These statements provide a comprehensive picture of the State's fiscal performance and position.

Reporting of Budget data

Outcome Budgeting and performance information

Outcome budgeting is a performance management approach which starts the conversation by asking what outcome is being pursued (e.g. best start in life for young children), how success can be tracked (e.g. proportion of young children enrolled in early education), what policy options have evidence of achieving that goal and, finally, the cost of alternate policy approaches. It is a more innovative approach than simply looking at whether existing programs or agencies need incremental adjustments.

Figure 2: State Outcomes and programs – simplified hierarchy



By starting the conversation at the ‘outcome’ the Government can access a richer suite of ideas that have a better chance of success. For example, by making it clear that an outcome is a priority, the Government raises the chance that agencies come to together and identify ways to achieve the goal, knowing there is a chance the policy could be funded. This collaboration and innovation can be less likely to occur under the more traditional ‘input’ budgeting model, which centres Budget decisions on a narrower organisational basis or division-by-division basis.

Definitions of terms outlined above, such as State Outcomes and programs, can be found in the glossary at the end of this paper.

This Budget represents a significant step forward in Outcome Budgeting. There is a dedicated Budget Paper (Budget Paper No. 2 *Outcomes Statement*) focusing on outcomes and performance. It outlines the 37 State Outcomes and contains detail on performance indicators. It also highlights significant new and ongoing policy initiatives in each cluster.

Accrual basis of accounting

The financial statements presented in the Budget Papers are prepared using an accrual basis of accounting, in accordance with Australian Accounting Standards. The Statement of Finances in Appendix 1 of Budget Paper No. 1 *Budget Statement* is also prepared in accordance with the Uniform Presentation Framework (UPF) and 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).

Cluster Governance Framework

The general government sector is made up of around 90 material-sized agencies¹. All agencies are grouped by policy area and fall into one of nine Clusters.

This Cluster governance framework encourages similar and complementary Government services to be coordinated more effectively than otherwise.

The nine Clusters within the framework are:

- Customer Service
- Education
- Health
- Planning, Industry and Environment
- Premier and Cabinet
- Regional NSW
- Stronger Communities
- Transport
- Treasury

Further information about Clusters, and their associated agencies, financial statements, capital investment plans and performance information is detailed in Budget Paper No. 2 *Outcomes Statement*, Budget Paper No. 3 *Infrastructure Statement* and Budget Paper No. 4 *Agency Financial Statements*. The Consolidated Fund needs of each Cluster are outlined in the Appropriation Bill.

Aggregation and consolidation of data

Like large private sector conglomerates, entities within the NSW Government transact with each other throughout the year. For example, many agencies utilise Property NSW for property transactions.

The aggregated financial data presented in Budget Paper No. 1 *Budget Statement* is presented on a 'sector eliminated basis'. This means the estimates of government expenditure and revenue have removed (or eliminated) intra-government transactions. This approach ensures there is no double counting and it provides an accurate picture of the size of the Government as a single entity.

For Budget Paper No. 2 *Outcomes Statement* and Budget Paper No. 4 *Agency Financial Statements*, recurrent expenses and capital expenditure are aggregated and eliminated at the Cluster level only. That is, transactions between entities within that Cluster are eliminated and not double counted as part of the Cluster's aggregates. Caution should therefore be exercised in adding up all the Cluster budgets to try and calculate whole-of-government spend. Budget Paper No. 1 *Budget Statement* is where readers should go for that information.

¹ There are also a number of smaller service agencies and trusts

Reflecting the latest changes in Accounting Standards

A new accounting standard AASB 1059 *Service Concession Arrangements* (AASB 1059) was first applied for the Budget year beginning 1 July 2020. At the same time, the NSW Government repealed its Accounting Policy TPP 06-08 *Accounting for Privately Financed Projects*. The impact of these changes is reflected in the Budget year and forward estimates years.

For further information on the impact of changes to accounting standards on the Estimated Financial Statements for the general government sector, see the Statement of Significant Accounting Policy and Forecast Assumptions section later on in this document.

Economic forecasts and assumptions underpinning the Budget

Being a forward looking document, the Budget is premised on a range of economic forecasts and assumptions. These forecasts and assumptions are based on sound judgement and reflect current information available at the time. Forecasts of economic parameters that are heavily influenced by Commonwealth policy settings are largely underpinned by Commonwealth Government assumptions. For example, the impact of the Commonwealth's migration and border policies on population growth.

Readers interested in the underlying forecasts and assumptions for this Budget should refer to Chapter 2 of Budget Paper No. 1 *Budget Statement*. COVID-19 assumptions are also outlined in Box 2.1 of the *Budget Statement*.

Actual vs Estimated Actual

Budget Papers do contain some backward looking data, particularly to help readers understand year-on-year changes.

- Budget Paper No.1 *Budget Statement* presents an 'actual' for the 2019-20 financial year. For example, it shows the actual amount spent or the actual amount of revenue received.
- Budget Paper No. 3 *Infrastructure Statement* and Budget Paper No. 4 *Agency Financial Statements* presents data that is an 'estimated actual'. The nuance recognises this year's timing of the Budget and that agencies have pre-audited data for 2019-20.

OVERVIEW OF BUDGET PAPERS

This section helps readers understand where in the Budget they can find what they are looking for. The Budget Papers for 2020-21 are:

- Budget Paper No. 1: *Budget Statement*
- Budget Paper No. 2: *Outcomes Statement*
- Budget Paper No. 3: *Infrastructure Statement*
- Budget Paper No. 4: *Agency Financial Statements*
- Budget Paper No. 5: *Appropriation Bill*

In addition to the papers listed above, the NSW Government prepares a number of supporting products such as the Overview, Regional NSW and Budget Speech.

All Budget Papers and associated products can be found on the NSW Budget website, www.budget.nsw.gov.au

Budget Paper No. 1: Budget Statement

Budget Paper No. 1 presents 'whole of Government' information. It contains the NSW Government's economic and fiscal position and outlook. It also details the NSW Government's fiscal strategy, as well as presenting a consolidation of the main expense, revenue and balance sheet measures.

This Budget Paper is often read in conjunction with Budget Paper No. 2 *Outcomes Statement*, which details information at the cluster-by-cluster, and outcome-by-outcome, level. Readers interested in capital expenditure often read Budget Paper No. 1 *Budget Statement* alongside Budget Paper No. 3 *Infrastructure Statement*.

Budget Paper No. 2: Outcomes Statement

Budget Paper No. 2 *Outcomes Statement* replaces the previous Budget Estimates document. The newly designed document continues the focus on performance and budget information, aligned to the outcomes Clusters deliver.

The document provides a short introduction to each Cluster and an explanation on each Cluster's State Outcomes, including key performance insights and outcome indicator information. It also contains budget highlights for each State Outcome.

Budget Paper No. 3: Infrastructure Statement

Budget Paper No. 3 *Infrastructure Statement* provides detailed information on the NSW Government's infrastructure investment program and projects to be delivered by the Government. The document also provides detail on the Restart NSW program, the Snowy Hydro Legacy Fund and the Digital Restart Fund.

Budget Paper No. 4: Agency Financial Statements

Budget Paper No. 4 *Agency Financial Statements*, which previously had been presented in the Budget Estimates document, are now presented in a stand-alone Budget Paper. The document continues to present an operating statement, balance sheet and operating statement for each Department and their respective agencies.

Budget Paper No. 4 is often read in conjunction with Budget Paper No. 5 *Appropriation Bill*.

Budget Paper No. 5: Appropriation Bill

Under the *Constitution Act 1902 (NSW)*, Parliament must pass each Appropriation Act before the Government is able to spend money from the Consolidated Fund each year.

Budget Paper No.5 *Appropriation Bill* sets out the amount to be appropriated to each Cluster Minister, along with the purpose for which it is to be spent.

The Appropriation Bill includes two bills. The first bill sets out the appropriation for the services of Government of the nine Clusters and eight Special Offices. The second bill, which is presented cognate (meaning two or more bills are considered in detail at the same time) details the appropriation for the Parliamentary Services.

UNDERSTANDING KEY TERMS AND CONCEPTS USED IN THE BUDGET PAPERS

The Budget Papers present the fiscal strategy of the Government, agency financials and performance as well as report on the revenue and expenditure measures of the Government (fiscal outlook).

A number of terms and concepts are detailed in the Budget Papers. Understanding these concepts will help readers better understand how to measure the economy and how the Government makes decisions.

Below are a number of key economic, fiscal and budgetary concepts that are regularly used throughout the Budget Papers, with detailed explanations. Readers can find additional concepts in the Glossary at the end of this document.

Concepts used to measure production and spending

Gross Domestic Product

Gross Domestic Product (GDP) is one measure of how an economy is performing. It measures the value-added production of goods and services produced by a country and is published quarterly. GDP can be measured in two ways: nominal and real.

- Nominal GDP measures GDP in current (original) market prices, which includes the impact of inflation / deflation.
- Real GDP measures GDP in constant prices and therefore excludes the impact of inflation / deflation. Movements in real GDP is the preferred indicator of how fast economic activity is growing.

The ABS releases updates to national GDP both quarterly and annually.

Gross State Product

The equivalent measure of GDP at a state or territory level is known as Gross State Product (GSP). It measures the value-add of goods and services produced within a state. GSP is released annually by the ABS. For example, the 2018-19 State Accounts (*Cat:5220.0 Australian National Accounts: State Accounts*) showed New South Wales GSP grew 1.9 per cent in 2018-19.

State Final Demand

State Final Demand is different to GSP in that it measures the total value of goods and services that are sold in a state or territory to buyers who either consume them or retain them in the form of capital assets.

Consumer Price Index

The Consumer Price Index (CPI) is designed to provide a general measure of inflation of the household sector. It measures the change in the price for a basket of goods and services over a period of time. The CPI is compiled separately for each capital city and is presented as the weighted average of eight capital cities. In addition to a national CPI, a Sydney CPI is also published.

Concepts used to measure the State's overall financial position and performance

Fiscal outlook

Represents the overall level of expenses, revenue, infrastructure investment, financial assets, non-financial assets, liabilities and Net worth of the NSW Government.

Net debt

Net debt comprises the stock of selected gross financial liabilities less selected financial assets. The stock of net debt is one (but not the only) common measure used to assess the overall strength of a jurisdiction's fiscal position. High levels of net debt can impose a call on future revenue flows to service that debt and if unchecked can limit government flexibility to adjust expenditure.

Gross debt

Gross debt represents the total value of money borrowed by the Government. It is the sum of deposits held, borrowings at amortised costs and borrowings and derivatives at fair value.

Net worth

Is a measure of the strength of the Government's financial position. It represents the value of all financial and non-financial assets, less the value of all outstanding liabilities. Financial assets include cash, stocks and bonds. Non-financial assets include land, buildings, vehicles and equipment.

This section offers a Plain English explanation of key budget concepts. Readers interested in further detail or more precise technical explanations should refer to *ABS 5514.0 Australian System of Government Finance Statistics: Concepts, Sources and Methods* (2015).

Budget result

Represents the difference between expenses and revenue from operating transactions in the general government sector. It is important to keep in mind:

- it is a 'flow' measure because it covers a period of time (12 months)
- it measures activity from 'transactions'. It excludes changes to assets / liabilities that occur through other means (e.g. revaluations, purchases and sales).

Capital expenditure

This is money spent on the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements). In NSW, capital expenditure also includes leases and assets acquired using service concession arrangements under the financial liability model. This makes NSW unique compared to all other states in Australia who do not include leases.

Net lending/borrowing

Shows the financing requirement of the Government. It is measured as the net operating balance less the net acquisition of non-financial assets.

Concepts used in Outcome Budgeting

State Outcomes

State Outcomes represent the primary purpose for which government resources are being spent and the goals the Government is seeking to achieve for the citizens and businesses of New South Wales. The general government sector budget is allocated across 37 outcomes.

Outcome Indicators

Each State Outcome has Outcome Indicators which represent the 'measures of success'. They are measures of effectiveness and captured through a range of data sources and types (including proportions, rates, time or value).

Programs

All government programs are housed under a State Outcome. Programs represent a collection of common activities or tasks that work together to meet the objectives of the outcome.

Program Performance Measures

Measure the performance of each program and are used to assess efficiency, effectiveness and equity in delivering the program objectives.

Concepts used to measure growth or change

Through the year growth

Measures growth over time by comparing the latest month or period to the same corresponding month or period from a year earlier. Also known as 'growth over the year'.

Annual (year on year) growth

Represents the sum (or average) of the most recent four quarters, to the sum (or average) of the previous four quarters.

Compound Annual Growth Rate (CAGR)

A method used to calculate and determine returns that can either rise or fall in value over time. The term is used in the Budget Papers to present the average annual expense and revenue growth over a period time.

READING AND UNDERSTANDING FINANCIAL STATEMENTS

Budget Paper No. 1 *Budget Statement* includes the consolidated financial statements for the general government sector and non-financial public sector. The three AASB/GFS harmonised primary statements are:

- Operating Statement
- Balance Sheet
- Cash Flow Statement.

These statements present the financial performance and position of the general government sector and non-financial public sector including:

- actual financial performance and position for the year ending 30 June 2019 and 30 June 2020
- estimated financial performance and position for the budget year ending 30 June 2021
- estimated financial performance and position for the three forward years ending 30 June 2022, 2023 and 2024.

These statements contain common financial aggregates that are reported consistently across governments in Australia and internationally, in line with best practice. These aggregates are detailed further below. The NSW aggregates are prepared in line with:

- the Uniform Presentation Framework (UPF) endorsed by the Council on Federal Financial Relations
- Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised Government Finance Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) reporting basis.

Further background on the UPF can be found in Appendix A1 Statement of Finances in Budget Paper No.1 *Budget Statement*.

Budget Paper No. 4 *Agency Financial Statements* provides financial statements for each principal Cluster Department and their agencies. These are prepared consistent with Australian Accounting Standards.

Differences between harmonised GFS and GAAP information, as shown in the Budget Papers, and pure GFS information, as reported by the Australian Bureau of Statistics, are known as convergence differences. Such differences are not departures from Accounting Standards but merely variations in measurement or treatments between GAAP and GFS frameworks.

Financial statements presented in the Budget Papers

While the Budget does contain some historical data, the bulk of documents are forward looking. The sections below help readers understand how to read the different statements in the Budget, keeping in mind that the numbers presented for 2020-21 and beyond remain estimates because they are prospective.

Operating Statement

The Operating Statement (also known as a profit and loss statement or income statement) shows the revenue and expenditure of the relevant sector. It also shows the net cost of government activities (Budget Result or Net Operating Balance) within a financial year. It is a measure of flows over a period of time and reflects the impact of government measures and actions during that time.

The Operating Statement reports against several major fiscal measures:

- net operating balance (Budget result)
- operating result
- comprehensive result - total change in net worth
- net lending/(borrowing) (fiscal balance)
- capital expenditure.

Table 1 below provides an example of an Operating Statement, detailing the above concepts for clarity.

Table 1: General government sector operating statement

	20xx-xx	20xx-xx	20xx-xx	20xx-xx	20xx-xx	20xx-xx
	Actual	Revised	Budget	Forward	Estimates	Estimates
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from Transactions						
Taxation			36,665			
Grants and Subsidies						
- Commonwealth General Purpose			21,981			
- Commonwealth Specific Purpose Payments			12,360			
- Commonwealth National Partnership Payments			2,204			
- Other Commonwealth Payments			459			
- Other Grants and Subsidies			631			
Sale of Goods and Services			8,988			
Interest			272			
Dividend and Income Tax Equivalents from Other Sectors			779			
Other Dividends and Distributions			2,351			
Fines, Regulatory Fees and Other			5,318			
Total Revenue from Transactions			92,009			
Expenses from Transactions						
Employee			39,442			
Superannuation						
- Superannuation Interest Cost			1,101			
- Other Superannuation			3,357			
Depreciation and Amortisation			6,795			
Interest			2,946			
Other Operating Expense			19,907			
Grants, Subsidies and Other Transfers			15,862			
Total Expenses from Transactions			89,410			
BUDGET RESULT - SURPLUS/(DEFICIT)						
[Net Operating Balance]						2,599
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities			464			
Other Net Gains/(Losses)			417			
Share of Earnings/Losses from Equity Investments (excluding Dividends)			...			
Dividends from Asset Sale Proceeds			...			
Allowance for Impairment of Receivables			(36)			
Deferred Income Tax from Other Sectors			37			
Other			75			
Other Economic Flows - included in Operating Result			958			
Operating Result			3,556			
Other Economic Flows - Other Comprehensive Income Items that will not be Reclassified to Operating Result						13,978
Revaluations			3,512			
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result			...			
Actuarial Gain/(Loss) from Superannuation			...			
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income			6,496			
Deferred Tax Direct to Equity			181			

These represent the sources of revenue the Government receives from transactions. It includes revenue generated by State own sources and grants from the Commonwealth.

These represent the types of expenditure from transactions incurred by the Government.

The Net Operating Balance is calculated as revenue minus expenditure. It is one measure of the financial sustainability of the State's operation. Also known as the Budget result.

Table 1: General government sector operating statement (cont)

	20xx-xx Actual	20xx-xx Revised	20xx-xx Budget	20xx-xx Forward Estimates	20xx-xx	20xx-xx
	\$m	\$m	\$m	\$m	\$m	\$m
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Financial Instruments at Fair Value			(7)			
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result			...			
Other			(7)			
Other Economic Flows - Other Comprehensive Income						
Comprehensive Result - Total Change in Net Worth			13,971			
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth			17,527			
Less: Net Other Economic Flows			(14,929)			
Equals: Budget Result - Net Operating Balance			2,599			
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets			14,851			
Sales of Non-Financial Assets			(1,036)			
Less: Depreciation			(6,795)			
Plus: Change in Inventories						
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases			498			
- Assets Acquired Using Service Concession Arrangements (Financial Liability Model)						
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)						
- Other			567			
Equals: Total Net Acquisition of Non-Financial Assets			8,085			
Equals: Net Lending/(Borrowing) [Fiscal Balance]			(5,486)			
OTHER FISCAL AGGREGATES						
Capital Expenditure			15,349			

Is a similar measure to the Net Operating Balance but it includes other movements in assets and liabilities that are not within the direct control of government. For example, fair value gains and losses on assets.

Represents how much the Government can lend or needs to borrow from others.

Made up of non-financial assets plus assets acquired using finance leases.

Balance Sheet

The Balance Sheet records the value of financial and non-financial assets and liabilities of the Government at the end of the financial year. It is a stock measure – highlighting the fiscal position of the NSW Government at a point in time.

The balance sheet details the following fiscal aggregates:

- total assets and liabilities
- net financial worth
- net worth
- net financial liabilities
- net debt.

Table 2 below provides an example of a Balance Sheet, detailing the concepts listed above.

Table 2: General government sector balance sheet

	June XX Actual \$m	June XX Revised \$m	June XX Budget \$m	June XX Forward Estimates \$m	June XX Forward Estimates \$m	June XX Forward Estimates \$m
Assets						
Financial Assets						
Cash and Cash Equivalents			875			
Receivables			7,319			
Investments, Loans and Placements						
Financial Assets at Fair Value			29,056			
Other Financial Assets			1,417			
Advances Paid			2,181			
Tax Equivalents Receivable			36			
Deferred Tax Equivalent Assets			2,819			
Equity						
Investments in Other Public Sector Entities			123,340			
Investments in Associates			12,203			
Other			0			
Total Financial Assets			179,246			
Non-Financial Assets						
Contract Assets			...			
Inventories			222			
Forestry Stock and Other Biological Assets			9			
Assets Classified as Held for Sale			117			
Investment Properties			(0)			
Property, Plant and Equipment						
Land and Buildings			104,112			
Plant and Equipment			11,379			
Infrastructure Systems			162,793			
Right of Use Assets			...			
Intangibles			2,601			
Other			...			
Total Non-Financial Assets			293,018			
Total Assets			472,264			
Liabilities						
Deposits Held			109			
Payables			7,955			
Contract Liabilities			...			
Borrowings and Derivatives at Fair Value			116			
Borrowings at Amortised Cost			74,659			
Advances Received			785			
Employee Provisions			20,067			
Superannuation Provision						
Tax Equivalents Payable			...			
Deferred Tax Equivalent Provision			119			
Other Provisions			11,053			
Other			5,421			
Total Liabilities			161,206			
NET ASSETS			311,058			

Details the types of financial assets - including cash and other financial assets - held by the Government.

Details the types of non-financial assets held by the Government.

Reflects the Government's obligations to other parties.

Total assets less liabilities.

Table 2: General government sector balance sheet (cont)

	June XX Actual \$m	June XX Revised \$m	June XX Budget \$m	June XX Forward Estimates \$m	June XX \$m	June XX \$m
NET WORTH						
Accumulated Funds			112,941			
Reserves			198,116			
TOTAL NET WORTH			311,058			
OTHER FISCAL AGGREGATES						
Net Debt			42,139			
Net Financial Liabilities			105,300			
Net Financial Worth			18,040			

Comprises the stock of selected financial liabilities less selected financial assets. It is one measure of the financial position of the State.

Cash Flow Statement

The Cash Flow Statement shows how the NSW Government obtains and spends cash. It records the Government's cash inflows and outflows. The Cash Flow Statement reports against two fiscal measures:

- net increase in cash held
- cash surplus / (deficit)

The Cash Flow statement is categorised into three main sections:

- cash flow from operating activities
- cash flow from investing activities
- cash flow from financing activities.

Cash flow from operations

This section contains the main cash generating activities of the NSW Government. Any money earned or spent in the normal day-to-day running of the Government will appear in the operations section of the cash flow statement.

Cash flow from financing

Financing activities refers to activities related to raising finance, other than from operations or investments. This includes activities such as borrowing, repayments of borrowing, or issuance of shares or bonds.

Cash flow from investment

Investing activities included in this section generally include purchases or sales of long-term assets, such as property, plant and equipment. The sale or purchase of other investments would also be included here.

Table 3 below provides an example of a Cash Flow Statement and explains some of the main concepts.

Table 3: General government sector cash flow statement

	20xx-xx Actual	20xx-xx Revised	20xx-xx Budget	20xx-xx Forward Estimates	20xx-xx	20xx-xx
	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts from Operating Activities ←						
Taxation			36,792			
Sales of Goods and Services			9,444			
Grant and Subsidies Received			37,663			
Interest			202			
Dividends and Income Tax Equivalents			615			
Other Receipts			8,343			
Total Cash Receipts from Operating Activities			93,059			
Cash Payments from Operating Activities						
Employee Related			(39,194)			
Personnel Services			(0)			
Superannuation			(5,190)			
Payments for Goods and Services			(19,725)			
Grants and Subsidies			(15,481)			
Interest			(2,569)			
Other			(2,961)			
Total Cash Payments from Operating Activities			(85,119)			
Net Cash Flows from Operating Activities			7,940			
Cash Flows from Investments in Non-Financial Assets ←						
Proceeds from Sale of Non-Financial Assets			1,041			
Purchases of Non-Financial Assets			(15,122)			
Net Cash Flows from Investments in Non-Financial Assets			(14,081)			
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts			46			
Payments			(1,587)			
Net Cash Flows from Investments in Financial Assets for Policy Purposes			(1,541)			
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments			(781)			
Purchase of Investments			(1591)			
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes			(2372)			
Net Cash Flows from Investing Activities ←			(17,993)			
Cash Flows from Financing Activities						
Advances Received			29			
Advances Repaid			(60)			
Proceeds from Borrowings			10,972			
Repayment of Borrowings			(1,163)			
Deposits Received(Net)			6			
Other (Net)			182			
Net Cash Flows from Financing Activities			9,965			
Net Increase/(Decrease) in Cash Held ←			(89)			
Derivation of Cash Result						
Net Cash Flows From Operating Activities			7,940			
Net Cash Flows from Investments in Non-Financial Assets			(14,081)			
Cash Surplus/(Deficit) ←			(6,141)			

Operating activities refer to the core business activities of the Government.

Investing activities relate to the sale and purchase of non-financial assets and investments.

Financing activities relate to the change in financial assets and liabilities.

Measures the change in cash held as a result of operating, investing and financing activities.

Is a key measure of the Government's call on financial markets. It comprises of net cash from operating activities, plus net cash flows from sales and disposals of non-financial assets

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Actual Financial Statements and Estimated Financial Statements for the General Government Sector

The Actual Financial Statements and Estimated Financial Statements prepared for the New South Wales GGS are presented in the Statement of Finances.

This Statement of Significant Accounting Policies and Forecast Assumptions applies to the actual and estimated financial statements for the general government sector.

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 Financial Statements of the GGS include:

- the GGS operating statement
- the GGS balance sheet
- the GGS cash flow statement

The Financial Statements for the GGS include:

- the Actual Financial Statements for the GGS for the financial years ending 30 June 2019 and 30 June 2020
- the Estimated Financial Statements for the GGS for the budget year ending 30 June 2021 and three forward years ending 30 June 2022, 2023 and 2024.

Basis of preparation

The GGS Actual and 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 Actual Financial Statements

The Actual Financial Statements for the GGS include:

- actual results for the year ending 30 June 2020
- actual results for the year ending 30 June 2019.

The actual results for 2018-19 and 2019-20 reflect the audited financial statements for the GGS as presented in the *Total State Sector Accounts 2019-20*.

The following new accounting standards were adopted for the first time in the *Total State Sector Accounts 2019-20*:

- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases
- AASB 1058 Income of Not-for-Profit Entities.

In accordance with the transitional provisions in these standards, the actual results for 2018-19 are not restated and therefore do not reflect these standards. Please refer to the *Total State Sector Accounts 2019-20* for more information.

The GGS Estimated Financial Statements

The GGS Estimated Financial Statements are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions and include:

- estimates for the budget year ending 30 June 2021
- estimates for the three forward years ending 30 June 2022, 2023 and 2024.

The GGS Estimated Financial Statements for the budget and forward years are prepared to reflect existing operations and the impact of new policy decisions taken by the NSW Government, where their financial effect can be reliably estimated.

They take into account other economic and financial data available to Treasury up to 11 November 2020, including Commonwealth Government funding decisions announced in the 2020-21 Commonwealth Government Budget.

In keeping with these principles, where the impact of a policy decision or planned event cannot be reliably estimated, the impact is not reflected within the GGS Estimated Financial Statements (e.g. 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 in the sections: *Material economic assumptions* and *Summary of other key assumptions*.

Accounting policies

Australian Accounting Standards (AAS) do not include requirements for, or provide guidance on, the preparation or presentation of prospective financial information, 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 adopt the accounting policies expected to be used in preparing the *Total State Sector Accounts* for 2020-21.

The GGS Estimated Financial Statements have been prepared consistently with the GGS Actual Financial Statements, except for the matters described below under *Changes in accounting policies*.

The significant accounting policies (including the principles of consolidation), significant accounting judgements and estimates, and the recognition and measurement policies for revenue, expenses, other economic flows, assets and liabilities are outlined within Note 1 Statement of Significant Accounting Policies in the *Total State Sector Accounts 2019-20*.

The GGS Actual Financial Statements reflect the audited financial statements for the GGS as presented in the *Total State Sector Accounts 2019-20*. Consequently, the actual results for 2019-20 have not been prepared on the same basis as the GGS Estimated Financial Statements.

Changes in accounting policies

Changes in Australian Accounting Standards (AAS) are taken into account when preparing the GGS Estimated Financial Statements. From 2020-21 changes include:

- application of the new accounting standard AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) for the 2020-21 estimates and beyond
- repeal of the accounting policy TPP 06-8 *Privately Financed Projects* (TPP 06-8), effective for the 2020-21 estimates and beyond.

The nature and effect of the changes are outlined in detail below.

There are no other significant changes to AAS or accounting policies adopted in 2020-21 that materially impact the GGS Estimated Financial Statements.

AASB 1059 Service Concession Arrangements: Grantors

The accounting standard AASB 1059 applies to service concession arrangements. These are arrangements where an operator uses a service concession asset to provide a public service on behalf of the State.

Where an arrangement is within the scope of the standard, AASB 1059 requires service concession assets to be recognised from the start of the arrangement or over the construction period, with a corresponding liability to reflect any payments due to the operator, and/or where the State has granted to the operator a right to charge users of the asset.

Previously, under TPP 06-8, most service concession arrangements in New South Wales were generally treated as leases or as assets gradually recognised over the concession period. Following adoption of AASB 1059, TPP 06-8 *Privately Financed Projects* (TPP 06-8) was withdrawn. Arrangements previously accounted for under TPP 06-08 will be accounted for under AASB 1059 or other applicable accounting standards.

AASB 1059 has a different scope than TPP 06-8, possibly resulting in more arrangements being recognised in the State's balance sheet, such as those arrangements previously classified as emerging rights to receive.

The expected impact of adopting AASB 1059 from 2020-21 onwards is summarised in Table 4 below. It is expected to significantly increase assets and liabilities on the GGS balance sheet. It is also expected to impact depreciation and amortisation expenses and income from the amortisation of grant of right liabilities in the operating statement.

For the purposes of the GGS Estimated Financial Statements, AASB 1059 has been applied in preparing the estimates for the budget year ending 30 June 2021 as well as the three forward years ending 30 June 2022, 2023 and 2024. The GGS Actual Financial Statements do not reflect the impact of AASB 1059. These impacts represent the State's current best estimate and are still under review. It is likely that the actual impact will differ from this estimate, as a result of further review of underlying data and contractual arrangements.

Table 4: *Impact of AASB 1059 on GGS Estimated Financial Statements*

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m
Budget result	(552)	(643)	(658)	(838)
Total assets	16,860	16,691	16,359	14,682
Total liabilities	14,991	14,829	14,524	13,051
Net worth	1,869	1,862	1,835	1,631

Withdrawal of TPP 06-8 Privately Financed Projects

TPP 06-8 *Privately Financed Projects* (TPP 06-8) has been withdrawn alongside the introduction of AASB 1059. Some arrangements previously accounted for under TPP 06-08 will not fall within the scope of AASB 1059. The impact of these arrangements on the budget and forward years is summarised below. The GGS Actual Financial Statements do not reflect the impact of withdrawing TPP 06-08. These impacts represent the State's current best estimate and are still under review. It is likely that the actual impact will differ from this estimate, as a result of further review of underlying data and contractual arrangements.

Table 5: *Impact of withdrawing TPP 06-8 on GGS Estimated Financial Statements*

	2020-21	2021-22	2022-23	2023-24
	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m
Budget result	(15)	(10)	(8)	(6)
Total assets	93	83	75	69
Total liabilities	-	-	-	-
Net worth	93	83	75	69

New Accounting Standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 2020-21. There are no standards 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.

Presentation of the GGS Estimated Financial Statements

The Statement of Finances follows the presentation requirements for GGS reporting contained in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

This accounting standard 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).

AASB 1049 requirements include:

- The statement of comprehensive income (referred to as the operating statement) classifies amounts into transactions or *other economic flows*, in order 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. This excludes *other economic flows*, that represent 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 financial statements adopt the recognition, measurement and disclosure requirements of GAAP

- where options exist in GAAP, the GGS 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 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 to the nearest million dollars.

Presentation changes

There have been no significant presentation changes since the release of the 2019-20 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to this *document* and Note 38 of the *Total State Sector Accounts 2019-20*.

Material economic assumptions

The GGS Estimated Financial Statements have been prepared using the material economic assumptions that underpin the 2020-21 Budget, as set out in Table 6.

Table 6: Key economic performance assumptions^(a)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcomes	Outcomes*	Forecasts	Forecasts	Projections	Projections
New South Wales population (persons) ^(b)	8,087,000	8,161,000	8,164,000	8,177,000	8,234,000	8,328,000
Nominal gross state product (\$million)	625,400	622,300	630,300	655,200	679,400	707,500
Real gross state product (per cent)	1.9	-1	-¾	2½	2¼	2¾
Real state final demand (per cent)	2.1	-1¾	-1½	2½	2¼	3¼
Employment (per cent)	3.3	0	-1	1¼	1	1
Unemployment rate (per cent) ^(c)	4.6	6½	6½	6	5¾	5¼
Sydney consumer price index (per cent) ^(d)	1.7	1	1	1¼	1½	1½
Wage price index (per cent) ^(e)	2.4	2	1¼	1¼	1½	1¾
Nominal gross state product (per cent)	3.7	-½	1¼	4	3¾	4¼

(a) Per cent change, year average, unless otherwise indicated

(b) As at 30 June each year

(c) Year average, per cent

(d) 2018-19 to 2020-21 includes ¼ percentage point from tobacco excise increases.

(e) Weighted private and public sector wages

* 2019-20 is a forecast for population, gross state product and state final demand

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

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. Forecasts of government debt guarantee fees take into account an assessment of the level of debt of PNFC 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 Commonwealth Government are based on the latest available information from the Commonwealth Government and projections of timing of payments at the time of preparation of the Budget. 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 New South Wales Treasury. For 2020-21, the GST forecast is based on the assessed relativity for New South Wales in 2020-21 and the Commonwealth Government's population projections. The assessed relativity is based on the three-year average of actual data (2016-17, 2017-18 and 2018-19) as published by the Commonwealth Grants Commission.

Beyond 2020-21, the State's share of GST is based on New South Wales Treasury's forecast relativities, national GST pool estimates and the Commonwealth's state populations projections. The forecast per capita annual relativities are based on 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 by taking into account all known 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 the PNFC and PFC sectors. They are based on expected profitability and the agreed dividend policy at the time of the Budget.

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 budget estimates, consistent with longstanding practice and reflecting historic trends, the GGS Estimated Financial Statements includes adjustments:

- to account for parameter and technical adjustments² expected to be required to maintain service provision on a no policy change basis, reflecting the historic conservative bias in aggregate spending estimates
- to 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 *Treasury Circular NSW TC 15-08 Agency Carry Forwards*
- to 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. For the forecast period, employee benefits are adjusted for:

- approved wage agreements
- the decision by the Industrial Relations Commission to award a 0.3 per cent increase in 2020-21 for approximately 170,000 public sector workers
- determinations by the Remuneration Tribunal to award a 12-month pause for Senior Executives, Members of Parliament and Other Public Office Holders.

Beyond the period of the agreements and 2020-21 determinations, allowance is made for further adjustments consistent with the State's wages policy at a net cost of 1.5 per cent per annum. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

² Parameter and technical adjustments are submitted by agencies for material, non-discretionary changes in the net cost (or timing) of expenditure on existing programs or capital projects. An example of a parameter and technical adjustment would be an increase in teacher salaries due to higher student enrolments.

Superannuation expense (and liabilities)

Superannuation expense comprises:

- for defined contribution plans, the forecast accrued contributions for the period
- for 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 Budget and forward estimates period.

Table 7: Superannuation assumptions – pooled fund / state super schemes

	2020-21	2021-22	2022-23	2023-24
	%	%	%	%
Liability discount rate ^(a)	0.75	0.75	1.00	1.76
Expected return on investments ^(b)	7.08/6.08	7.00/6.00	7.00/6.00	7.00/6.00
Expected salary increases ^(c)	1.70	3.20	3.20	3.20
Expected rate of CPI ^(d)	1.00	1.25	1.50	1.50

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

(b) The expected return on investments is 7 per cent on assets backing pension liabilities and 6 per cent on assets backing non-pension liabilities. For the EISS, the expected long-term investment return is 4.7 per cent (after fees and charges).

(c) Note that the 1.70 per cent expected salary increase in 2020-21 is a blended rate to account for the fact that different salary increases will be applied to different groups within the public sector, consistent with their respective awards.

(d) 2020-21 includes ¼ percentage point from tobacco excise increases.

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 is based on the assumption 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 and 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 years 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 liabilities 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 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.

The adoption of AASB 1059 from 1 July 2020 results in the recognition of service concession assets, which includes newly recognised assets and reclassification of existing assets previously classified as emerging assets or leased assets. Refer to the section: *Changes in accounting policies* above for further details on the impacts of adopting AASB 1059.

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 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 *Treasury Circular NSW TC 15-08*
- to reflect government decisions on capital expenditure that are not yet included in agency estimates, for example due to timing, 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, 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 claim 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.

GLOSSARY

2019 Pre-election Budget Update	The Pre-election Budget Update was released by the Treasury Secretary on 5 March 2019. As required under the <i>Parliamentary Budget Officer Act 2010</i> , the Pre-election Budget Update provided an update to the State's economic and fiscal outlook following the release of the 2018-19 Half-Yearly Review.
ABS Government Finance Statistics GFS Manual (ABS GFS)	The ABS publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
Act	Is a statute or law passed by both Houses of Parliament.
Appropriation	The authority given by Parliament for the expenditure of monies from the consolidated fund for the annual services of Government and the Legislature.
Bill	Is a proposed law presented to Parliament for debate prior to becoming an Act. Most bills originate in the Legislative Assembly in NSW.
Budget result (net operating balance)	The budget result represents the difference between expenses and revenues from transactions for the general government sector. This measure is equivalent to the net operating balance adopted in accounting standard AASB 1049 <i>Whole-of-Government and General Government Sector Financial Reporting</i> .
Capital expenditure	Expenditure relating to the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements). In NSW capital expenditure also includes leases and assets acquired using service concession arrangements under the financial liability model. This makes NSW unique compared to all other states in Australia who do not include leases.
Capital grants	Amounts paid or received for capital purposes for which no economic benefits of equal value are receivable or payable in return.
Cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets (less distributions paid for the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors).
Classification of the functions of government – Australia (COFOG-A)	A system of classification for revenue, expenses, and transactions in non-financial assets, according to the primary purpose for the outlay (e.g. health, education, transport). This replaces the former government purpose classification (GPC) breakdown.
Contingent assets	Possible future assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in control of the State.
Contingent liabilities	Possible future liabilities that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in control of the State. It also includes present liabilities that arise from past events where it is not probable the State will be required to settle the liability or the amount of the obligation cannot be reliably estimated.
Cluster	Under the NSW Governance Framework, NSW Government general government entities are consolidated into Clusters reflecting broad policy areas of Government. Clusters are not legal entities. They are administrative arrangements that bring together a group of different legal and administrative entities.
Cluster grants	This represents the appropriation passed on by the principal department to the other government agencies within the cluster to fund their services.
Commitments ^(a) (Restart NSW)	Inflows that are committed to be spent on an individual project. A Restart NSW commitment can only be recognised once the Treasurer has accepted a specific funding recommendation from Infrastructure NSW for an individual project, as required by the <i>Restart NSW Fund Act 2011</i> .
Comprehensive Result (Change in net worth)	Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.

Concessional charges	Concessional charges apply to goods and services provided by government agencies at a lower fee or charge to certain members of the community, compared to the wider population, to pursue an economic or social policy goal such as reducing the cost of living.
Consolidated Fund	The fund is established under s39 of the <i>Constitution Act 1902</i> which includes all public monies collected, received or held by any person for or on behalf of the State.
Crown Entity	Includes the Crown Finance Entity and the Consolidated Fund.
Crown Finance Entity	The Crown Finance Entity acts as the residual entity for NSW whole-of-government transactions that are not the responsibility of any other state public sector agency. Major assets reported by the Crown Finance Entity include investments for the NSW Infrastructure Future Fund and Social Affordable Housing Fund. The entity also manages the NSW Generations Fund, Restart and manages Whole of Government liabilities, such as borrowings and superannuation.
Current grants	Amounts paid or received for current purposes for which no economic benefits of equal value are receivable or payable in return.
Estimated total cost (ETC)	Represents the current cost estimate of planning, procuring and delivering the infrastructure/project/asset. The ETC may change as more detailed planning is undertaken and further information on market conditions becomes available. Due to commercial sensitivities, the ETC for some major works is not included.
Elimination	Removes the impact of transactions between government entities when preparing consolidated financial statements.
Fiscal aggregates	These are analytical balances that are useful for macroeconomic purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 <i>Whole-of-Government and General Government Sector Financial Reporting</i> prescribes the net operating balance (budget result), net lending/borrowing, change in net worth (comprehensive result), net debt, net worth, and cash surplus/(deficit).
Fiscal gap	The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.
<i>Fiscal Responsibility Act 2012 (FRA)</i>	The Act sets out both medium-term and long-term fiscal targets and principles providing a framework for budgeting in New South Wales.
Forward estimates	Refers to the period from 2021-22 to 2023-24.
General government sector (GGS)	This is an ABS classification of agencies that provide public services (such as health, education and police), or perform a regulatory function. General government agencies are funded in the main by taxation (directly or indirectly).
Goods	Represent any object or product that can be used to satisfy human wants and has a value.
government / Government	'government' refers to the institution of government and is used as a pronoun in these budget papers (e.g. government department). The 'Government' refers to the present Government constituted by the Executive.
Government finance statistics (GFS)	A system of financial reporting developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.

<i>Government Sector Finance Act 2018</i>	<p>The <i>Government Sector Finance Act 2018</i> creates the financial management framework for the government sector in New South Wales that promotes and supports sound financial management, budgeting, performance, financial risk management, transparency and accountability in the government sector. This Act will eventually replace four other Acts:</p> <ul style="list-style-type: none"> • The GSF Act replaced the <i>Public Authorities (Financial Arrangements) Act 1987</i> from 1 December 2018. • The <i>Public Finance and Audit Act 1983</i> is proposed to be renamed the <i>Government Sector Audit Act 1983</i> from 1 July 2021^(b) once all provisions, other than those dealing with the Auditor-General, audit matters and the Public Accounts Committee, have been omitted and replaced by the GSF Act. <p>The GSF Act is proposed to replace the <i>Annual Reports (Departments) Act 1985</i> and <i>Annual Reports (Statutory Bodies) Act 1984</i> from 1 July 2022^(b).</p>
Grants for on-passing	All grants paid to one institutional sector (for example, a state government) to be passed on to another institutional sector (for example, local government or a non-profit institution). For New South Wales, these primarily comprise grants from the Commonwealth Government to be on-passed to specified private schools, and to specified local government authorities.
Gross state product (GSP)	The total market value of final goods and services produced within a state.
Half-Yearly Review	Required under legislation, the Half-Yearly Review provides an update to the economic and financial assumptions released in the Budget.
Inflows ^(a) (Restart NSW)	Funds deposited into Restart NSW, including proceeds from asset recycling transactions, Commonwealth Government Asset Recycling Initiative payments, proceeds from Waratah Bonds, windfall tax revenue, and investment earnings, which are then invested into Rebuilding NSW and other Restart NSW projects.
Interest expense	Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of lease repayments, and amortisation of discounts or premiums in relation to borrowings. Where discounting is used, the carrying amount of a liability increases in each period to reflect the passage of time. This increase is also recognised as an interest expense.
Machinery of Government (MoG)	MoG changes vary in scope and can involve: the abolition or creation of new government entities; the merger or absorption of entities; and small or large transfers of policy, program or service delivery responsibilities to other entities.
Major works	Refers to projects with an estimated total cost of \$250,000 or above, subdivided into new projects (approved to begin in 2020-21) and works in progress (commenced before 2020-21 but not yet completed).
Minor works	Refers to projects with an estimated total cost below \$250,000, such as minor plant and equipment or annual provisions for replacements.
Measure	Refers to Government decisions, either as recurrent or capital expenditure, revenue or savings decisions.
National Agreement (please also see National Specific Purpose Payments)	National Agreements define the objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services across a particular sector. The sectors include; Health, Education, Skills and Workforce, Disability and Indigenous.
National Partnership Payment (NPP)	A Commonwealth Government grant to States and Territories to support the delivery of specified outputs or projects, to facilitate reforms or to reward the delivery of nationally significant reforms. Each NPP is supported by a National Partnership Agreement which defines mutually agreed objectives, outputs and performance benchmarks.
National Specific Purpose Payments (SPP)	A Commonwealth Government grant made to the States and Territories under the associated National Agreement. These grants must be spent in the key service delivery sector (Health, Education, Skills and Workforce, Disability and Indigenous) for which it is provided. States are free to allocate the funds within that sector to achieve the mutually agreed objectives specified in the associated National Agreement.

Net acquisition of non-financial assets	This is purchases (or acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Purchases and sales (or net acquisitions) 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/expenses such as developer contribution assets.
Net financial assets	See net financial worth.
Net debt	Net debt equals the sum of financial liabilities (deposits held, advances received, borrowings and derivatives) less the sum of financial assets (cash and deposits, advances paid and investments, loans and placements).
Net financial liabilities (NFL)	This is the total liabilities less financial assets, other than equity in PNFCs and PFCs. It is a more accurate indicator than net debt of a jurisdiction's fiscal position. This is because it is a broader measure than net debt in that it includes significant liabilities other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth. For the general government sector NFL, excluding the net worth of other sectors results in a purer measure than net financial worth as, in general, the net worth of other sectors of government is backed up by physical assets.
Net financial worth	Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets less liabilities. It is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. It includes all classes of financial assets and liabilities, only some of which are included in net debt.
Net interest on the net defined benefit liability/asset	This is the change during the period to the net defined benefit liability/asset that arises from the passage of time.
Net lending/(borrowing)	This is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
Net operating balance (budget result)	This is calculated as revenue from transactions less expenses from transactions.
Net worth	This is an economic measure of wealth and is equal to total assets less liabilities.
Nominal dollars/prices	This shows the dollars of the relevant period. No adjustment is made each time period for inflation.
Non-financial public sector (NFPS)	This is a sub-sector formed by the consolidation of the general government sector and public non-financial corporations (PNFC) sector.
NSW Generations Fund (NGF)	Is a world-first sovereign fund that combines the dual-purpose of debt retirement with citizen-led community investment. The NGF's assets are dedicated to debt retirement.
Operating Result	This is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other comprehensive income'.
Other economic flows	These are the changes in the volume or value of an asset or liability that do not result from transactions (that is, revaluations and other changes in the volume of assets).
Other superannuation expense	This includes all superannuation expenses from transactions except superannuation interest cost. It generally includes all employer contributions to accumulation schemes and the current service cost, which is the increase in defined benefit entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are disclosed as an other economic flow.
Outcome Indicator	Show the progress in achieving the state outcome. Indicators are measures of effectiveness, measured through a range of data sources and types (including proportions, rates, time, or value).

Payables	A liability that includes short and long-term trade creditors, and accounts payable.
Program	Supports the delivery of State Outcomes and represents a group of common activities or tasks that work together to meet the objectives of the outcome.
Program Performance Measure	Measure the performance of each Program and are used to assess efficiency, effectiveness and equity in delivering the Program objectives.
<i>Public Finance and Audit Act 1983</i>	An Act to make provision with respect to the administration and audit of public finances and for other purposes. The <i>Public Finance and Audit Act 1983</i> is proposed to be renamed the <i>Government Sector Audit Act 1983</i> from 1 July 2021 ^(b) , with the elements relating to the financial matters of the State replaced by the <i>Government Sector Finance Act 2018</i> .
Public Private Partnerships (PPP)	The creation of an infrastructure asset through private sector financing and private ownership for a concession period (usually long term). The Government may contribute to the project by providing land or capital works, through risk sharing, revenue diversion or purchase of the agreed services.
Public financial corporations (PFC)	An ABS classification of agencies that have one, or more, of the following functions: <ul style="list-style-type: none"> - that of a central bank - the acceptance of demand, time or savings deposits or - the authority to incur liabilities and acquire financial assets in the market on their own account.
Public non-financial corporations (PNFC)	Government controlled agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.
Receivables	An asset that includes short and long-term trade debtors, accounts receivable and interest accrued.
Recurrent expenditure	* see Total expenses (from transactions)
Reservations ^(a) (Restart NSW)	Inflows that are reserved with a view to a future commitment. A Restart NSW reservation can only become a commitment once the Treasurer has accepted a specific Infrastructure NSW recommendation for each individual project.
Restart NSW	A fund established by the NSW Government in 2011. Funds deposited into Restart NSW come from asset recycling transactions, Commonwealth Government asset recycling initiative payments, proceeds from Waratah Bonds, windfall tax revenue and investment earnings.
Rebuilding NSW	The NSW Government's 10-year plan to invest \$20 billion in new infrastructure funded by electricity network transactions, Commonwealth Government asset recycling initiative payments, and investment earnings. Proceeds are first deposited into Restart NSW before being invested into Rebuilding NSW projects.
Service concession arrangement	Contracts between a grantor and an operator where an operator provides public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and manages at least some of those services.
Services	These are the 'end products' or direct services that are delivered to clients or recipients, the broader community or another government agency. They are expected to contribute to Government priorities and the delivery of outcomes.
Social Impact Investments (SII)	Social impact investments aim to achieve social returns as well as financial returns, with measurement of both. For government, partnering in such transactions is a way of harnessing capital and expertise from across public, private and not-for-profit sectors in order to tackle social challenges.
Special deposit account	A Special deposits account is to consist of: <ul style="list-style-type: none"> - all accounts of money that the Treasurer is, under statutory authority, required to hold otherwise than for or on account of the Consolidated Fund, and - all accounts of money that are directed or authorised to be paid to the special deposits account by or under legislation.

State Owned Corporation (SOC)	Government entities (mostly PNFCs) which have been established with a governance structure mirroring as far as possible that of a publicly listed company. NSW state owned corporations are scheduled under the <i>State Owned Corporations Act 1989</i> (Schedule 5).
State Outcomes	The primary outcomes which the government is seeking to achieve for the people and businesses of New South Wales.
Superannuation interest cost	This is the net interest on the net defined benefit liability/asset determined by multiplying the net defined benefit liability/asset by the discount rate (government bond rate).
Surplus/deficit (net result)	In Budget Paper No.2 <i>Outcome Statement</i> this is the agency accounting result which corresponds to profit or loss in private sector financial reports. It equals the net cost of services adjusted for government contributions. This is not the same as the budget result or the GFS cash surplus/(deficit).
Tax expenditure	Measures the additional tax that would have been payable if standard (or benchmark) tax rates had been applied to all taxpayers. Expenditures can include specific exemptions, reduced tax rates, allowances, deductions and deferral of tax liabilities. Equivalent amounts may be paid as rebates.
Total expenses (from transactions)	The total amount of expenses incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year. It does not include expenditure on the purchase of assets. It also excludes losses, which are classified as other economic flows.
Total revenues (from transactions)	This is the total amount of revenue due by way of taxation, Commonwealth Government grants and from other sources (excluding asset sales) regardless of whether a cash payment is received. It excludes gains, which are classified as other economic flows.
Total state sector	This represents all agencies and corporations owned and controlled by the NSW Government. It comprises the general government, public non-financial corporations and public financial corporations.
Uniform Presentation Framework (UPF)	The uniform presentation framework provides uniformity in presentation of financial information so that users of the information can make valid comparisons between jurisdictions. A new framework was introduced in February 2019 which aligns the UPF with the ABS GFS Manual updates.

(a) Terms used when referring to the Restart NSW and Rebuilding NSW programs

(b) Proposed commencements for 2020 were delayed due to COVID-19 and timelines have been updated accordingly

To gain a better understanding of the terminology and key aggregates used in the Budget Papers, a glossary of terms can also be found in Note 38 of the *Report on State Finances 2019-20*.