

10. TREASURY CLUSTER

10.1 Introduction

The Treasury Cluster is the Government's principal source of whole-of-government financial and economic advice. The Cluster now also includes the Office of Energy and Climate Change (OECC), which supports the development of policy advice and implementation of programs focused on ensuring the State has affordable, reliable, and clean energy. It also advises on climate change and implements policies focused on climate change mitigation.



The Treasury Cluster provides advice to inform whole of government budget decision making; manages the State's principal financial assets and liabilities, monitors the performance of its commercial agencies; and advises on performance and financial management policies. Through OECC, Treasury plays a key role in advising on energy policy and infrastructure planning for the transformation of our energy system.

State Outcomes to be delivered by the Treasury Cluster

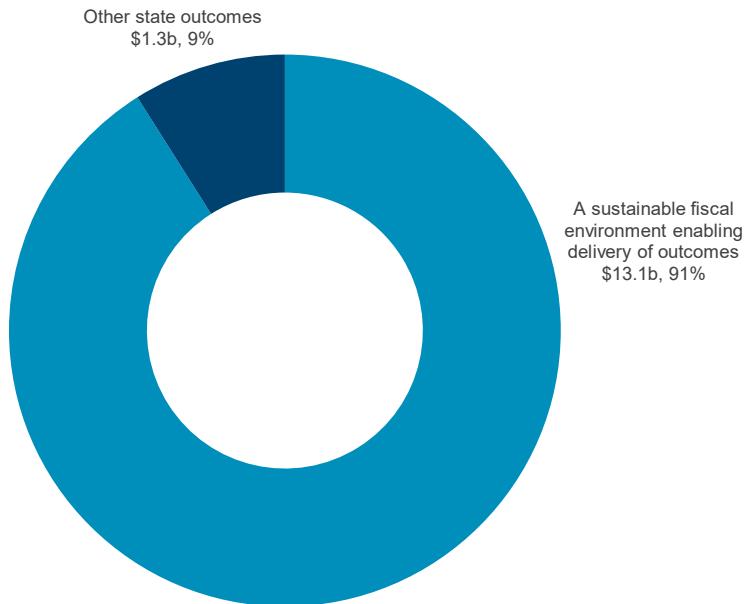
State Outcomes	Key Programs
<p>What the Cluster is delivering for people and business</p> <p>1. A strong, resilient and diverse economy</p> <p>Driving whole-of-state economic strategy, that supports a competitive business environment, drives productivity, increases real incomes, fosters employment opportunities, and makes it easy to do business in New South Wales while securing an affordable, reliable and sustainable energy future.</p> <p><i>2022-23 investment: \$1.3 billion in recurrent expenses & \$382.3 million in capital expenditure</i></p>	<p>underway to support delivery of Outcomes</p> <ul style="list-style-type: none">• Building a Strong, Productive and Diverse Economy• Improving Economic Wellbeing• Accessing Secure and Sustainable Energy• Supporting a Sustainable and Climate Resilient NSW• Encouraging a Circular Economy to Better Manage our Resources
<p>2. A sustainable fiscal environment enabling delivery of outcomes</p> <p>Managing whole-of-state financial asset and liability activities, as measured by investment and debt performance, and maintenance of the State's triple-A credit rating. Working towards the State's objective of full funding of the Defined Benefits Superannuation liability by 2040. Providing informed, evidence-based fiscal, commercial, and financial analysis and advice.</p> <p><i>2022-23 investment: \$13.1 billion in recurrent expenses & \$1.7 million in capital expenditure</i></p>	<ul style="list-style-type: none">• Fiscal Planning and Management• Sector Support and Resource Allocation• Commercial and Balance Sheet Management• Sector Procurement Services, Analytics and Systems• Evidence Informed Investment and Policy• Financial Reporting and Systems Management

State Outcomes What the Cluster is delivering for people and business	Key Programs underway to support delivery of Outcomes
<p>3. Stewardship of the public sector performance and financial system</p> <p>Steward and support sector performance to deliver outcomes for citizens, ensure transparency and accountability, and the effective use of public funds. This also includes improving the wellbeing, outcomes, and prosperity of Aboriginal and Torres Strait Islanders.</p> <p><i>2022-23 investment:</i> \$42.8 million in recurrent expenses & \$0.1 million in capital expenditure</p>	<ul style="list-style-type: none">• Performance and Financial Systems Stewardship• Digitally Focussed Treasury• Highly Capable, Collaborative and Diverse Team• Supporting First Nations Wellbeing, Outcomes, and Prosperity

10.2 Overview of Cluster expenses by State Outcome

A summary of expenses by State Outcome is provided in the charts below.

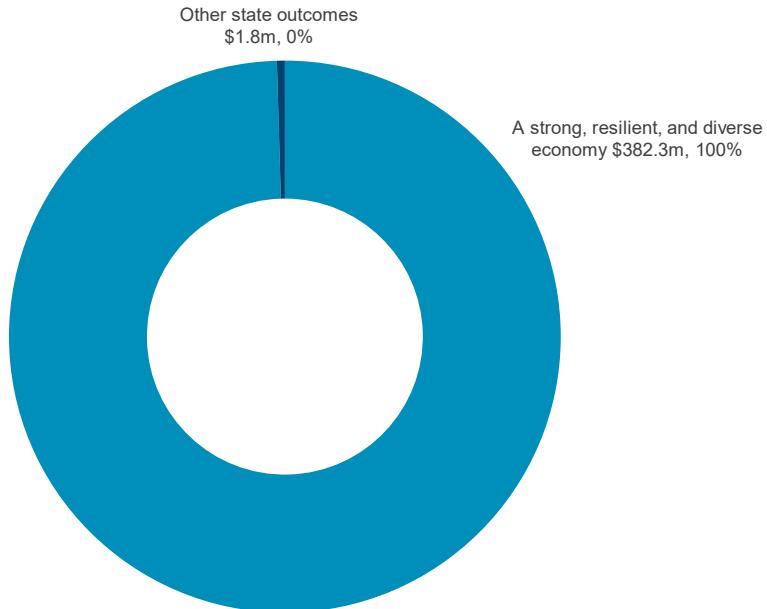
Chart 10.1: Recurrent expenses by Outcome 2022-23 (dollars and %)



Grouped for presentation purposes, “Other state outcomes” comprises:

- A strong, resilient and diverse economy
- Stewardship of the public sector performance and financial system

Chart 10.2: Capital expenditure by Outcome 2022-23 (dollars and %)



Grouped for presentation purposes, “Other state outcomes” comprises:

- A sustainable fiscal environment enabling delivery of outcomes
- Stewardship of the public sector performance and financial system

10.3 Outcome 1: A strong, resilient, and diverse economy

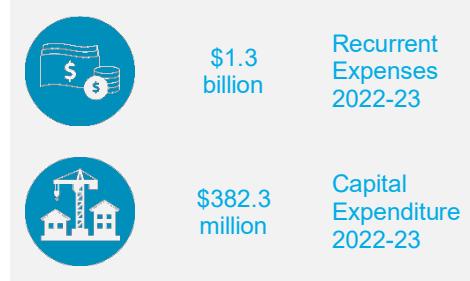
State Outcome overview and 2022-23 investment

New South Wales is Australia's largest state economy, accounting for around one third of the nation's economic output and home to nearly one third of Australians.

Treasury is the Government's chief economic adviser, leading advice on economic policy, productivity, economic analysis, tax policy and better regulation. Treasury contributes to a strong, resilient, and diverse economy through economic and productivity reform and by securing an affordable, reliable, and clean energy future.

Through the OECC, Treasury leads NSW energy regulation and market reforms, including electricity infrastructure planning and development. OECC also administers energy rebate programs to address cost of living pressures for vulnerable households, as well as climate change programs and net zero policy.

New South Wales has substantial economic opportunities arising from the development of clean industries. Accelerating the development of these industries will position New South Wales to take advantage of the emerging green markets with the creation of high-quality well-paid jobs.



2022-23 State Outcome Budget highlights

In 2022-23, the Treasury Cluster will invest \$1.6 billion (\$1.3 billion recurrent expenses and \$382.3 million capital expenditure) in this Outcome, including:

- \$465.7 million investment from the Climate Change Fund as part of the over \$2.5 billion investment planned from 2022 to 2030 in programs to reduce emissions and make New South Wales more resilient to a changing climate. This includes funding to deliver the *Net Zero Plan Stage 1: 2020-2030* and to contribute to delivering the *Electricity Infrastructure Roadmap*
- \$206.1 million (before revenue and asset sales) (\$254.7 million recurrent expenses and \$1.6 billion in capital expenditure over four years) for a Transmission Acceleration Facility to develop transmission infrastructure projects required to fast track the transition to renewable generation and storage. It is expected to be recouped from revenue and asset sales over the period such that the maximum net outlay does not exceed \$1.2 billion
- \$105.0 million in recurrent expenses over four years to support the emerging renewable manufacturing industry, to secure local supply chains and encourage innovation
- \$20.1 million (\$38.3 million recurrent expenses over four years) to support the accelerated roll out of ultra-fast vehicle chargers to support the switch to electric vehicles
- \$11.7 million (\$45.8 million recurrent expenses over four years) to support an additional 1.4 gigawatts of pumped hydro projects and feasibility investigations on key existing WaterNSW assets
- \$10.2 million (\$32.3 million of recurrent expenses over four years plus \$500,000 of capital expenditure) to proactively work across government to develop tools and frameworks to manage climate risk and its impact on government assets and the delivery of services
- \$10.0 million (\$110.0 million in recurrent expenses over four years) to help build the State's clean manufacturing base, using new, clean technologies including green hydrogen, cement, ammonia, and steel production

- \$8.5 million (\$50.3 million in recurrent expenses over four years) to accelerate the *Electricity Infrastructure Roadmap* in response to the early closure of coal fired power stations announced by industry
- \$5.8 million (\$9.1 million in recurrent expenses over four years) to implement the actions of the *Women's Opportunities Statement*, including resourcing for delivery of multiple initiatives across New South Wales. This is to maximise the effectiveness of the proposed policies and measures, including assessing First Nations women's economic opportunities.

Key performance insights

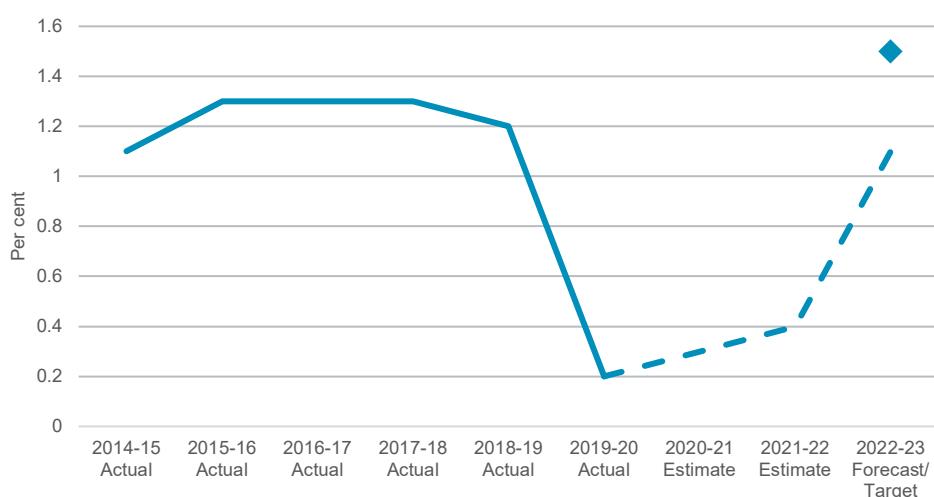
This section provides analysis and insights on key Outcome Indicators for this State Outcome.

Growth in real Gross State Product (GSP) per capita (four year moving average)

The NSW economy has been highly resilient in the context of the COVID-19 pandemic and is emerging from this period with an unemployment rate at historic lows.

Despite this, the COVID-19 pandemic saw a sharp decline in GSP per capita. The Government's response and recovery strategy has contributed to the NSW economy reopening and recovering faster than expected. As the effects of the COVID-19 pandemic subside, GSP per capita is expected to grow at or above target by the end of the forecast horizon (2025-26). The longer-term outlook is stable.

Chart 10.3: Annual real GSP per capita growth (4 year moving average)



Note: Historical data has been revised by the Australian Bureau of Statistics.

Energy as a proportion of the average household disposable income

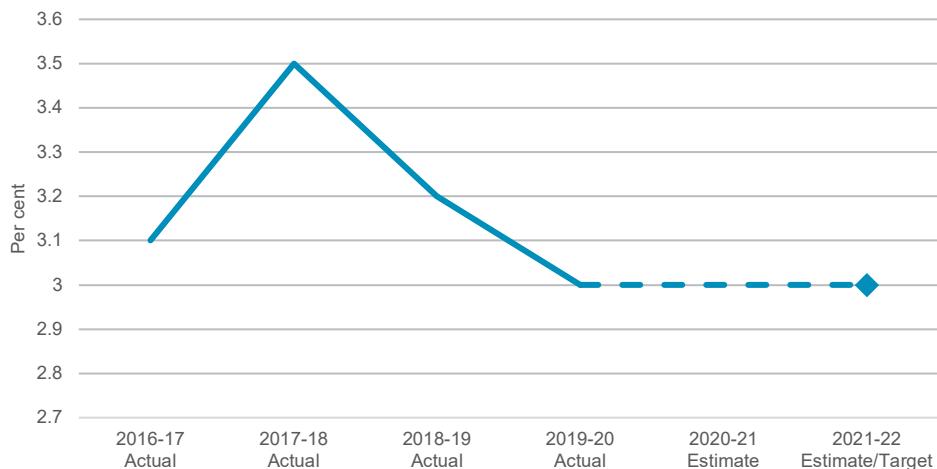
This indicator measures the average household electricity bill as a proportion of a household's average disposable income. The NSW Government's clean energy and energy efficiency programs, energy rebates, Energy Bill Buster and the *Electricity Infrastructure Roadmap* seek to place downwards pressure on energy costs for consumers.

This indicator improved from 2017 to 2020, with households having more money to spend on other costs of living. This reflected a mix of market and regulatory changes, especially a reduction in the wholesale electricity cost component of retail electricity prices.

Performance in 2022-23 is expected to be affected by upwards pressure on electricity prices, principally due to high international coal and gas prices. This upwards pressure will be partly mitigated by existing default market offers and contract settings.

The NSW Government's *Electricity Infrastructure Roadmap* will support the development of new renewable generation infrastructure to put downward pressure on wholesale prices. Together with supporting infrastructure, including long-duration storage, this will help avoid the extreme price spikes that would otherwise occur due to the closure of major power stations.

Chart 10.4: Energy as a proportion of the average cost of living



Millions of tonnes of CO₂ equivalent emissions (MtCO₂-e) emitted annually in New South Wales

The NSW Government is committed to achieving net zero emissions by 2050 with an interim target of a 50 per cent reduction by 2030.

This indicator reports greenhouse gas emissions from all sectors of the economy and all other emitting and greenhouse gas depleting activities occurring in New South Wales.

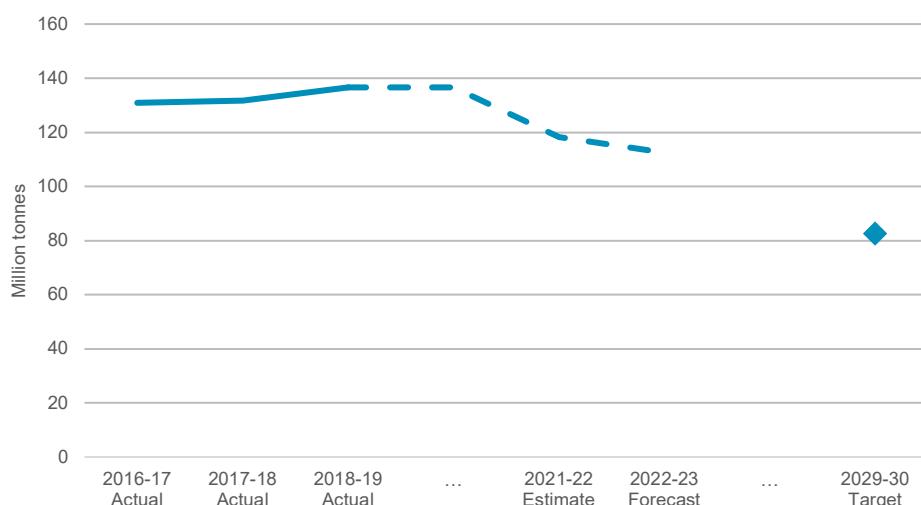
Performance against this indicator shows that emissions in 2019 were 17 per cent lower than 2005 levels, with emissions forecast to reduce to between 47 to 52 per cent below 2005 levels by 2030. The *Net Zero Plan Stage 1: 2020-2030* sets out the NSW Government's plan to reduce emissions in the decade to 2030. It is the first stage in the Government's plan to achieve net zero emissions in ways that grow the economy and reduce the cost of living and doing business.

In September 2021, the Government committed to a new target of 50 per cent emissions reductions below 2005 levels by 2030. This is expected to be achieved through the implementation of Net Zero Plan initiatives including the NSW Electric Vehicle Strategy and renewable energy investment, as well as other business and community action under current policy settings.

The NSW Government announced the NSW Hydrogen Strategy in October 2021, which will provide up to \$3 billion in incentives for hydrogen initiatives. This will position NSW as a global hydrogen leader. The strategy includes delivering the State's hydrogen hubs, exemptions for green hydrogen production from government charges and a range of complementary initiatives.

In 2022–23, the NSW Government will invest \$465.7 million from the Climate Change Fund as part of the over \$2.5 billion investment planned from 2022 to 2030 in programs to reduce emissions and make New South Wales more resilient to a changing climate. This includes funding to deliver the *Net Zero Plan Stage 1: 2020-2030* and to contribute to delivering the Electricity Infrastructure Roadmap. Further detailed plans will be developed over the next two decades to ensure net zero emissions are achieved by 2050.

Chart 10.5: Millions of tonnes of CO₂ equivalent emissions (MtCO₂-e) emitted annually in New South Wales



Performance indicators for this Outcome

Outcome Indicators	Units	2021-22 Actual	2022-23 Forecast
Growth in real GSP per capita (4 year moving average)	%	0.4 ^(a)	1.1
Energy as a proportion of the average household disposable income	%	3.0 ^(b)	n.a. ^(c)
Estimated bill savings delivered by the NSW Government's energy affordability programs, including energy savings scheme, energy rebates programs including energy savings scheme and energy rebates programs	\$	395.0 ^(b)	n.a. ^(d)
Millions of tonnes of CO ₂ equivalent emissions (MtCO ₂ -e) emitted annually in NSW	no.	118.2 ^(b)	112.5
NSW Energy Security Target met	no.		
Supply		16,458 ^(b)	16,422
Demand		15,549 ^(b)	15,578
Reduced energy consumption by homes and businesses by participating in NSW Government energy efficiency programs	no.	4,350 ^(b)	n.a. ^(e)
Reliability of the National Electricity Market in NSW	no.	0 ^(b)	0
Additional renewable energy generation capacity developed through the Roadmap	MW	2,940 ^(f)	3,841
Additional Long Duration Storage (LDS) capacity developed through the Roadmap	MW	0 ^(g)	0 ^(g)
NSW Greenhouse gas emission reductions due to the Net Zero Plan and other NSW Government policies	%	28 ^(b)	32

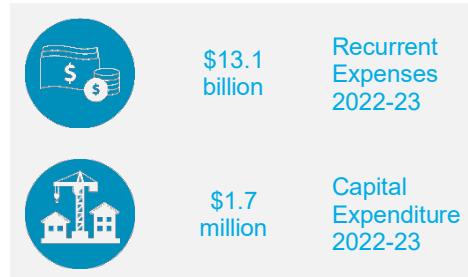
Notes

- (a) The 0.4 per cent is the 2021-22 forecast as the 2021-22 actual value will be available in late November 2022.
- (b) 2021-22 data is not yet available, however, an estimate for 2021-22 has been provided.
- (c) 2022-23 forecast data is not available yet.
- (d) 2022-23 forecast data will be available in July 2022.
- (e) 2022-23 forecast data will be available in August 2022.
- (f) As at Q3 2021-22, 2,675MW of renewable capacity and short-term storage was either committed or commissioned in NSW. This is currently tracking above the minimum rate of 300MW/quarter needed to meet the target and the 2021-22 forecast. 2021-22 full year number is not yet available and therefore an estimate for 2021-22 has been provided.
- (g) New pumped hydro storage projects remain under development.

10.4 Outcome 2: A sustainable fiscal environment enabling delivery of outcomes

State Outcome overview and 2022-23 investment

In advising on the management of the State's fiscal environment, Treasury aims to promote access for NSW residents to quality services and infrastructure that deliver social and economic benefits and are consistent with a sustainable financial position over the medium-term.



2022-23 State Outcome Budget highlights

In 2022-23, the Treasury Cluster will invest \$13.1 billion (\$13.1 billion recurrent expenses and \$1.7 million capital expenditure) in this Outcome, including:

- supporting effective NSW infrastructure investment, with resources and initiatives that support the 2018 Government Action Plan, including implementation of a whole of government Standard Commercial Framework and enhanced analysis of the sector participants' financial capacity to deliver
- improving social and sustainability outcomes through the Government's procurement with the implementation of a Sustainable Procurement Policy, focusing on reform priorities to help boost economic productivity, including women's economic opportunities, science and technology and a sustainable, clean, and resilient economy
- supporting the embedding and further development of outcomes and performance informed budgeting and resource allocation frameworks
- providing for the management of the Treasury Banking System, including maximising returns on the State's centrally managed cash holdings
- managing the State's core debt portfolio
- administering Restart NSW, the Social and Affordable Housing Fund, and the NSW Generations Fund, to maximise returns on investment in productive infrastructure, and boost delivery of social and affordable housing across New South Wales
- overseeing the State's investments, including the retained interests in Ausgrid and Endeavour Energy, as well as administering the residual assets and liabilities of major State asset recycling and long-term lease transactions
- ensuring the adequacy of the funding of the New South Wales public sector Defined Benefit Superannuation Scheme.

Key performance insights

This section provides analysis and insights on key Outcome Indicators for this State Outcome.

Fully funding the State's unfunded defined benefit superannuation liabilities by June 2040

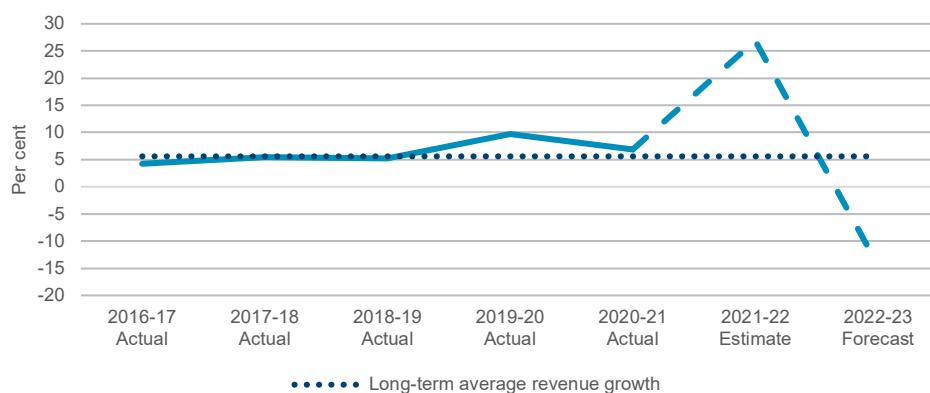
In the 2020-21 Budget, the State embarked on a two-year defined benefit superannuation contribution holiday (2020-21 and 2021-22). The State re-anchored the target in 2020-21 to fully fund the State's defined benefit superannuation liability by 2040, rather than 2030, in response to the budget and debt impact of the COVID-19 pandemic. NSW Treasury's actuaries project that the Government is on track to fully fund its defined benefit superannuation liabilities by 2040 under the basis of the Australian Accounting Standards Board (AASB) standard on Superannuation Entities (AASB 1056). This projection is completed as part of a triennial review process, with the last review completed in 2021.

Maintaining the triple-A credit rating

In 2021, both Moody's and Fitch assigned New South Wales a triple-A credit rating despite the severe economic disruptions caused by the COVID-19 pandemic and the economic impacts of drought and bushfires.

In 2021, S&P Global assigned the State a double-A plus credit rating on a stable outlook.

Chart 10.6: Annual expense growth below long-term revenue growth



Performance indicators for this Outcome

Outcome Indicators	Units	2021-22 Actual	2022-23 Forecast
Annual expense growth below long-term revenue growth	%	26.9 ^(a)	-14.5 ^(b)
Fully funding the State's unfunded defined benefit superannuation liabilities by June 2040 ^(c)	\$billion	16.2	16.2
Maintaining the triple-A Credit Rating (Moody's)	Yes	n.a.	
Maintaining the triple-A Credit Rating (Standard & Poor's)	No ^(d)	n.a.	n.a.
Reducing the long-term fiscal gap	%	n.a.	2.7 ^(e)

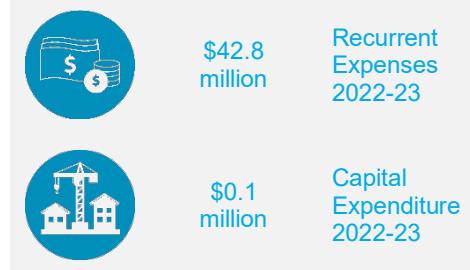
Notes

- a) 2021-22 actual is the calculated result based on General Government results and will be available with the published Total State Sector Accounts 2021-22 after the Budget and an estimate as at 2021-22 Half Year result has been utilised.
- b) This is an estimate as at 2021-22 Half Year result.
- c) The State had embarked on a 2-year superannuation contribution holiday (2020-21 and 2021-22) and re-anchored the target in 2020-21 in response to the budget and debt impact of the COVID-19 pandemic. The \$16.2 billion for 2021-22 and 2022-23 are estimates for the respective annual liability balances.
- d) 2020-21 credit rating from Standard & Poor's is double-A plus.
- e) 2022-23 forecast refers to the projected fiscal gap of 2.7 per cent of GSP in 2060-61 as originally estimated in the 2021-22 NSW Intergenerational Report and updated for the 2021-22 Budget. The fiscal gap is the projected change in revenues less expenditures (including recurrent and net capital expenditures but excluding interest) as a percentage of Gross State Product (GSP) between 2018-19 and 2060-61.

10.5 Outcome 3: Stewardship of the public sector performance and financial system

State Outcome overview and 2022-23 investment

Treasury plays a central role as the performance and financial steward for the NSW Government Sector. This role supports compliance with the *Government Sector Finance Act 2018* which provides that agencies are required to report and demonstrate performance outcomes and not just financial results. Under this Outcome, Treasury aims to support the building of sector capability, and to assist agencies achieve their performance goals while also meeting all compliance and reporting obligations.



This Outcome also includes the development and implementation of whole of government reporting frameworks to support improvements in the wellbeing and prosperity of Aboriginal and Torres Strait Islander communities.

2022-23 State Outcome Budget highlights

In 2022-23, the Government will invest \$42.9 million (\$42.8 million recurrent expenses and \$0.1 million capital expenditure) in this Outcome, including:

- \$13.1 million in recurrent expenses to deliver a comprehensive suite of activities including ongoing training and guidance on budgeting and financial reporting systems, accounting and financial management policy advice, procurement and banking best practice support and tools, investment and debt advice, and stewardship
- \$8.3 million in expenses (\$8.2 million recurrent expenses and \$0.1 million in capital expenditure) to continue to promote a digitally focused Treasury.

Key performance insights

This section provides analysis and insights on key Outcome Indicators for this State Outcome.

No material adverse findings in Audit Office financial audit reports to Parliament

The Audit Office of NSW performs independent reviews of the sector, including financial audits, performance audits and internal controls reviews. The results are reported to Parliament to ensure accountability to the people of New South Wales.

There was a delay in the publication of the Total State Sector Accounts for 2020-21 due to the need to resolve accounting complexities associated with the establishment of the Transport Asset Holding Entity. Whilst the Auditor-General ultimately provided an unqualified opinion on the Total State Sector Accounts, the Auditor-General's report to Parliament made recommendations in relation to the need for improvements in Treasury's processes. Treasury has responded that it will actively implement measures to address the Auditor General's recommendations.

A voice of the customer survey of the support provided by Treasury and the effectiveness of Treasury performance and financial management stewardship

The annual Treasury Stewardship Survey seeks to understand the views of Treasury's General Government and State-Owned Corporation agencies on the stewardship support provided by Treasury to drive effective performance and financial management.

Performance against this indicator was assessed as 4.0 out of 5.0 in 2022. The baseline performance for this indicator is 3.9 out of 5.0 which was the survey score from 2021 when the survey was conducted for the first time. The target is to improve against the baseline each year. Treasury will continue to refine its Customer Relationship Model to provide stronger and improved support to the sector.

Provision of effective tools and frameworks (including technology) to enable the sector to strengthen their performance and financial management, and promote efficient, effective and economical use of government resource

The performance against this indicator was assessed at 3.6 out of 5.0 in 2022. The baseline performance for this indicator is 3.3 out of 5.0 which was the survey score from 2021 when the survey was conducted for the first time. The target is to improve against the baseline each year. Treasury will continue to undertake improvements to financial information systems, frameworks, and guidelines.

Performance indicators for this Outcome

Outcome Indicators	Units	2021-22 Actual	2022-23 Forecast
No material adverse findings in Audit Office financial audit reports to Parliament	no.	1 ^(a)	0
A voice of the customer survey of the support provided by Treasury and the effectiveness of Treasury performance and financial management stewardship	no. ^(b)	4.0	n.a. ^(c)
Provision of effective tools and frameworks (including technology) to enable sector to strengthen their performance and financial management, and promote efficient, effective and economical use of government resource	no. ^(b)	3.6	n.a. ^(c)

Notes

- (a) In the report to Parliament on the 2020-21 Total State Sector Accounts, the Auditor-General made findings that pointed to the need for improvements in Treasury's systems to support the effective preparation and auditing of the Total State Sector Accounts.
- (b) Score out of 5.0.
- (c) 2022-23 objective is to achieve year on year improvement in the annual Treasury Stewardship Survey scores.