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. New South Wales holds two triple-A credit ratings (Moody's and Fitch), with the State holding a double-A plus with S&P Global.

As per section 8(c) of the FRA, the Government is required to outline the reasons for a departure from the FRA's object, targets or principles, and how the Government plans to achieve these targets by the end of the forward estimates (2025-26). Relevant actions are listed in Tables E.1 and E.2.

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

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	In November 2021, Moody's and Fitch assigned New South Wales a triple-A credit rating with stable outlook. In September 2021, S&P Global reaffirmed the State's credit rating at double-A plus with stable outlook. S&P Global in June 2022, outlined that it was unlikely that New South Wales would regain the triple-A credit rating until the second half of the decade and with the State required to reduce debt levels.	In support of achieving the objective of the FRA, this Budget projects: • a return to surplus by 2024-25 • net debt stabilising at around 14 per cent of GSP by June 2026, with net debt gradually declining towards the end of the decade consistent with the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient sector. The final assessment of the State's credit rating is determined by the independent credit rating agencies using their published methodology.

Table E.2: Fiscal Responsibility Act 2012 – Targets, Update and Relevant Actions

Fiscal targets	2021-22	2022-23	2023-24	2024-25	2025-26	Relevant action to achieve fiscal targets of the FRA by 2025-26
Annual expense growth kept below long-term average revenue growth (5.6 per cent) *(General government expense growth)*	26.5%	-4.5%	-4.7%	0.0%	1.8%	The Budget forecasts 2021-22 expense growth to exceed the long-term revenue growth rate due to expense measures to support households, businesses and the economy through the pandemic including the COVID-19 Disaster Payment and business grants. 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

Fiscal targets	2021-22	2022-23	2023-24	2024-25	2025-26	Relevant action to achieve fiscal targets of the FRA by 2025-26
						off and restraint on expense growth over the medium term through the fiscal repair program. For further information see Chapter 5 – Expenditure.
The elimination of the State's unfunded superannuation liability by 2030 *(Net unfunded superannuation liability)*	$16.2b	$16.2b	$16.2b	$16.0b	$15.8b	Following the onset of COVID-19, New South Wales re-anchored its superannuation liability target to be fully funded by 2040 which freed up fiscal capacity to support the Government's response to 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.

Table E.3: Fiscal Responsibility Act 2012 – Principles

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: (a) aligning general government revenue and expense growth (b) stable and predictable taxation policies (c) investment in infrastructure that has the highest benefit for the community.	• From 2022-23 onwards, the annual expense growth rate is projected to remain below the long-term average revenue growth rate of 5.6 per cent, in line with the FRA target, due to the phasing out of COVID support measures, coupled with the Government's fiscal repair measures to control expenditure. • State taxation policies have been broadly stable and predictable with the ratio of tax receipts to Gross State Product (GSP) projected to be around 5.7 per cent in 2021-22 decreasing to 5.2 per cent by 2025-26. • 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 recently released *State Infrastructure Strategy 2022-42.*

FRA principles of sound financial management	Report on performance on fiscal principles
Principle No 2 is effective financial and asset management, including sound policies and processes for: (a) performance management and reporting (b) asset maintenance and enhancement (c) funding decisions (d) risk management practices.	• The Government has continued to actively manage the State's balance sheet, investment decisions and risk management supported by advice from the Treasury-chaired Asset and Liability Committee. • Reforms and policies implemented include: - 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) - seeking to retire around $11 billion of debt (with $7.7 billion already completed), using funds from the NSW Generations Fund. - implementation of the new Cost Control Framework by Infrastructure NSW will support delivery of the state's capital program with a consistent approach to cost control and risk and strengthened accountability for the outcomes of cost control. • Outcome Budgeting provides the Government with the ability to monitor the performance of its total budget. This ensures that Government spending can provide the highest benefit and delivery of outcomes for communities and businesses across NSW. • The development of the Economic Stewardship Framework expands on the State's Outcome Budgeting approach and will consider Environmental, Social and Governance (ESG) issues more explicitly.
Principle No 3 is achieving intergenerational equity, including ensuring that: (a) policy decisions are made having regard to their financial effects on future generations (b) the current generation funds the cost of its services.	• The *2021-22 NSW Intergenerational Report* (IGR) provided 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 2021-22 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 measures announced in this Budget are projected to lead to a 0.2 percentage point deterioration in the fiscal gap, to 2.9 per cent of GSP by 2060-61, compared to 2.6 per cent of GSP announced in the 2021 IGR and 2.7 per cent estimated in the 2021-22 Budget. • The 2021 IGR outlined that reforms which drive greater economic participation by women would have considerable impacts on both living standards and in reducing the fiscal gap. Lifting the rate of women's participation in paid work to be equal to men's over the next 20 years would increase employment growth and lead to an economy that is 8 per cent larger by 2060-61, the equivalent of $22,000 more income per household. The 2022-23 Budget invests in such economic reform with measures including enhancing women's opportunities, early childhood education and care reform and further investment in skills, which over the long term should support a decrease in the fiscal gap. The current fiscal gap calculation includes the expenditure impacts of reforms included in this Budget but does not include any of the benefits of the reforms announced, including the State led reforms and reforms announced by the Commonwealth Government. • The build-up in debt as a result of the fiscal gap is partially addressed by the growing NSW Generations Fund (NGF), which is forecast to grow to more than $94 billion by June 2032.