2022–23

Half-Yearly Review

Supporting families,

building a brighter *future*

NSW Budget

2022-23 Half-Yearly Review

Released by The Hon. Matt Kean MP, Treasurer

Acknowledgement of Country

This Half-Yearly Review was prepared by NSW Treasury on the traditional lands of the Gadigal people of the Eora Nation.

NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork: 'Regeneration' by Josie Rose 2020

The 2022-23 Half-Yearly Review

The *Government Sector Finance Act 2018* requires the Treasurer to release a Half-Yearly Review by 31 December each year. In the event of a State election following 31 December, the Half-Yearly Review can be released no later than 10 February. The Half-Yearly Review should be presented in a consistent manner to the preceding Budget to allow for ease of comparison.

Best available information

Actual financial statements have been prepared based on financial information for the year ending 30 June 2022.

The Estimated Financial Statements have been prepared to take account of economic and financial data available to Treasury as at 24 January 2023 and estimates of Government policy decisions and parameter and technical adjustments up to 3 February 2023.

Any estimates or assumptions made in calculating revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time.

The Estimated Financial Statements have been prepared in accordance with *Appendix A Statement of Significant Accounting Policies and Forecast Assumptions*.

Notes when reading this report

The Budget year refers to 2022-23, while the forward estimates period refers to 2023-24, 2024-25 and 2025-26.

Figures in tables, charts and text have been rounded and any discrepancies between totals and sums of components reflect rounding. Percentage changes are based on unrounded estimates.

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1. OVERVIEW

2022-23 Half-Yearly Review Highlights

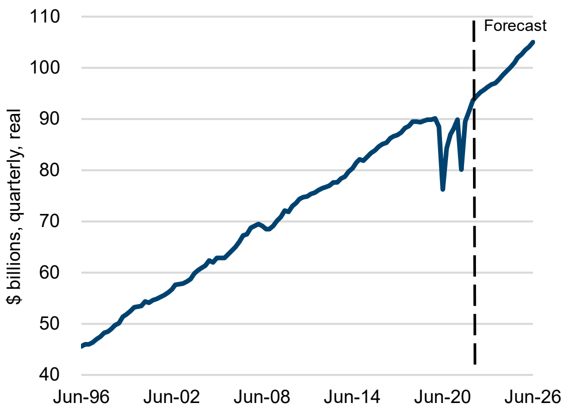
- The New South Wales economy has continued to rebound strongly since the 2022-23 Budget. Employment is now forecast to grow by 5½ per cent in 2022-23, up from 3 per cent at the 2022-23 Budget. Inflation likely peaked in the December quarter 2022.
- Since the 2022-23 Budget, New South Wales has again experienced severe storm and flood events, requiring significant expenditure to support response and recovery. The NSW and Australian Governments have provided an additional $2.6 billion to support affected communities.
- The forecast budget result for 2022-23 remains broadly stable relative to the 2022-23 Budget. Upwards revisions to revenue, principally from higher forecast coal royalties and payroll tax, are offset by upwards revisions to estimated expenses. Higher expenses largely reflect flood response and additional investments in the state's transport and healthcare systems.
- The Budget remains on track to return to surplus in 2024-25 and 2025-26. Estimated total revenue in 2023-24 has been revised upwards relative to expectations at Budget, though this has been more than offset by higher estimated expenses to support flood recovery and address ongoing pressures stemming from COVID-19.
- The Government has introduced measures that are forecast to increase revenue by $1.8 billion to 2025-26. These include reforming casino tax rates and infrastructure contributions, removing concessional duties for corporate acquisition of public landholders, and increasing the levy on point-to-point services.
- Net debt is projected to stabilise at around 14 per cent of GSP from June 2026, and decline in the second half of the decade, broadly consistent with the projections at Budget.
- The 2022-23 Half-Yearly Review builds upon the key priorities outlined in the Budget. Significant progress has been made on 2022-23 Budget initiatives, including implementation of stamp duty reform for first home buyers, introduction of a shared equity scheme, and the commencement of reforms aimed at improving economic opportunities for women.
- The Government continues to provide cost of living support for households with $7.2 billion in cost of living relief. Since Budget, it has partnered with the Australian Government to put downward pressure on energy bills through the Energy Bill Price Relief Plan.
- Overall, the NSW Government provides more than 70 rebates and voucher schemes to people across New South Wales to give a boost to their household budget.

The NSW economy has made a strong recovery but faces headwinds

The NSW economy has continued to record strong outcomes since the Budget, with unemployment remaining at historically low levels. At the same time, inflation has risen at a faster pace than forecast, and interest rates have been increased by the Reserve Bank of Australia (RBA) at a faster than expected pace.

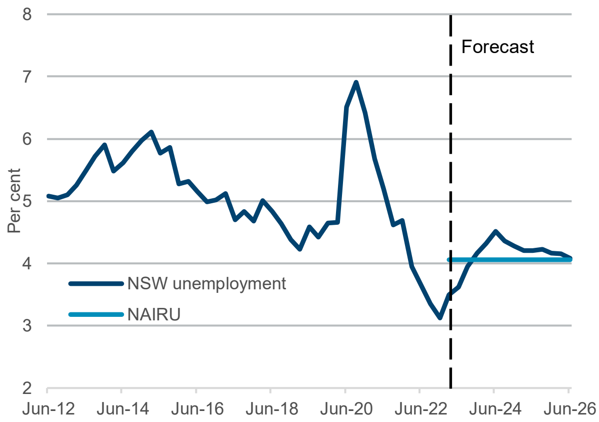
Overall, the Half-Yearly Review anticipates that real economic growth in 2022-23 will be lower than anticipated at Budget, but still strong at 3¾ per cent. Consistent with higher inflation, forecast nominal growth in 2022-23 has been revised up from 9¾ per cent to 10¼ per cent.

Chart 1.1: NSW quarterly household consumption



Source: ABS and NSW Treasury

Chart 1.2: NSW unemployment rate



Source: ABS and NSW Treasury

COVID-19 risks have eased for much of the world, but the global economic landscape remains challenging, leaving the outlook for the global economy highly uncertain. The International Monetary Fund has downgraded its outlook for global growth in 2023 since April 2022, reflecting the rapid rise in central bank rates to curb inflation and the war in Ukraine weighing on economic activity.

Despite global turbulence, the NSW economy has remained resilient, reflecting its underlying strength and Government investments in infrastructure and COVID-19 response and recovery. Household consumption remains strong, aided by strong labour market conditions and pent-up demand for services. This is expected to moderate due to affordability pressures, including household price inflation and rising mortgage rates.

Inflation likely peaked in the December quarter 2022 and is forecast to ease over the forward years. This is driven by the tightening of monetary policy, and supply side factors such as the easing of supply chain constraints, declining oil prices and the Australian Government's temporary caps on gas and coal prices to curb rising energy prices.

The outlook for NSW business investment is positive. Overall business investment is expected to outpace growth in other areas of the economy as it recovers from weakness throughout the pandemic.

Since the 2022-23 Budget, NSW employment has grown faster than expected. The reopening of international borders and removal of self-isolation requirements has meant both the supply of labour and population growth are becoming less constrained.

Employment is forecast to grow by 5½ per cent in 2022-23, up from 3 per cent at 2022-23 Budget. Employment growth is then expected to slow significantly to ¾ per cent in 2023-24, consistent with the anticipated slowdown in economic activity. Despite this, the labour market is expected to remain tight, contributing to a forecast acceleration in near term wages growth.

An in-depth analysis on the State's economic outlook is provided in Chapter *2 Economic Outlook*.

Box 1.1: Timely delivery of support for flood-affected communities

Since the 2022-23 Budget, New South Wales has experienced three further major storm and flood events. In response, the NSW and Australian Governments have jointly committed an additional $2.6 billion to 2025-26 to support impacted communities and better prevent, prepare for, respond to and recover from future natural disasters.

Key commitments include:

- **Grant and Funding Support** – $1.1 billion in clean up assistance and direct funding support for affected households, primary producers, local councils, small businesses and not for profit organisations
- **Resilient Homes Fund** – $800 million to improve the resilience of homes in high-risk flood areas, targeted at the Ballina, Byron, Clarence Valley, Kyogle, Lismore, Richmond Valley, and Tweed local government areas
- **Regional and Local Roads Repair Program** – $500 million to support councils to undertake urgent repairs for roads impacted by major flooding events throughout New South Wales
- **Implementation of the 2022 NSW Independent Flood Inquiry** – $199 million to implement inquiry recommendations, including enhancing NSW's flood rescue capability, strengthening key disaster welfare functions, and better supporting volunteerism
- **NSW Reconstruction Authority** – Establishing a dedicated agency to support communities to build greater resilience, and rebuild and recover quicker from natural disaster events.

Box 1.2: Easing the cost of living for New South Wales families

Households across New South Wales are experiencing increasing cost of living pressures driven by rising interest rates, global supply constraints and continuing economic uncertainty.

The Government continues to provide essential cost of living support for households across New South Wales who need it most, as the nation faces rising energy, housing, and other inflationary costs.

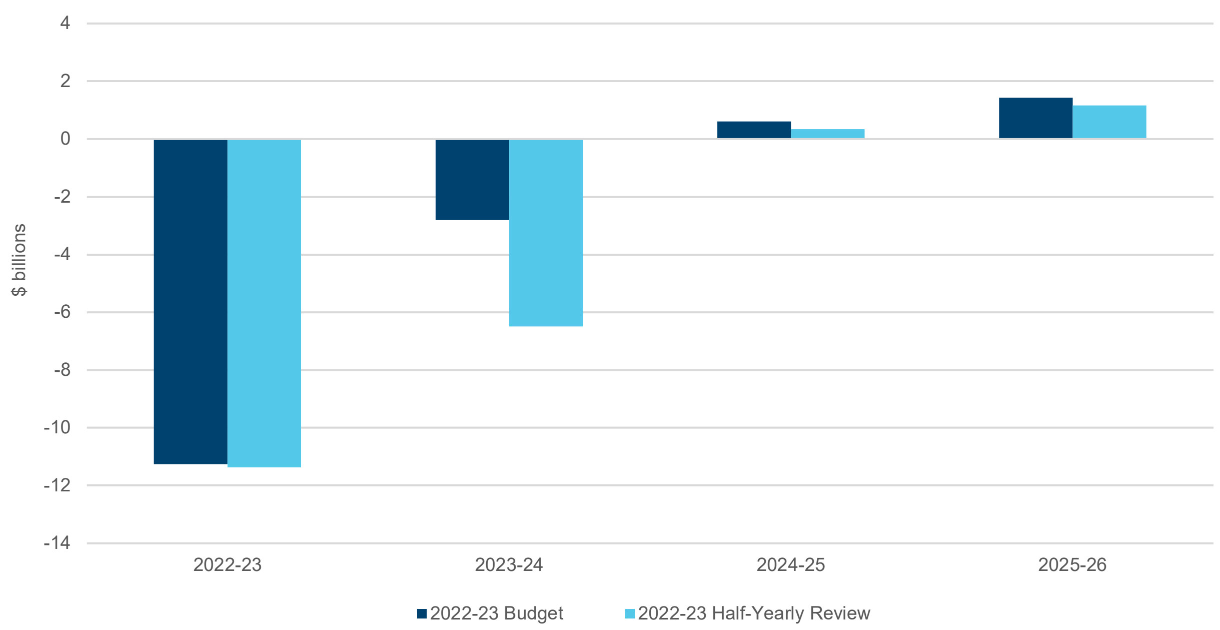
In 2022-23, the Government will provide $7.2 billion in targeted support to help ease these pressures, including:

- **Broad-based Toll Relief Rebate Scheme** – $520 million over two years to provide a 40 per cent rebate on toll expenditure for eligible motorists from 1 July 2022, up to a maximum of $750 per annum
- **Back to School NSW Vouchers** – $193 million to assist every parent with a child in school in reducing the cost of school supplies and excursions by up to $150 per eligible student, with more than 3.3 million vouchers issued to 31 January 2023
- **Energy Bill Buster Program** – $128 million over eight years to help eligible households address their energy bills by encouraging the use of solar and high-efficiency appliances
- **Regional Student and Apprentice Travel Card** – $250 prepaid travel cards to help ease the cost of travel and support access to education and training for eligible apprentices and university students in regional, rural and remote areas of New South Wales

Customers save an average of $750 from the more than 70 rebates and voucher schemes available to people across New South Wales to give a boost to their household budget.

The NSW Budget remains on track to return to surplus by 2024-25

Chart 1.3: NSW Budget Result comparison 2022-23 Budget to 2022-23 Half-Yearly Review



The Government's fiscal strategy is unchanged since the 2022-23 Budget, with two key pillars:

- to support and invest in the productive capacity of the State, and accelerate long-term economic growth for New South Wales
- to rebuild a fiscal buffer with a return over the forward estimates to a sustainable operating and debt position, supported by fiscal repair measures.

The Half-Yearly Review reaffirms the Government's objective to return to surplus by 2024-25 and maintain sustainable debt levels. The forecast surplus is $333 million in 2024-25 and $1.2 billion in 2025-26 respectively.

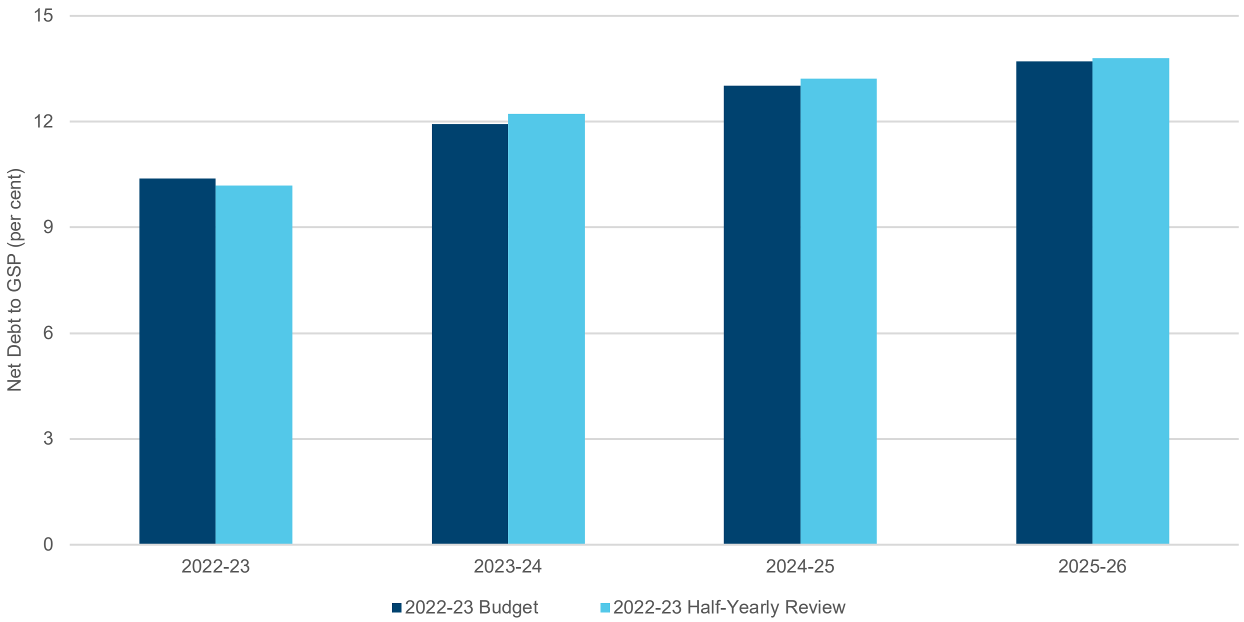
Since the Budget, the projected deficit for 2022-23 has remained broadly stable, increasing by $102 million to $11.4 billion (see Chart 1.3). This revision is primarily driven by additional expenditure for COVID response measures, supporting communities impacted by floods, priority reforms and cost of living support, largely offset by upwards revisions to forecast revenue.

For the three following years (2023-24 to 2025-26), estimated expenses have been revised upwards by $13.2 billion reflecting storm and flood recovery activities, investments in the public transport network and health systems, and cost of living support. The higher expenses are partially offset by a $9.0 billion increase in forecast revenue over the corresponding period.

The upwards revision to forecast revenue are driven by higher forecast mining royalties and GST revenue, partly offset by reduced forecast transfer duties due to a weaker outlook for the residential property market than at Budget.

The Government is delivering a capital program of $116.6 billion over the four years to 2025-26. This is a net increase of $3.9 billion since the Budget, primarily driven by investments in new and existing transport infrastructure. Since the Budget, capacity in the construction market to deliver large projects has further tightened and input prices have increased.

Chart 1.4: Net Debt to GSP – 2022-23 Budget to 2022-23 Half-Yearly Review



The Government is committed to maintaining net debt at sustainable levels. Since Budget, the projection for net debt to GSP has increased, driven primarily by the flood response, and investments in health and public transport, partially offset by upwards revisions to forecasts revenue.

Despite the immediate term increase, the Government remains on track to stabilise net debt at around 14 per cent of GSP from June 2026, broadly consistent with the projection at the 2022-23 Budget. Net debt is projected to decline in the second half of the decade.

Further analysis on the fiscal outlook is available in *Chapter 3 Fiscal Position and Outlook*.

Supporting families, building a brighter future

The 2022-23 Budget outlined the NSW Government's continued investment in its people and systems to deliver transformational reforms to build a brighter future for families and businesses for generations to come. These investments follow the most disruptive period in the State's history, with the continued response to the pandemic, successive natural disaster events, and shifts in working practices.

Since the 2022-23 Budget, New South Wales has been hit by a further three major flood events since the 2022-23 Budget. The NSW and Australian Governments have jointly committed an additional $2.6 billion to support impacted communities. This has included establishing the NSW Reconstruction Authority – a dedicated agency to support communities to build greater resilience and rebuild and recover quicker from natural disasters.

The Government has continued to provide cost of living relief for those who need it most, as the nation continues to experience the highest inflation in more than three decades. Toll relief, regional travel benefits, savings on licence renewals, gas rebates, energy bill rebates and vouchers are part of more than 70 areas where the Government is providing support. The NSW Government has also supported the Australian Government to implement temporary caps on gas and coal prices putting downward pressure on household energy bills.

Despite these ongoing economic and fiscal challenges, the NSW Government has continued to deliver on the 2022-23 Budget's five pillars of transformational economic reform to boost NSW's productive capacity:

1. Women's opportunities
2. Giving children and young people the best start in life
3. A quality home for everyone
4. The future economy
5. Protecting our planet and growing a clean economy.

The 2022-23 Budget included a package of reforms to support women's participation and employment outcomes, including the introduction of universal pre-kindergarten and immediate measures to reduce the cost of pre-school.

The Government has now legislated the $5 billion Childcare and Economic Opportunity Fund, expanded leave arrangements, launched the Industry Innovation Program to support gender diversity in construction and helped reduce barriers to employment with Return to Work grants.

The Government recognises the importance of home ownership and is making it easier for families and frontline workers to own their own home. The Government has legislated and launched the First Home Buyer Choice and Shared Equity Home Buyer Helper schemes, enabling young families, essential workers, and single parents and singles over 50 more opportunity to get them into their own homes sooner.

The NSW Government has forged ahead with its plan to transform and modernise the state's electricity infrastructure. This year, it signed an agreement with the Australian Government for a $7.8 billion package to support the delivery of 8 critical transmission projects, including the NSW Government's 5 Renewable Energy Zones to increase network reliability.

The NSW Government has continued to deliver its record infrastructure program, with work continuing to transform Sydney's rail system through new Metro lines, and major milestones met – including the opening of the M4 to M8 motorway link, completion of the Coffs Harbour hospital expansion, and the opening of the world class Sydney Modern.

The NSW Government also continues to invest in transformative community projects, with local infrastructure projects across Western Sydney including swimming pools, parks, sports fields and walking tracks funded through the $5 billion WestInvest program.

Box 1.3: Increasing home ownership

The Government has continued its focus on increasing opportunities for people in New South Wales to own their own home.

Since the 2022-23 Budget, the Government has progressed key measures aimed at expanding the supply of homes across New South Wales and to help first homebuyers break into the market.

Commencement of the First Home Buyer Choice scheme

As announced in the 2022-23 Budget, the Government has legislated the First Home Buyer Choice scheme to support first home buyers in New South Wales. The Government provided $728.6 million over four years to introduce this scheme.

The NSW Parliament passed the *Property Tax (First Home Buyer Choice) Act 2022* in November 2022, leading to the commencement of the First Home Buyer Choice scheme on 16 January 2023. Purchases made between the legislation in November 2022 and the commencement of the scheme in January 2023 are still eligible for the scheme.

This measure provides greater choice for eligible first home buyers, who are now able to choose between paying upfront stamp duty or making smaller annual property tax payments for purchases up to $1.5 million for established or new homes, or for purchases up to $800,000 for vacant land.

As at 31 January 2023, 761 first home buyers had chosen the property tax and saved in total $34.6 million in stamp duty costs since the scheme launched on 16 January 2023.

Alongside the First Home Buyer Assistance Scheme and other first home buyer programs, the First Home Buyer Choice scheme offers around 97 per cent of first home buyers in New South Wales support for buying their first home.

Launch of the Shared Equity Home Buyer Helper scheme

As announced in the 2022-23 Budget, the Government committed $780.4 million over four years to launch the Shared Equity Home Buyer Helper scheme, which commenced on 23 January 2023. The initiative is aimed at providing eligible lower income cohorts with support to purchase a home to live in, where these cohorts otherwise may not have the means to access home ownership.

The program supports lower income single parents, singles over 50, and first home buyer key workers to purchase their own home. Key workers include nurses, midwives, paramedics, teachers, early childhood educators, and police officers. Applicants may have a gross annual income of up to $90,000 for singles or $120,000 for couples.

As part of the shared equity scheme, the Government can contribute to the purchase price of a home in exchange for an equivalent interest, being up to 40 per cent for new homes or up to 30 per cent for existing homes.

The maximum value of a property purchase is up to $950,000 in Sydney and major regional centres (Newcastle and Lake Macquarie, Illawarra, Central Coast and the North Coast of NSW), and up to $600,000 in other parts of NSW.

As at 31 January 2023, there have been:

- 117 loan applications completed or in progress
- 5,687 enquiries received by Bendigo Bank.

A focus on productivity reforms

The NSW Government continues to pursue measures to lift overall economic productivity and has made substantial progress in delivering its economic reforms outlined in the Budget.

Women's opportunities

The Government is implementing significant reforms to support more women to enter and stay in the workforce, recognising that increasing women's workforce participation would help drive economic growth. Since Budget, the Government has expanded leave arrangements, and launched programs to improve gender diversity, reduce employment barriers and improve security.

Since Budget, the Government has legislated the $5 billion Childcare and Economic Opportunity Fund to target barriers to access and the affordability of early childhood education and childcare services.

Giving children and young people the best start in life

Investment in lifelong learning supports all people to reach their potential regardless of personal circumstances. The Government is funding a package of reforms to support better education and wellbeing outcomes for children in the years before school.

The Government is delivering its universal pre-kindergarten initiative, a $5.8 billion commitment over 10 years to progressively deliver high-quality play-based education for all children in the year before school. Pilots have now opened to trial key features of the program.

A quality home for everyone

Access to secure and affordable housing is the foundation of personal financial security and the prosperity of our society. The Government is implementing reforms to expand the supply of homes across New South Wales and help more people own their own home.

Since Budget, the Government has legislated and launched its First Home Buyer Choice and Shared Equity Home Buyer Helper schemes, enabling young families, essential workers, single parents and singles over 50 to get into their own homes sooner.

The future economy

The Government is investing in the future economy and the jobs of tomorrow to unlock the creative potential of the State. This includes increased investment in research and development, building the latest research infrastructure, implementing the NSW Hydrogen Strategy through the delivery of hydrogen hubs, and establishing innovation precincts across New South Wales.

Since Budget, the Government has progressed the Innovation Research Acceleration Program to help foster innovation and kickstart businesses that will create the industries and jobs of the future. The Government has commenced market sounding for innovative ideas for energy, cyber and circular economy systems to service the new Bradfield City Centre.

Protecting our planet and growing a clean economy

New South Wales is home to some of the world's best renewable resources, and the Government is determined to lead in the transformation to a clean economy, with a commitment to reducing the State's emissions by 70 per cent by 2035 compared to 2005 levels.

Since Budget, the Government has made progress on implementing actions from the NSW Climate Change Adaptation Strategy and has agreed, with the Australian Government, a $7.8 billion package to deliver eight critical transmission projects, including the NSW Government's Renewable Energy Zones to increase network reliability.

2. ECONOMIC OUTLOOK

Key points

- Since the 2022-23 Budget, NSW economic growth outcomes have been stronger than expected. The NSW economy has made a solid recovery but faces global headwinds.
- The strong momentum in the labour market, seen at the time of the 2022-23 Budget, has persisted. The participation rate is close to record highs and the unemployment rate is near its lowest level in almost 50 years.
- However, the economic growth outlook has been downgraded for 2022-23 to 2024-25 and upgraded in 2025-26. High energy prices, geopolitical uncertainty and the tightening of monetary policy by central banks will continue to impact the global economy. The local economy is experiencing similar pressures as households and businesses face higher costs and the Reserve Bank of Australia (RBA) tightens monetary policy. Overall, real gross state product (GSP) is forecast to average 2½ per cent per annum in the four years to 2025-26, slightly less than the 2¾ per cent per annum forecast at Budget.
- The labour market is expected to remain tight in the near term even as economic growth slows and migration levels continue to recover. This should support stronger wages growth and help households dealing with cost of living pressures. Over the medium term, the unemployment rate is expected to remain near 4 per cent, broadly consistent with full employment.
- Supply chain constraints, pressures in the housing construction sector, elevated energy prices and the impacts of severe weather on food prices have contributed to the highest rate of inflation in more than three decades. Inflation is expected to have peaked in the December quarter 2022 and is forecast to ease from here onwards.
- The outlook is subject to a high degree of uncertainty, including how households and businesses respond to higher interest rates. Additionally, the prospect of a more severe slowing of global growth is a significant downside risk. Inflationary pressures could remain elevated leading to additional monetary policy tightening. Upside risks include more exuberant households keeping household consumption above current forecast levels.

Table 2.1: Economic performance and outlook[(a)]

	2021-22 Outcomes	2022-23 Revised Forecast	2023-24 Revised Forecast	2024-25 Revised Forecast	2025-26 Revised Forecast
Real state final demand	3.3	5¼ (5½)	1 (1¾)	2½ (2¼)	2¾ (2)
Real gross state product	1.8	3¾ (4¼)	1½ (2¾)	2¼ (2½)	2½ (1½)
Employment	0.9	5½ (3)	¾ (1)	1¼ (1¼)	1 (1)
Unemployment rate [(b)]	3.6	3½ (3¾)	4½ (3½)	4 (3½)	4 (3¾)
Sydney consumer price index	3.9	7 (5½)	3½ (3)	2¾ (3)	2½ (2 ¾)
Wage price index	2.4	3¾ (3½)	4 (3¼)	3½ (3¼)	3¼ (3¼)
Nominal gross state product	7.4	10¼ (9¾)	2¼ (4½)	3¼ (3)	4 (3¼)
Population [(c)]	0.7	1.0 (0.6)	1.2 (1.0)	1.2 (1.1)	1.2 (1.1)

(a) Forecasts are rounded to the nearest quarter point and are annual average per cent change, unless otherwise indicated. Budget forecasts in parenthesis.
(b) June quarter, per cent.
(c) Per cent change through the year to 30 June. Forecasts rounded to nearest 0.1 percentage point.

Note: Commodity prices are assumed to follow Consensus forecasts. The RBA is assumed to increase interest rates further in the first half of 2023, broadly in line with expectations derived from surveys of professional economists and financial market pricing at the time forecasts were completed. The Australian dollar trade-weighted index is assumed to average 64.2 across the forecast period.

Source: ABS and NSW Treasury

2.1 The NSW economy remains resilient

NSW economic growth stronger than expected through the recovery

The NSW economy grew by 1.8 per cent in 2021-22, as measured by gross state product (GSP). This is stronger than the 1½ per cent growth expected at the 2022-23 Budget. The NSW economy is now 3.8 per cent larger compared to pre-COVID-19 levels in 2018-19.

Better-than-expected employment growth along with a continuing normalisation of spending patterns from pandemic disruptions, have contributed to a solid recovery in consumer spending, helping to boost growth. Meanwhile, energy price shocks, lingering supply issues and strong demand from consumers, businesses and government, have added to inflationary pressures.

Higher inflation has prompted the Reserve Bank of Australia (RBA) to move in tandem with central banks in most major advanced economies, increasing the cash rate by 300 basis points in eight months – the fastest pace of monetary policy tightening since 1994 (when the RBA raised rates by 275 basis points in under five months). The cash rate is now at 3.1 per cent, its highest level since 2012. Further increases in interest rates are expected in coming months, with financial markets (as of 20 January 2023) expecting the cash rate to peak at 3.6 per cent in the September quarter 2023.

Rising interest rates have led to sharp declines in both house prices and housing market transaction volumes, following very strong growth during the pandemic period. Higher mortgage repayments are constraining household budgets, which are already facing cost of living pressures. Wages are lifting, but more slowly than inflation. However, savings buffers accumulated during the pandemic are softening the impact of higher inflation and monetary policy tightening on the economy.

Economic growth to moderate from its recent fast pace due to headwinds and uncertainty

The outlook for growth for 2022-23 through to 2024-25 is weaker than expected at the 2022-23 Budget, as the faster than anticipated tightening of monetary policy moderates economic growth from its recent fast pace. Monetary policy operates at a lag due to several factors, including the time it takes for fixed mortgages to shift to the (higher) variable rate. This means that the full impact of monetary policy tightening has not yet flowed through to economic activity.

Discretionary household spending is expected to slow due to cost of living pressures and rising interest rates. Higher interest rates are forecast to put further downward pressure on house prices, which will be a drag on dwelling investment and household consumption due to decreased household wealth.

The labour market is expected to remain tight in the near term and then begin easing from 2023-24 as economic activity slows. Slower economic growth is expected to moderate employment growth and lead to a modest increase in the unemployment rate from 2023-24. The unemployment rate is forecast to remain low enough to drive solid and accelerating nominal wages growth for the remainder of 2022-23, before peaking in 2023-24 and then easing as the labour market normalises.

Inflation likely peaked in late 2022 and is forecast to ease back to within the RBA's target band of 2-3 per cent by 2024-25. The global tightening of monetary policy is expected to lead to weaker global demand, falling commodity prices and easing supply chain pressures, all of which would contribute to lower inflation over time. As inflation eases and wages growth continues to rise, real wages growth is expected to turn positive in 2023-24, and remain positive through the forecast period.

2.2 The global economic outlook

A combination of headwinds and uncertainties are impacting the global economy

COVID-19 risks have eased for much of the world, but the global economic landscape remains challenging, leaving the outlook for the global economy highly uncertain.

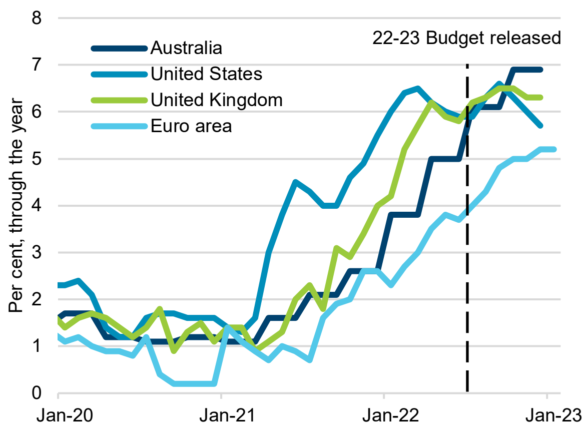
In its January 2023 World Economic Outlook, the International Monetary Fund (IMF) forecast global growth of 2.9 per cent in 2023. This is a downgrade from their expectation in April 2022, just prior to the 2022-23 Budget, for global growth of 3.6 per cent. The downgrade reflects the rapid rise in central bank interest rates to curb inflation, and the continuation of Russia's war in Ukraine.

Upside inflation surprises following the pandemic and disruptions to global energy supplies (Chart 2.1) have led most major central banks to aggressively tighten monetary policy (Chart 2.2). In particular, Russia's move to limit gas supplies to Europe, in response to sanctions imposed on Russia, has had dramatic ripple effects around the globe. This drove up gas prices globally, especially in gas import dependent countries within Europe and Asia. However, some of these pressures are now easing, with gas prices falling across many regions.

While central banks have worked swiftly to raise interest rates, further monetary policy tightening is expected over the first half of 2023 to bring inflation under control. However, uncertainty around major drivers of price pressures, including the Russian invasion of Ukraine, mean both significant downside and upside risks remain for the inflation and monetary policy outlook.

The outlook for China, New South Wales' largest direct trading partner, is particularly important for the State's economy. Timely indicators suggest that China's zero-COVID strategy and issues in the property sector have weighed on the Chinese economy. China abruptly shifted away from its pursuit of zero-COVID in December 2022 and is in the process of relaxing a range of restrictions. This should benefit China's economy, especially in the long-term, although the near-term implications on its healthcare system remain unclear. Additionally, China's reopening potentially has both positive and negative implications for global supply chains by simultaneously adding to supply while also bolstering demand.

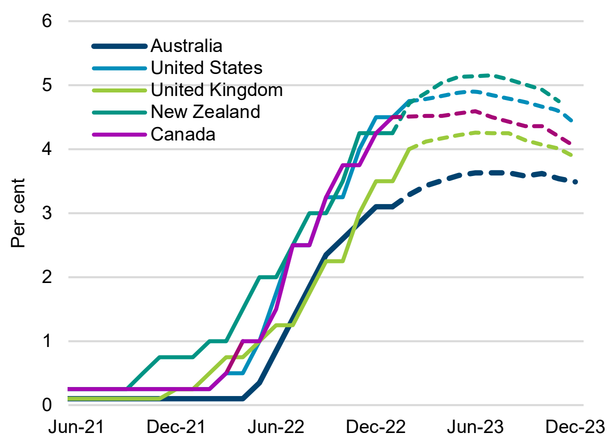
Chart 2.1: Global core inflation for select countries[(a)]



Source: Bloomberg and NSW Treasury

(a) Core inflation measures differ by country; quarterly trimmed mean CPI used for Australia

Chart 2.2: Global cash rates and forecasts[(a)]



Source: Bloomberg

(a) Dashed lines indicate futures pricing of interest rates. Market pricing as at 2 February 2023

2.3 The NSW economic outlook

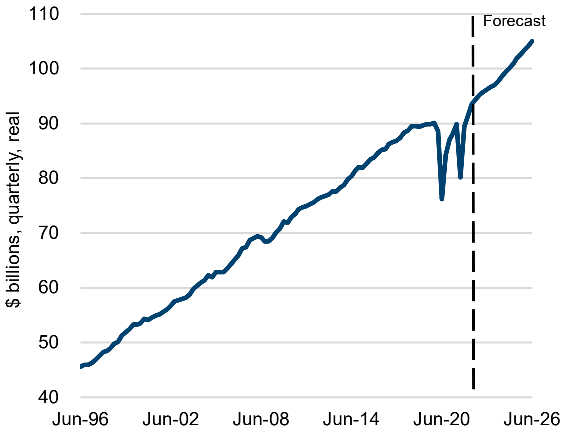
Household consumption remains resilient but will come under pressure

Household consumption has remained strong, aided by a strong labour market and pent-up demand for services. In New South Wales, household consumption in the September quarter 2022 was 4.9 per cent above its pre-COVID-19 level. Retail sales grew strongly over the 2022 calendar year to be well above trend, but declined sharply in the month of December. The decline follows sustained weakness in consumer sentiment in response to rising cost of living and interest rates.

The outlook for household consumption has been revised lower over the next few years, with discretionary spending expected to slow in the face of higher inflation and rising interest rates. Around two-thirds of fixed rate mortgages will roll off historically low fixed rates over 2023, causing a large increase in mortgage repayments. This will amplify the impact of rising interest rates and weigh on disposable incomes. Falling dwelling prices will negatively impact household wealth, which in turn will be a drag on consumption.

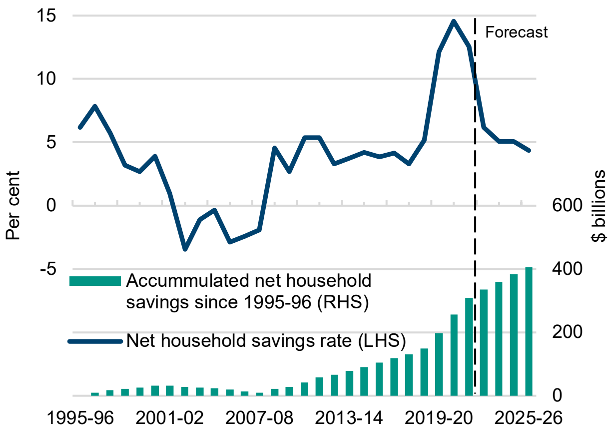
Since the pandemic began, there has been a large spike in cumulative net household savings. Household disposable income was bolstered by monetary and fiscal stimulus while COVID-19 restrictions limited spending (Chart 2.3). Over the last 3 years, $159.3 billion of net household savings have accumulated in New South Wales, more than the total amount accumulated over the prior 23 years (Chart 2.4). This savings buffer could offset some of the pressures facing household consumption going forward. The NSW household savings rate is expected to return to a rate consistent with the historical average by 2025-26. A scenario with a lower savings rate is further explored in Appendix D.

Chart 2.3: NSW quarterly household consumption



Source: ABS and NSW Treasury

Chart 2.4: NSW household savings



Source: ABS and NSW Treasury

The housing market is being impacted by higher interest rates

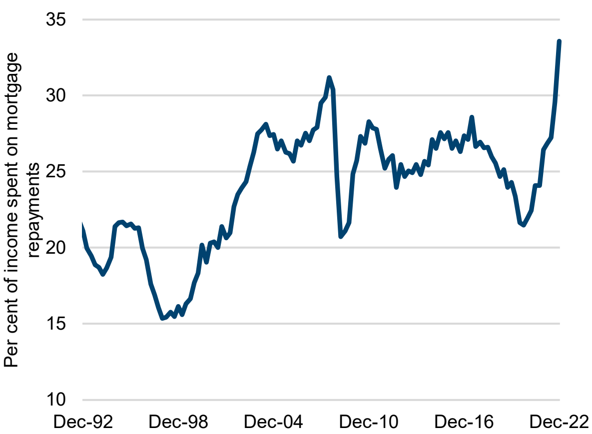
Sydney's dwelling prices grew strongly over the course of the pandemic, lifting by 25.9 per cent between February 2020 and January 2022. Dwelling prices have since declined sharply, falling 13.8 per cent as of January 2023. Rising mortgage rates have been the main driver of this fall as the RBA has embarked on the fastest pace of monetary policy tightening since 1994. Sydney housing prices are particularly sensitive to higher interest rates due to high levels of leverage in the market.

Since the RBA started increasing rates in May 2022, mortgage repayments for households on variable rates have increased significantly. For instance, a NSW household which took on an average mortgage of $700,000 (just before the increase in rates) will have seen repayments increase by around $1,300 per month, or by over $15,000 each year. For some recent purchasers of homes, the share of household income spent on mortgage repayments has reached a record high of 33.6 per cent in December 2022 (Chart 2.5).

Households are facing affordability pressures on multiple fronts. Rising mortgage repayments are occurring alongside price inflation in the household basket of goods and services. Additional increases in mortgage rates are expected to further diminish the borrowing capacity of prospective buyers, leading to further house price declines.

As a result of rising interest rates and declining house prices, the outlook for dwelling investment has weakened since the 2022-23 Budget. In the near term, activity is expected to remain elevated due to the pipeline of work built up during the upswing in the housing cycle (Chart 2.6). The pace at which the sector has worked through the pipeline has been impacted by material and labour shortages but will pick up as these constraints ease. Building activity is then expected to slow from mid-2023, once the backlog of work is completed, before stabilising in the later years of the forecast.

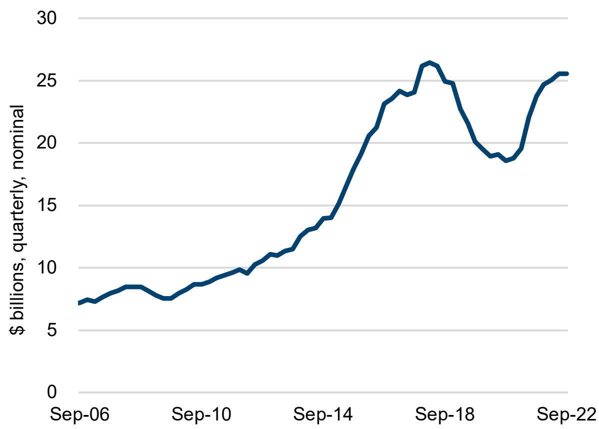
Chart 2.5: Share of household income spent on mortgage repayments[(a)]



Source: Corelogic, RBA, ABS and NSW Treasury

(a) Mortgage repayments on a recently purchased NSW dwelling of median value. Assumes an after-tax income of a dual income household, on average incomes, with a 20 per cent deposit and a 30-year loan.

Chart 2.6: Value of residential building work in the pipeline, NSW



Source: ABS

Business investment outlook is positive, but economic risks weigh on this

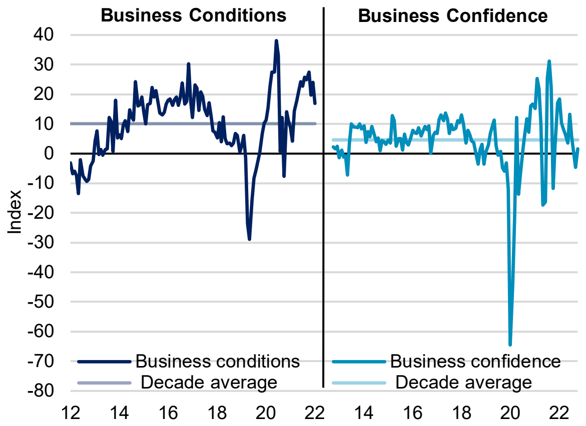
Business investment grew strongly in New South Wales during the September quarter 2022 as firms responded to strong demand. Surveyed businesses are reporting positive business conditions on the back of strong trading and profitability, although business confidence has been somewhat muted (below the decade average), given growing concerns about the outlook (Chart 2.7).

Investment in machinery and equipment is at record levels as businesses adapt to shifting customer demand post-pandemic and resolve supply chain backlogs (Chart 2.8).

Non-residential construction will be driven by a large pipeline of work built up after capacity constraints and adverse weather slowed activity over the previous two financial years. According to the ABS Capital Expenditure Survey, businesses expect to increase investment in buildings over 2022-23 despite higher interest rates.

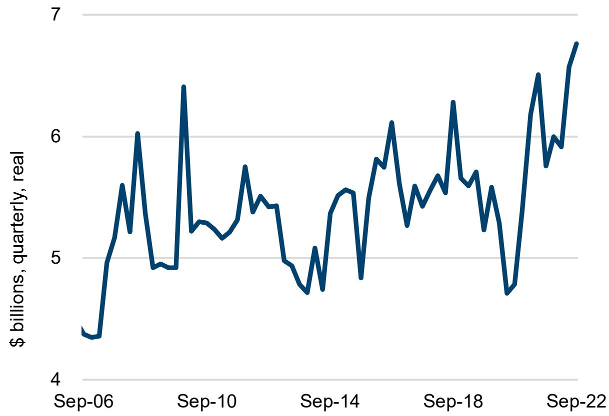
Overall business investment is expected to outpace growth in many other areas of the economy over the next few years, as it recovers from weakness early in the pandemic.

Chart 2.7: *Business conditions and confidence, NSW*



Source: NAB Business Survey and NSW Treasury

Chart 2.8: *Machinery and equipment investment, NSW*



Source: ABS

Public demand set to normalise

Unprecedented fiscal support provided by governments across Australia was instrumental in mitigating the negative economic and health consequences of the pandemic. A series of flooding events has also impacted the State over recent years, requiring significant fiscal support. As temporary COVID-19 measures taper off and flood support funding is rolled out, public demand is expected to normalise over the forecast period.

Weaker global growth may impact trade, but services exports are recovering

The weaker outlook for global growth has negative implications for the State's main exports. Weaker global growth is expected to constrain growth in the demand for resources, although resource exports are forecast to remain elevated following the rebound from recent weather and maintenance disruptions.

Rural exports are being supported by favourable growing conditions, despite some impact from recent flooding, while elevated prices have lifted nominal exports. Both crop and livestock export volumes are expected to ease in coming seasons. This follows years of bumper crop harvests and increased efforts being taken to rebuild herd and flock numbers following increased livestock reductions during the drought.

Services exports, primarily education and tourism, are expected to grow over the forecast period, supported by the ongoing recovery in international arrivals of tourists and students. Temporary visitor arrivals to New South Wales have increased significantly since international borders reopened, but were still down almost 40 per cent in November 2022 compared to the same month in 2019. Meanwhile, international student enrolments remained 22 per cent lower in the year to November 2022, compared to the same period in 2019. Services imports are also expected to rise (faster than services exports) as outbound tourism continues to rebound. While the recovery in the tourism-related services sector has boosted growth in many economies including Australia, labour shortages have inhibited a full recovery in the sector.

A key risk to growth prospects in the State's trade sectors is the possibility for further geopolitical tensions and trade restrictions. This has the potential to further hinder trade and could have broad structural impacts on the State's trade sectors.

A strong labour market with record high participation

The NSW labour market has tightened since the 2022-23 Budget. Employment has increased at a brisk pace, and even faster than expectations at the 2022-23 Budget. Meanwhile, the supply of labour has been constrained by international border closures, and the resultant slowdown in population growth. This has interrupted the flow of skilled migrants and temporary workers. The impact on labour supply had been compounded by an increase in the number of employees who were unable to work due to illness or self-isolation requirements due to COVID-19. With borders now open and self-isolation requirements lifted, both factors will be less of a constraint going forward. Net overseas migration is picking up, supported by the Australian Government's increase in the permanent migration cap.

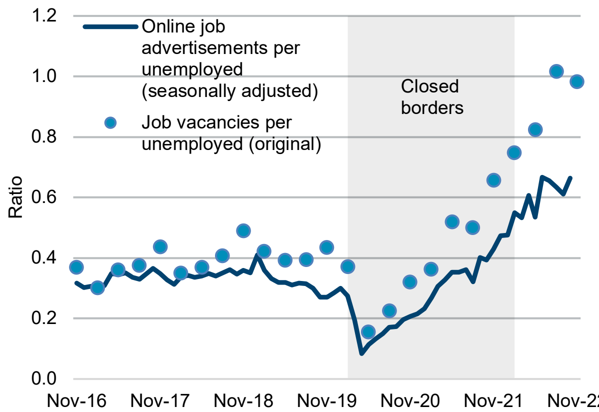
A combination of strong demand and constrained supply saw the NSW unemployment rate drop to a 48-year low of 3.0 per cent in October 2022. In November 2022, labour underutilisation (a measure of labour market tightness that includes both unemployed as well as employed people who would like to work more hours) fell to its lowest level since 1982. These conditions have encouraged a near record workforce participation rate, led by women, whose participation is close to a record high. Higher participation has been partially facilitated by structural factors, some of which were accelerated during the pandemic, such as remote work arrangements (see further in Box 2.1).

The moderation in economic activity is expected to weigh on labour demand this year. While there are signs that some of the leading indicators of labour demand (such as job advertisements and job vacancies) have eased, they remain elevated compared to pre-pandemic levels. There are currently almost as many job vacancies in New South Wales as there are unemployed people, compared with the pre-pandemic level of around 0.4 vacancies per unemployed person (Chart 2.9). Consequently, businesses are reporting that finding suitable labour is a major constraint on business activity.

Employment is forecast to grow by 5½ per cent in 2022-23, up from 3 per cent forecast at 2022-23 Budget. Growth is then expected to slow significantly to ¾ per cent in 2023-24, consistent with the anticipated slowdown in economic activity. Notwithstanding this, the labour market is expected to remain tight in the near term, with the unemployment rate remaining below 4 per cent for most of 2023. It is then expected to edge above that level in late 2023 as more restrictive monetary policy works to slow the economy and constrain inflationary pressures. The unemployment rate is now forecast to be in line with NAIRU (Non-Accelerating Inflation Rate of Unemployment, the level of the unemployment rate where inflation is stable) in 2024-25 (Chart 2.10).

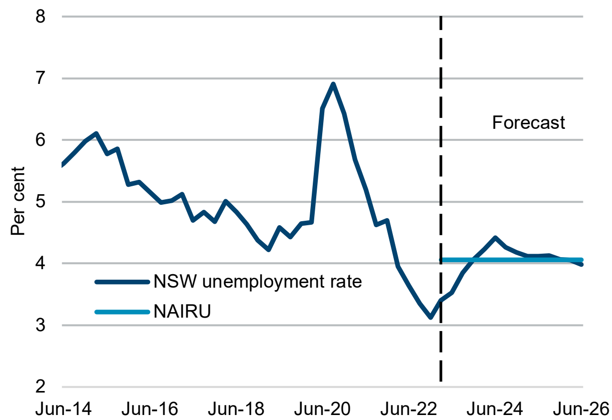
The participation rate is forecast to remain elevated at around current levels, supported by a combination of favourable labour market conditions, and more fundamental drivers such as higher participation rates among women.

Chart 2.9: Labour market tightness in NSW



Source: ABS, National Skills Commission and NSW Treasury

Chart 2.10: NSW unemployment rate



Source: ABS and NSW Treasury

The tight labour market will contribute to higher wages growth

The combination of a tight labour market, higher inflation and the Fair Work Commission's decision on minimum and award wages is expected to support higher wages growth.

Wages growth as measured by the NSW Wage Price Index (WPI), a measure of wages that adjusts for compositional shifts in employment, rose to 3.1 per cent through the year to the September quarter 2022, the highest rate since late 2012. Wages growth differs by industry, with the highest rates of growth to the September quarter 2022 being seen in retail trade as well as administrative and support services.

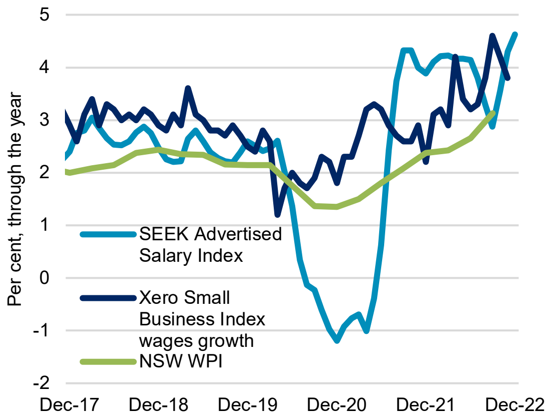
Although wages growth has lifted, rapidly accelerating inflation means that real wages growth has fallen and will continue to decline in the near term. One of the contributing factors behind this is the irregularity of wage negotiations, which results in 'sticky' wages that are less responsive to changes in economic conditions than other prices in the economy which are set more dynamically.

However, quarterly wage dynamics data at the national level showed that the hourly wages of those private sector workers who received a pay rise in the September quarter 2022 grew on average by 4.3 per cent in annual terms. That is much higher than the headline WPI figure. Furthermore, timely indicators of wages growth such as the SEEK Advertised Salary Index and the wages growth series within the Xero Small Business Index are indicating higher wages growth in the near term (Chart 2.11).

Wages growth is therefore forecast to continue increasing, with the NSW WPI expected to grow at 3¾ per cent in 2022-23 and 4 per cent in 2023-24, before moderating thereafter. Higher wages and easing inflation will eventually see real wages growth turn positive, which is forecast to occur in 2023-24 (Chart 2.12).

Broader wage measures such as compensation of employees (COE) per hour worked (a measure of remuneration that includes bonuses, overtime and allowances, as well as promotions and compositional shifts in employment) are also forecast to continue growing strongly. The tight labour market continues to encourage employers to provide larger one-off payments, overtime and bonuses to both attract and retain staff. These conditions also mean employees are more likely to be willing to change jobs for higher pay.

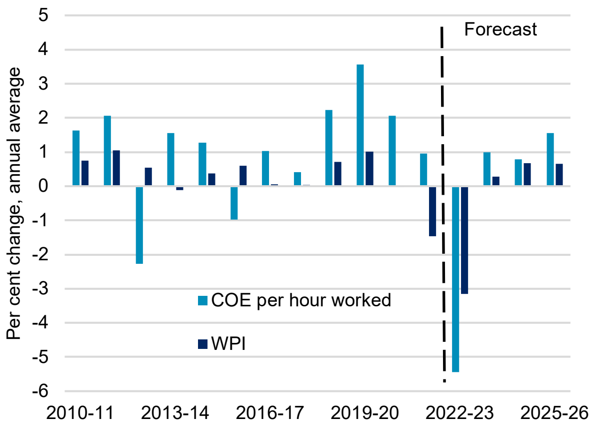
Chart 2.11: Timely indicators of NSW wages growth[(a)]



Source: ABS, SEEK, Xero Small Business Insights and NSW Treasury

(a) Data from SEEK is monthly and seasonally adjusted; data from Xero is monthly and original; ABS data is quarterly and original.

Chart 2.12: Growth in NSW real wages[(a)]



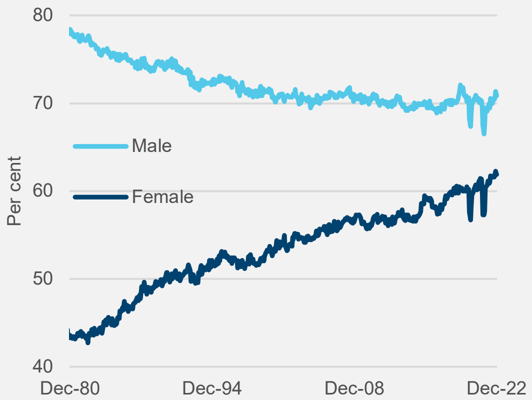
Source: ABS and NSW Treasury

(a) Real wages derived as nominal wages deflated by Sydney CPI

Box 2.1: Women's participation rates

The NSW labour market has experienced a significant rebound since May 2020 after the initial pandemic lockdown saw a substantial decline in employment. Much of this recovery has been driven by women. The State's female participation rate reached 62.3 per cent in November 2022. This is 2.2 percentage points higher than before the pandemic (February, 2020) and the highest rate on record. The disparity between male and female participation rates also dropped to 8.3 percentage points in July 2022, the lowest differential on record (Chart 2.13).

Chart 2.13: Participation rate by gender, NSW

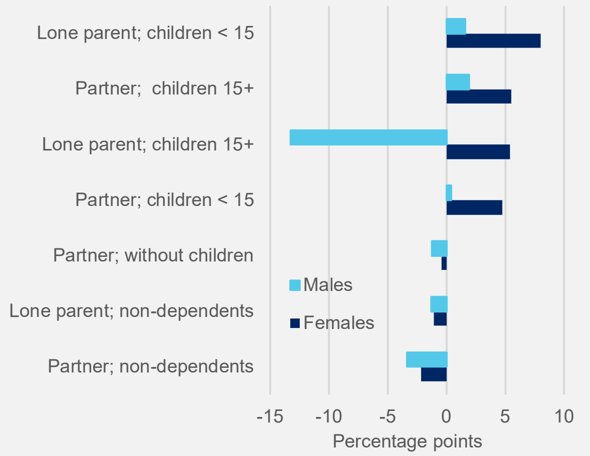


Source: ABS

Throughout the lockdowns in early 2020 and mid-2021, women faced disproportionate impacts in the workforce. Women saw a larger fall in employment during both lockdowns than men. The pandemic saw many parents staying at home to care for children, greater layoffs of part-time workers and significant impacts in service industries including hospitality, and arts and recreation, where women are overrepresented.

However, as health restrictions lifted, so did women's employment. In December 2022, women's employment was 6.7 per cent higher than it was in February 2020, compared to 4.1 per cent higher for men. High levels of job vacancies have increased job opportunities and businesses efforts to attract and retain staff, including offering flexible working conditions and hours. This has likely enabled more women, especially parents and carers, to enter and stay in the labour market.

Chart 2.14: Change in employment by gender and relationship in households



Source: ABS and NSW Treasury

Note: Change in annual average employment to population ratio between 2019 and 2022

Some of the largest increases in employment relative to the population since 2019 have come from women with dependent children under 15 (Chart 2.14). For mothers (with children under 15) who were not working full time in 2020-21, the greatest incentives to join or increase participation in the labour force were related to working part-time, choosing their hours, and better childcare access and assistance.

Women's workforce participation continues to grow as part of an historical long-term upward trend. Over the last four decades, shifting societal norms and supportive government reforms for education, childcare and paid parental leave have reduced the barriers for women to participate in the workforce.

The 2022-23 Budget included a package of reforms to support women's participation and employment outcomes. This included $10.9 billion to support children to have the best start in life, including the introduction of universal pre-kindergarten and immediate measures to reduce the cost of pre-school. In addition, $5.9 billion has been invested to increase women's economic opportunities in the labour market, including through the $5.0 billion Childcare and Economic Opportunity Fund. The Australian Government will also significantly increase the Child Care Subsidy to up to 90 per cent from July 2023.

Inflation is expected to have peaked, but outlook remains volatile

Several factors have contributed to elevated inflation, both domestically and abroad. These include global and domestic supply chain issues, pressures in housing construction, elevated energy prices, the impacts of severe weather on food prices and pent-up demand following the pandemic.

Sydney headline inflation, as measured by the Sydney Consumer Price Index (CPI), was 7.6 per cent through the year to the December quarter 2022 – the fastest annual rate of inflation since the June quarter 1990. Although high, this was below the national figure of 7.8 per cent and lower than the recent peaks experienced in many major international economies.

The initial pick-up in inflation was largely confined to a few specific categories of the CPI basket of goods and services. More recently, it has broadened significantly, exacerbated by an increasingly tight labour market. Higher wages are a driver of services inflation, which has started to accelerate as some major components of goods inflation begin to ease.

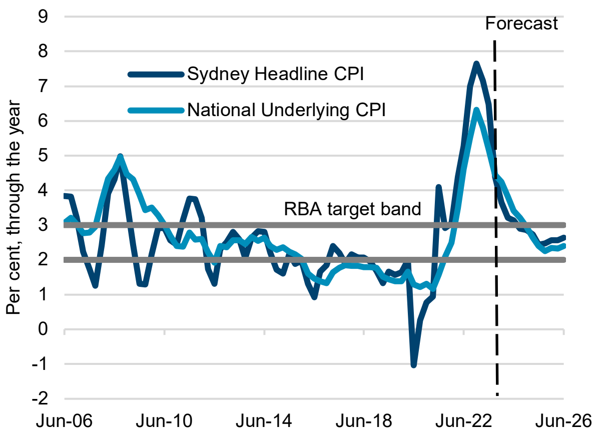
Underlying inflation, which excludes components with more volatile price movements in a given period, has also increased. National underlying CPI rose by 6.3 per cent over the year to the December 2022 quarter. This is well above the RBA's target band of 2 to 3 per cent and is the highest rate since December 1990.

Inflation is expected to have peaked in the December quarter 2022 and is forecast to decline from here onwards, with Sydney CPI expected to increase 7 per cent in 2022-23 and 3½ per cent in 2023-24, before moderating further in 2024-25 (Chart 2.15).

Inflation is expected to ease for several reasons. Monetary policy tightening by the RBA and other central banks is expected to contribute to a slowdown on the demand side. On the supply side, commodity prices have, of late, either been falling or growing more slowly. This is particularly evident in the price of Brent crude oil, which has fallen from a peak of almost $US140 a barrel in March 2022 down to an average of $US84 in January 2023. Financial markets are expecting this downward trend to continue in the near term (Chart 2.16).

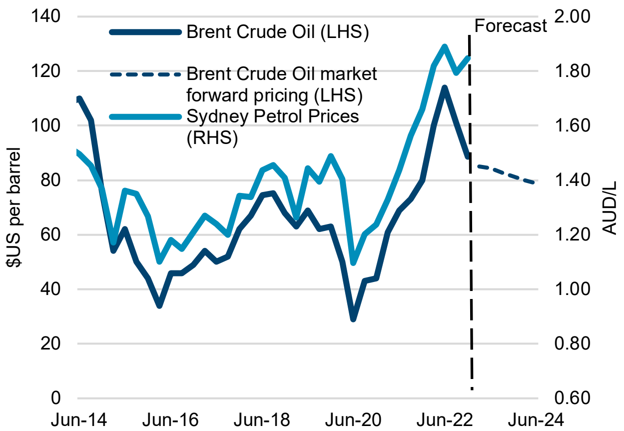
The Australian Government's temporary caps on gas and coal prices are also expected to curb the impact of rising energy prices on consumers and businesses. Furthermore, supply chain pressures, which initially contributed to the large pick-up in global goods inflation, have significantly eased in recent months (see also Box 2.2).

Chart 2.15: Consumer Price Index



Source: ABS and NSW Treasury

Chart 2.16: Oil prices and average fuel prices(a)



Source: Bloomberg and NSW Treasury
Market pricing as at 01 February 2023.

Box 2.2: Supply-side pressures are easing, helping to reduce inflation

At the onset of the pandemic, lockdowns and mobility restrictions disrupted global supply chains. Factory closures and component shortages led to extended delivery times and a backlog of orders. The subsequent recovery in global demand, supported by fiscal and monetary stimulus, compounded pressures on still-recovering supply chains. Commodity prices, including energy, surged following Russia's invasion of Ukraine. Capacity constraints across logistics networks and manufacturing facilities intensified production delays and increased freight costs.

Supply chain bottlenecks and material shortages were key contributors to last year's global inflation surge. Recent data suggests that supply chain conditions have begun to normalise, reflecting an improvement in these supply side factors and a moderation in global demand (Chart 2.17; see also Section 2.2).

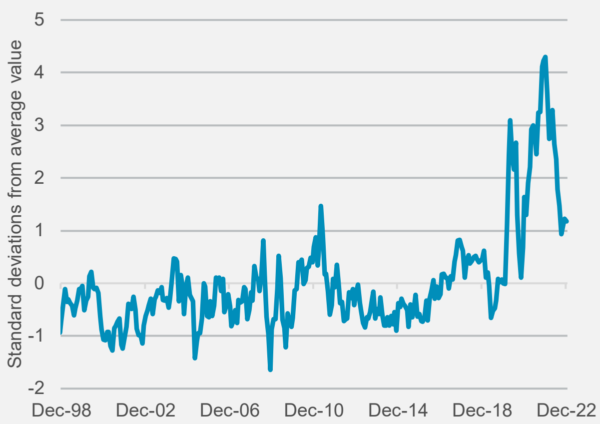
The Global Supply Chain Pressure Index (GSCPI), which measures supply chain disruptions by compiling supplier lead times, inventories and shipping rates, has gradually declined since April 2022. As of December 2022, the index is down 73 per cent from its peak. According to Freightos, an online freight marketplace, in early 2023 the average cost of shipping a standard 40-foot container was also down 81 per cent from its peak in September 2021, but was still above pre-pandemic levels.

These supply chain improvements have cascaded into domestic markets. S&P Global reported that supplier delivery times have decreased in Australia since mid-2022 and the backlog of work has fallen over the past six months to the lowest level in two years. NAB's Supply Chain Update also noted that the extent of supply chain issues across Small and Medium Enterprises in New South Wales has further eased in the December 2022 quarter, down 0.4 points to a reading of 4.2 points, with a further fall expected over the next twelve months (Chart 2.18). A reading of zero implies that supply chains are not an issue while a reading of 10 represents significant issues.

Despite an improvement in some aspects of the supply-side, demand for workers remains high across many businesses. 28 per cent of NSW businesses reported job vacancies in November 2022.

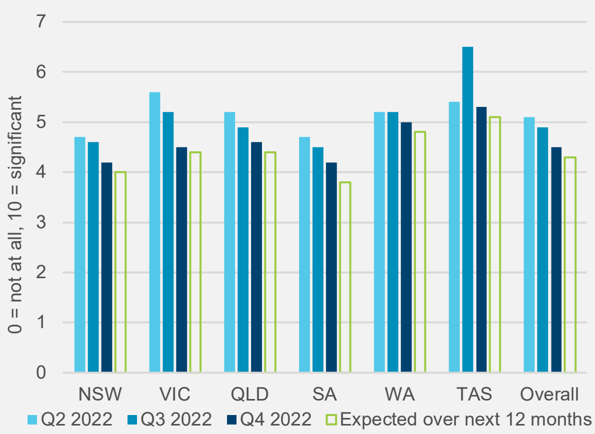
Finally, given China's central role in global trade, manufacturing and logistics, the recovery of global supply chains will be influenced by how China manages its reopening. While the removal of restrictions should free up capacity and remove bottlenecks, the US Federal Reserve has attributed a pause in the decline of the GSCPI to China's surge of COVID-19 cases and the easing of its zero-COVID strategy. However, these supply chain disruptions are likely to be temporary and should normalise in the coming months.

Chart 2.17: Global Supply Chain Pressure Index



Source: Federal Reserve Bank of New York and NSW Treasury

Chart 2.18: Extent to which supply chain is an issue for SMEs



Source: NAB and NSW Treasury

2.4 Risks to the economic outlook

The outlook remains subject to a high degree of uncertainty and risk.

COVID-19 risks have reduced since the 2022-23 Budget, but are likely to linger and include the possibility of new strains of the virus. High levels of vaccination and minimal self-isolation requirements mean the chances of significant economic disruption have eased.

Meanwhile, risks related to the outlook for the global economy and inflation have become more prominent. The outlook assumes a relatively 'soft landing' for the global economy, even as many major central banks around the globe respond aggressively to the rapid acceleration of global inflation. However, the impact of this tightening on the global economy is now becoming more apparent and could turn out to be greater than expected, with some leading indicators pointing to a significant risk of global recession in 2023. Appendix D *Economic Scenario Analysis* considers a scenario of a more severe slowing in global growth than expected.

However, there are signs that global inflation is easing. Many central banks are still expected to pursue near-term interest rate increases, but further changes in monetary policy will depend on the outlook for inflation, which remains uncertain.

Other global risks include a deterioration in geopolitical tensions and the possibility that China's economic growth remains constrained. The Chinese Government has eased restrictions, although the future of China's COVID-19 strategy remains unclear, as does the smoothness of China's reopening. It is also unclear whether steps taken to improve conditions in the Chinese property sector will successfully curb the risks emanating from the sector. That said, a successful reopening could help to alleviate global supply chains and lift China's economic growth more than forecast. Chinese authorities could also step up efforts to stimulate their domestic economy more than expected.

Any relaxation of current trade restrictions would benefit Australian exports. For example, a recent ban by Chinese authorities on recognising online degrees from foreign institutions could provide a near-term boost to exports and economic activity as students look to validate their degrees by studying onshore – although some exemptions have subsequently been announced.

Global supply chain issues have improved considerably in recent months, but events such as a further disruption to global energy supplies, the emergence of a vaccine-resistant strain of COVID-19, or changes in China's COVID-19 containment strategy could see them deteriorate. If that occurs, global growth will slow while simultaneously driving prices higher. However, there is also the possibility that global supply constraints are fully resolved more quickly than currently anticipated, negating some of the need for additional central bank tightening globally.

There are also several major domestic risks. In particular, the resilience of households post-pandemic has seen household consumption exceed expectations. Households may continue to utilise their extra savings accumulated during the pandemic by lifting consumption by more than is expected. Historical experience shows that the savings rate could fall further than currently anticipated. Appendix D *Economic Scenario Analysis* considers a scenario where households reduce their rate of precautionary savings. Similarly, pent-up demand and rising migration might mean the housing market proves to be much more resilient than expected, with positive implications for the broader economy.

Conversely, with the unemployment rate around multi-decade lows, there is the potential for labour shortages to drive higher-than-expected wage and price inflation. That could see the RBA respond with even more restrictive monetary policy settings. A sharper-than-expected deterioration in the housing market is another possibility.

The frequency of disruptive weather events (and other natural disasters) in recent years highlights the ongoing risk such events could pose to the economic outlook. However, the timing and magnitude of these events are difficult to predict, as is their impact on published measures of economic activity and prices.

3. FISCAL POSITION AND OUTLOOK

Key points

- Since the 2022-23 Budget, the estimated operating result for 2022-23 has remained broadly stable, with higher-than-expected revenue forecasts (including mining royalties) largely offsetting additional expenditure associated with flood response and recovery, COVID-19 related pressures, cost of living support and other variations.
- While the Budget remains on track to return to surplus in 2024-25, the operating deficit in 2023-24 has been revised from $3.7 billion to $6.5 billion since the 2022-23 Budget. This increase is the result of upwards revisions to estimated revenue in 2023-24 being more than offset by increased expenses, primarily driven by:
  - the response to the major storms and floods since June 2022
  - increased health expenses, as the NSW health system continues to manage a range of pressures associated with the recovery from COVID-19
  - increased transport expenses as public transport services are maintained even though revenue has declined principally due to changing work patterns following the COVID-19 pandemic.
- The 2022-23 Half-Yearly Review continues to see the Government invest in long-term productivity reforms, while providing short-term cost of living support for the NSW community. Examples of relief to households include toll relief, regional travel benefits, gas rebates and energy bill rebates.
- The Government has also made significant progress delivering 2022-23 Budget initiatives, including implementation of stamp duty reform for first home buyers, the new shared equity scheme, and the commencement of reforms aimed at improving women's economic opportunities.
- The State's Infrastructure Program is projected to rise to a record $116.6 billion over the four years to 2025-26, an increase of $3.9 billion primarily driven by investment in new and existing transport infrastructure.
- Net debt is projected to stabilise at around 14 per cent of GSP by June 2026, and decline in the second half of the decade, broadly consistent with the projections at Budget.
- In September and October 2022, New South Wales had both of its triple-A credit ratings reaffirmed by Moody's and Fitch.
- The significant uncertainty in the economic outlook has implications for the State's finances, including inflationary pressures and global economic volatility. See Appendix E *Fiscal Risks* for further information.

3.1 Fiscal and budget overview

Since the Budget, NSW economic growth outcomes have been stronger than expected, as the NSW economy continues to remain resilient in the face of the current global pressures. This better-than-expected growth is supporting State revenues (including mining royalties, GST, land tax, payroll tax and motor vehicle tax) which are forecast to increase by $11.1 billion over the four years to 2025-26 since Budget.

This revenue uplift has been offset slightly by additional projected expenditure for COVID-19, floods, cost of living support and priority reforms. The deficit in 2022-23 has remained broadly stable, increasing by $102 million to $11.4 billion. The deficit in 2023-24 has further deteriorated by $3.7 billion to $6.5 billion. The State remains on track to return to a surplus in 2024-25 ($333 million) and 2025-26 ($1.2 billion).

The Government's fiscal priorities have remained unchanged since the 2022-23 Budget. These are to:

- continue to support and invest in the productive capacity of the State, to support and accelerate long-term economic growth for New South Wales
- rebuild a fiscal buffer with a return over the forward estimates to a sustainable operating and debt position, supported by fiscal repair measures.

Since the Budget, the Government has made significant progress on reform initiatives to support productive capacity, including establishing the Childcare and Economic Opportunity Fund. The fund supports affordability and access to early childhood education and care, so parents are supported to have genuine choice to participate in the workforce.

The Government has also continued to provide cost of living relief for those who need it most, as the nation continues to experience the highest inflation in more than three decades. Government assistance for cost of living pressures includes toll relief, regional travel benefits, first home buyer incentives, gas rebates and energy bill rebates.

Box 3.1: Creating more economic opportunities for women

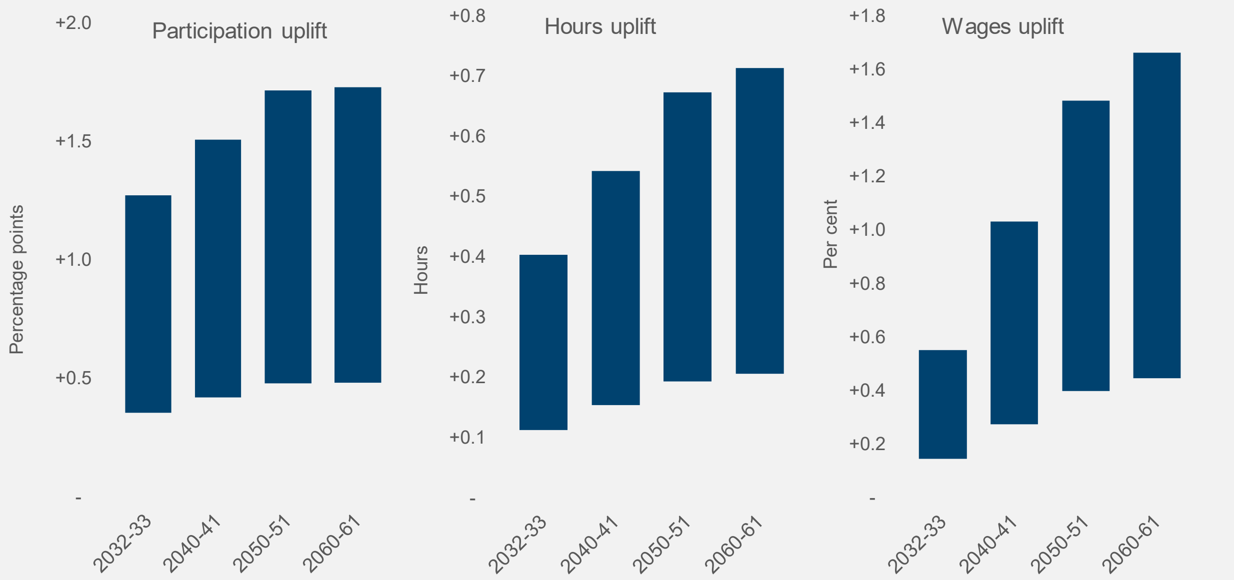
The 2022-23 Budget highlighted the importance of improving women's opportunities in the economy.

The *Childcare and Economic Opportunity Fund Act 2022,* passed by the NSW Parliament in October 2022, will address a key barrier to women participating in the labour force by making early childhood education and care more affordable and accessible. It is estimated that by 2032-33 these reforms, combined with the introduction of universal pre-kindergarten, affordable preschool and changes to the Commonwealth Child Care Subsidy, will:

- increase the women's workforce participation rate by up to 1.3 percentage points, equivalent to up to 47,000 additional women in employment
- increase the average number of hours of paid work from women by up to 0.4 hours per week, equivalent to up to 48,000 women shifting from part-time to full-time work
- increase average women's wages by between 0.1 and 0.6 percentage points.

It is estimated that these changes will increase the size of the NSW economy by up to $17.1 billion (in real 2021-22 dollars) each year by 2032-33.

Chart 3.1: Estimated impact of early childhood education and care reforms on women's labour market outcomes



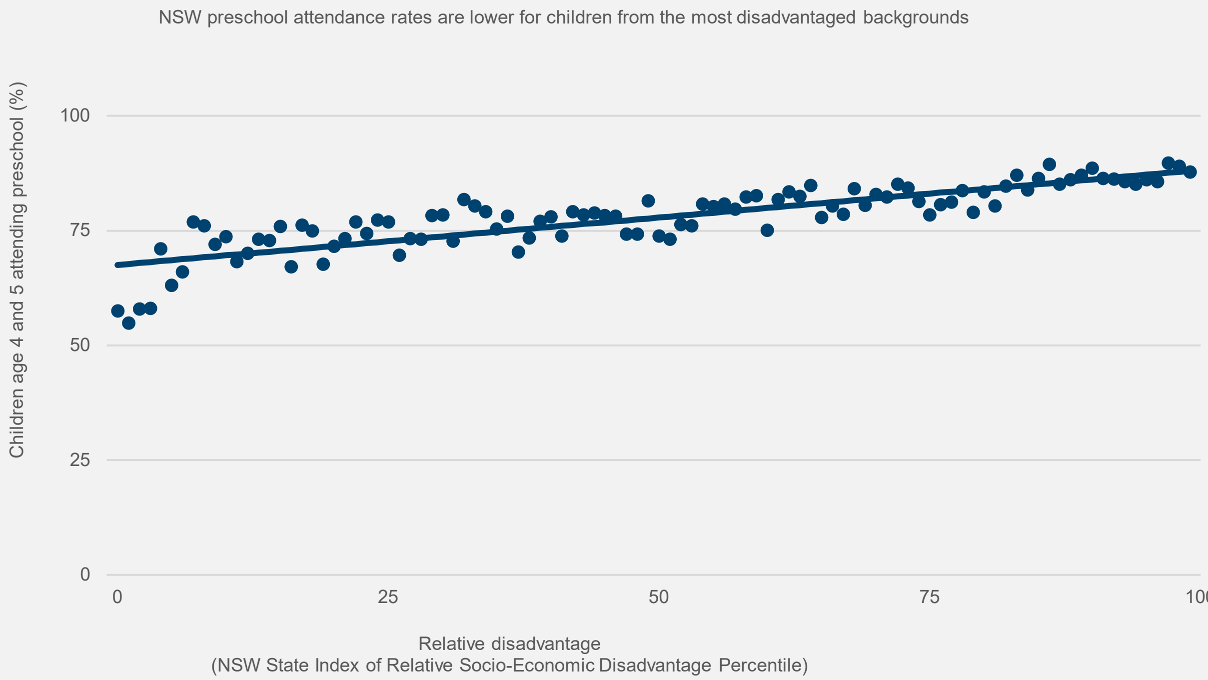
Box 3.2: Giving children and young people a good start in life

Universal pre-kindergarten is part of the NSW Government's Early Years Commitment. The 2022-23 Budget committed $5.8 billion over the next decade to progressively deliver high-quality play-based education for all children before school. Work is underway to conduct consultations and further research, and pilot key features of the program to ensure it meets the needs of families and service providers.

The introduction of universal pre-kindergarten will enable greater access to pre-school education for children across the state. Increased enrolment through universal pre-kindergarten could see an additional 13,000 children each year benefiting from quality early childhood education, with the majority of children currently not enrolled living in areas of relatively greater socio-economic disadvantage (see Chart 3.2).

Research shows children who attend a quality early childhood education service such as preschool or pre-kindergarten are 18 per cent more likely to attain a university degree and 22 per cent less likely to drop out of high school. Evidence strongly indicates that education outcomes have a positive impact on labour market outcomes. Treasury research shows that those who attend a quality early childhood education service are 1.1 per cent more likely to be employed as a result of this change in their educational attainment and will earn an average of 2.3 per cent more per hour.

Chart 3.2: Preschool attendance rates by percentile of relative socio-economic disadvantage in New South Wales



Improved labour market outcomes through participation and wages would have a positive impact on the NSW economy. The impact is expected to grow each year as each cohort enters the working age population. By 2060-61, the impact on Gross State Product is estimated to be $1.6 billion (expressed in real 2022-23 dollars) equivalent to $320 (real) per household. A bigger economy would in turn drive higher revenues for the NSW Government, estimated at $170 million per year (expressed in nominal 2060-61 dollars).

Table 3.1: General government sector operating position and outlook

	2021-22	2022-23	2022-23	2023-24	2024-25	2025-26
	Actual	Budget	Revised	Forward Estimates		
Revenue ($m)	103,486	103,617	105,736	109,212	113,842	115,704
Revenue growth (%)	17.6	(0.1)	2.2	3.3	4.2	1.6
Expenses ($m)	118,815	114,878	117,099	115,704	113,509	114,538
Expense growth (%)	25.0	(4.5)	(1.4)	(1.2)	(1.9)	0.9
Budget Result ($m)	(15,329)	(11,260)	(11,363)	(6,492)	333	1,166
GSP ($m)	697,400	753,200	769,500	787,300	813,100	845,100
Per cent of GSP (%)	(2.2)	(1.5)	(1.5)	(0.8)	0.0	0.1

The Government is committed to maintaining net debt at sustainable levels. Since Budget, the projection for net debt to GSP has increased by 0.1 per cent to 13.8 per cent by 2026, with net debt projected to decline in the second half of the decade.

This represents an increase in net debt to GSP since the Budget and is mainly driven by additional funding for flood response, health system and public transport, offset by better-than-expected revenue forecasts.

A sustainable operating position and debt levels are fundamental to maintaining a strong credit rating (see Box 3.3 for more information on credit rating).

Box 3.3: Return to surplus supports a strong credit rating

Fiscal sustainability remains a key priority for the Government and maintaining a stable operating position is key to this goal.

The Government is committed to return to surplus by 2024-25 to help rebuild the fiscal buffer that supported the Government's strong response to COVID-19 and recent natural disasters.

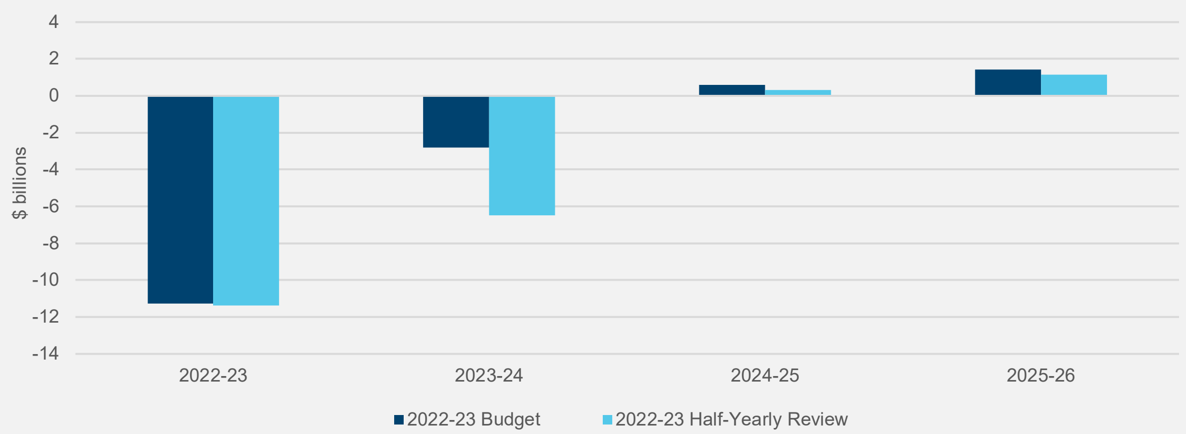
Ensuring a strong and resilient economy helps support State revenues and the operating position. The NSW economy continues to remain resilient in the face of global pressures and uncertainty and continues its strong rebound following COVID-19.

In September and October 2022, NSW had its two triple-A credit ratings re-affirmed by Moody's and Fitch, with S&P Global also maintaining its double-A plus rating.

Both S&P Global and Fitch indicated the importance of the State returning to surplus as key to supporting the State's strong credit rating (see Chart 3.3).

The ratings agencies will review the State's credit rating again in 2023, with S&P anticipated to undertake its bi-annual review in February/March 2023.

Chart 3.3: NSW Budget Result comparison from 2022-23 Budget to 2022-23 Half-Yearly Review



The State's infrastructure program is supporting economic growth

The infrastructure program has grown to $116.6 billion over the four years to 2025-26. This is an increase of $3.9 billion relative to the 2022-23 Budget, driven by investments in new and existing transport infrastructure.

The NSW Government has the largest state capital program in the nation. The State's infrastructure program includes:

- $79.7 billion for transport and infrastructure projects, including Sydney Metro West, Sydney Metro Western Sydney Airport, Western Harbour Tunnel Upgrade, and transition to zero emission buses
- $11.4 billion for health infrastructure to plan and deliver new and upgraded hospital builds including Bankstown Hospital and NSW Ambulance Infrastructure Program
- $9.8 billion for schools and skills infrastructure to provide modern learning environments to allow students across the State to thrive and reach their potential.

Table 3.2: The State's capital program and fiscal outlook

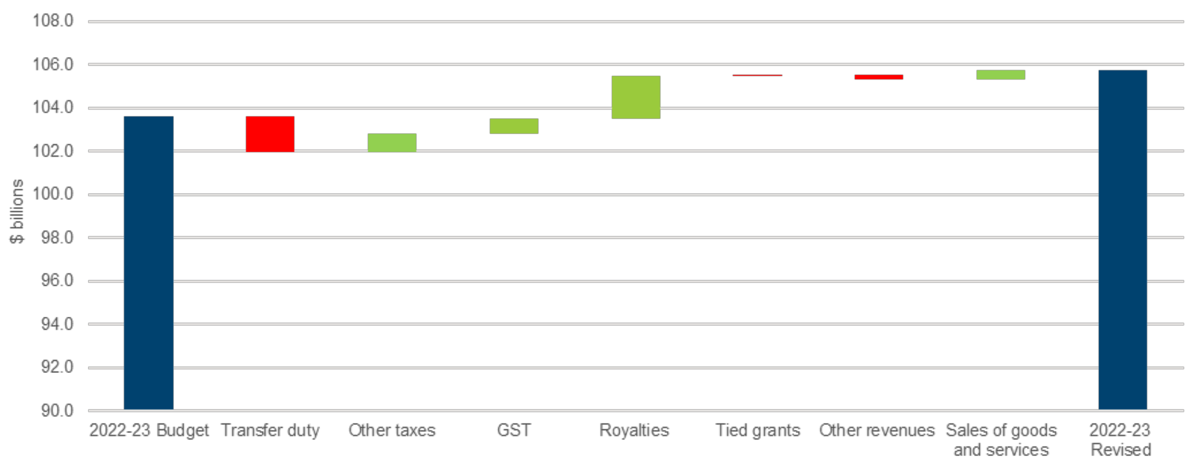
	2021-22 Actual	2022-23 Budget	2022-23 Revised	2023-24 Forward Estimates	2024-25	2025-26	4 Years Total (2022-23 to 2025-26)
GG Capital Expenditure ($m)	20,600	22,666	22,768	22,515	22,315	21,118	88,716
Per cent of GSP (%)	3.0	3.0	3.0	2.9	2.7	2.5	
NFPS Capital Expenditure ($m)	25,820	29,242	29,756	30,162	29,618	27,102	116,637
Per cent of GSP (%)	3.7	3.9	3.9	3.8	3.6	3.2	
GG Net Debt ($m)	55,781	78,169	78,403	96,201	107,444	116,505	
Per cent of GSP (%)	8.0	10.4	10.2	12.2	13.2	13.8	

For further discussion on capital, see Section 3.4 *Capital expenditure outlook.*

3.2 Revenue outlook

General government revenue in 2022-23 is projected to increase by 2.2 per cent from the 2021-22 year to $105.7 billion in 2022-23. This is $2.1 billion (2.0 per cent) higher than forecast at the 2022-23 Budget. The main driver of the improved forecast is an increase of $2.0 billion in forecast mining royalties, principally due to significantly higher than anticipated international coal prices. Other upwards revisions to revenue include the higher forecasts for GST, land tax, payroll tax and gambling taxes, partly offset by a downwards revision of $1.7 billion in forecast transfer duty, reflecting weaker housing market conditions than expected at Budget. Chart 3.4 provides a breakdown of the major changes in estimated review from the 2022-23 Budget to the Half-Yearly Review.

Chart 3.4: 2022-23 changes in revenue – 2022-23 Budget to 2022-23 Half-Yearly Review

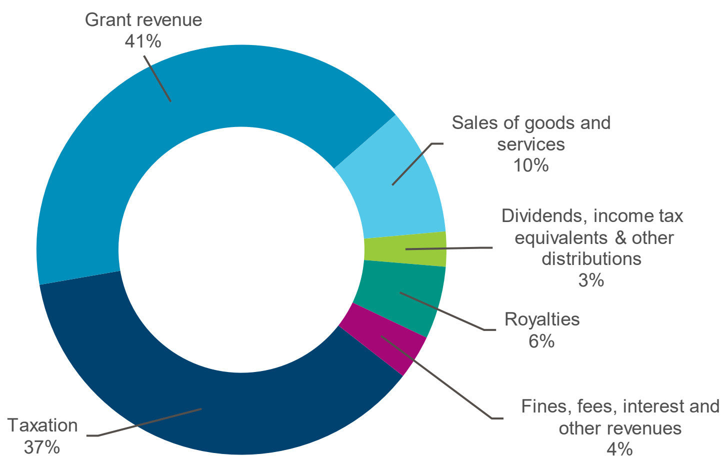


Over the four years to 2025-26, general government revenue is projected to be $11.1 billion (2.6 per cent) higher than estimated at the 2022-23 Budget. This reflects strong economic recovery out of the pandemic leading to upward revisions to forecast royalties, sales of goods and services, payroll tax, motor vehicle duty, gambling taxes and GST (from a larger pool), as well as the revenue impacts of policy decisions. Table 3.3 provides a summary of revenue in the general government sector.

Table 3.3: General government sector revenue

	2021-22 Actual	2022-23 Budget	2022-23 Revised	2023-24 Forward Estimates	2024-25 Forward Estimates	2025-26 Forward Estimates	% Average growth p.a. 2021-22 to 2025-26	% Share of Revenue over 4 years to 2025-26
	$m	$m	$m	$m	$m	$m		
Revenue from transactions								
Taxation	39,007	39,637	38,815	39,326	42,474	44,155	3.1	37.1
Grant revenue (including GST)	44,887	42,928	43,657	46,081	48,211	48,808	2.1	42.0
Sales of goods and services	9,451	10,191	10,591	10,798	10,198	9,883	1.1	9.3
Interest income	262	372	526	512	447	452	14.6	0.4
Dividends and income tax equivalents from other sectors	454	726	684	1,165	1,304	1,636	37.8	1.1
Other dividends and distributions	2,442	2,684	2,229	3,521	4,116	4,481	16.4	3.2
Royalties	3,709	4,050	6,055	4,748	3,589	2,794	(6.8)	3.9
Fines, regulatory fees and other revenues	3,273	3,029	3,180	3,062	3,502	3,495	1.7	3.0
Total revenue	**103,486**	**103,617**	**105,736**	**109,212**	**113,842**	**115,704**	**2.8**	
Annual change %	*17.6*	*0.1*	*2.2*	*3.3*	*4.2*	*1.6*		

Chart 3.5: Composition of total revenue, 2022-23



Policy measures affecting revenue since the 2022-23 Budget

Since the 2022-23 Budget, the Government has made a series of revenue decisions that have increased forecast revenue by $1.8 billion over the four years to 2025-26. In addition, the NSW Government has also made expenditure and capital decisions that increase revenue by further $4.3 billion to revenue over the four years to 2025-26, although for many decisions the revenue impact is offset by matching or higher expenditures (for example, fee for service revenue recognised by Transport for NSW (TfNSW) and associated with the Transport Asset Holding Entity NSW (TAHE)). In total, the total revenue impact of Government decisions is $6.0 billion over the four years to 2025-26.

Reform to the collection of contributions for State and Regional Infrastructure

In 2021, the NSW Government accepted all 29 recommendations of the NSW Productivity Commissioner's review of the NSW infrastructure contributions system. A number of these recommendations, including updating the IPART local council rate peg methodology to account for population growth, have already been implemented.

In October 2021, the Department of Planning and Environment undertook a public consultation on recommended changes to replace the existing Special Infrastructure Contribution (SIC) system with a simpler, broad-based charge in Greater Sydney, the Central Coast, Lower Hunter and Illawarra-Shoalhaven. The NSW Government will introduce an amended package into the Parliament to implement these changes in 2023, taking into consideration the submissions received during the public consultation process. This is expected to increase revenue by $924.2 million over three years to 2025-26. This revenue will be used to support the delivery of growth-enabling infrastructure projects in the regions where the revenue is collected, helping to put downward pressure on house prices by unlocking new housing supply.

Casino tax rates reform

From 1 July 2023, it is proposed that NSW casinos will be subject to an increase in rebate and non-rebate play casino duty, as well as an increase in electronic gaming machine (EGM) duty for The Star casino. The Star and Crown casinos will be taxed at 20.25 per cent rather than 17.91 per cent for non-rebate play, and 12.5 per cent rather than 10 per cent for rebate play. It is also proposed to apply new duty rates to electronic gaming machines (poker machines) operated by The Star casino based on monthly net revenue per gaming machine at the rates listed in Table 3.4. These tax measures combined will increase gaming duty revenue by $115 million in 2023-24 and $364 million over the three years to 2025-26. The NSW Government will move ahead with its plans and will undertake further consultation on the implementation.

Table 3.4: Proposed new duty rates for electronic gaming machines operated by The Star casino

Monthly Net Revenue (Applied per gaming machine)	Tax Rate
Less than $2,666	0.00%
$2,666 or more and less than $6,667	46.70%
$6,667 or more and less than $12,500	51.17%
$12,500 or more	60.67%

Remove concessional duty for the acquisition of a public landholder

The acquisition of shares or units in a company or unit trust which owns land ('landholder') is liable for landholder duty under certain circumstances. From 1 July 2023 the acquisition in a significant interest (i.e., 90 per cent or more of the property) of a public landholder (e.g., a listed company on the ASX) will be charged at the full rate of duty rather than the current concessional rate of 10 per cent of the duty that would ordinarily be charged. This measure is expected to increase transfer duty revenue by $66 million in 2023-24 and $198 million over the three years to 2025-26.

Extension and increase of levy on point to point services

From 1 July 2023, the Passenger Service Levy (PSL) will be increased from $1 per point-to-point transport trip in NSW to $1.20 (excluding GST) per trip. This additional revenue will be used to fund an industry assistance package with a total value of $905 million, which consists of $145 million already paid and a further $760 million in financial assistance.

Payroll tax exemptions under a subprogram of the Future Economy Fund

Payroll tax exemptions, that were included as part of a subprogram of the Future Economy Fund in the 2022-23 Budget, have been removed. The payroll tax exemptions were estimated to reduce revenue by $32.0 million over the four years to 2025-26.

Pyrmont Peninsula Metro Special Infrastructure Contribution

The Minister for Planning issued a new Special Infrastructure Contribution (SIC) pursuant to the *Environmental Planning and Assessment Act 1979* for the Pyrmont Peninsula. The new SIC came into effect on 11 July 2022 and is expected to contribute up to $280 million towards the new Pyrmont Metro station and associated infrastructure.

Revise cautions for minor driving offences

This program will allow drivers who have had a clear driving record for at least 5 years (this was previously a 10-year clear driving record) to request a caution to be issued instead of a fine. This will replace the Fair Go for Safe Drivers Scheme from 1 July 2023. This is expected to decrease revenue by $1.9 million in 2023-24, and by $5.8 million over the three years to 2025-26.

Extending the principal place of residence land tax exemption for those building or renovating their family home

Legislation will be introduced to permit those building or renovating their family home on unoccupied land to apply to extend the current four year principal place of residence exemption by up to a further 24 months in certain circumstances. This initiative will extend to landowners who had an exemption that ended on or after 31 December 2019. This is expected to reduce revenue by $1.8 million in 2023-24 and $2.8 million over the three years to 2025-26.

Table 3.5: Revenue reconciliation – 2022-23 Budget to 2022-23 Half-Yearly Review

	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26	Four years to 2025-26
	$m	$m	$m	$m	$m
Revenue - 2022-23 Budget	**103,617**	**106,701**	**110,101**	**112,944**	**433,363**
Policy measures since Budget					
Reform to the collection of contributions for State and Regional Infrastructure	...	177	320	428	924
Casino tax rates reform	...	115	121	128	364
Remove concessional duty for the acquisition of public landholders	...	66	66	66	198
Reform the Fair Go for Safe Drivers Scheme with revised cautions for minor driver offences	...	43	44	45	131
Extension of levy on point to point services[1]	1	18	25	31	76
Payroll tax exemptions under a subprogram of the Future Economy Fund	1	5	11	16	32
Pyrmont Peninsula Metro Special Infrastructure Contribution	...	...	13	13	26
Extending principal place of residence exemption for building or renovating a home	...	(2)	(1)	(1)	(3)
Total policy measures since Budget	2	422	599	727	1,749
Revenue related to expense and capital measures[2]	749	1,284	1,218	1,039	4,290
Total policy measures	**751**	**1,706**	**1,816**	**1,765**	**6,039**
Parameter changes and other variations since Budget					
Taxation					
Transfer duty	(1,666)	(1,794)	(447)	(197)	(4,104)
Payroll tax	199	341	310	465	1,316
Land tax	380	356	4	(768)	(29)
Other taxes	244	406	549	661	1,861
Grant revenue					
GST (including no worse off payments)	702	317	79	167	1,265
Other general purpose grants	(16)	1	...	...	(15)
National Agreement payments	(177)	(349)	(347)	(344)	(1,217)
National Partnership payments	(53)	(214)	342	(64)	11
Other grant revenue	(96)	(101)	(108)	(102)	(408)
Sale of goods and services	9	(191)	320	303	441
Interest income	154	103	11	(28)	241
Dividends and income tax equivalents from other sectors	(42)	128	(36)	(63)	(14)
Other dividends and distributions	(454)	(115)	(62)	193	(439)
Royalties	2,004	1,950	1,332	822	6,108
Fines, regulatory fees and other revenues	181	(34)	(21)	(50)	76
Total parameter changes and other variations	**1,368**	**805**	**1,925**	**994**	**5,092**
Total changes since 2022-23 Budget	**2,119**	**2,512**	**3,742**	**2,759**	**11,131**
Revenue 2022-23 Half-Yearly Review	**105,736**	**109,212**	**113,842**	**115,704**	**444,494**

1 This measure will have associated expenditures supporting an industry assistance package

2 These include expenditure and capital measures with an associated revenue impact. Many of these revenue impacts are offset by matching or higher expenditures

Taxation revenue

Forecast state taxation revenue in 2022-23 has been revised down by $822.6 million since the Budget. Relative to 2021-22, total tax revenue is forecast to fall by 0.5 per cent in 2022-23 to $38.8 billion.

The downwards revision to taxation revenue in the Half-Yearly Review is driven largely by a sharper than expected downturn in the property market. Transfer duty is the second largest taxation source and is forecast to provide 23.6 per cent of total taxation revenue.

Table 3.6: Taxation revenue

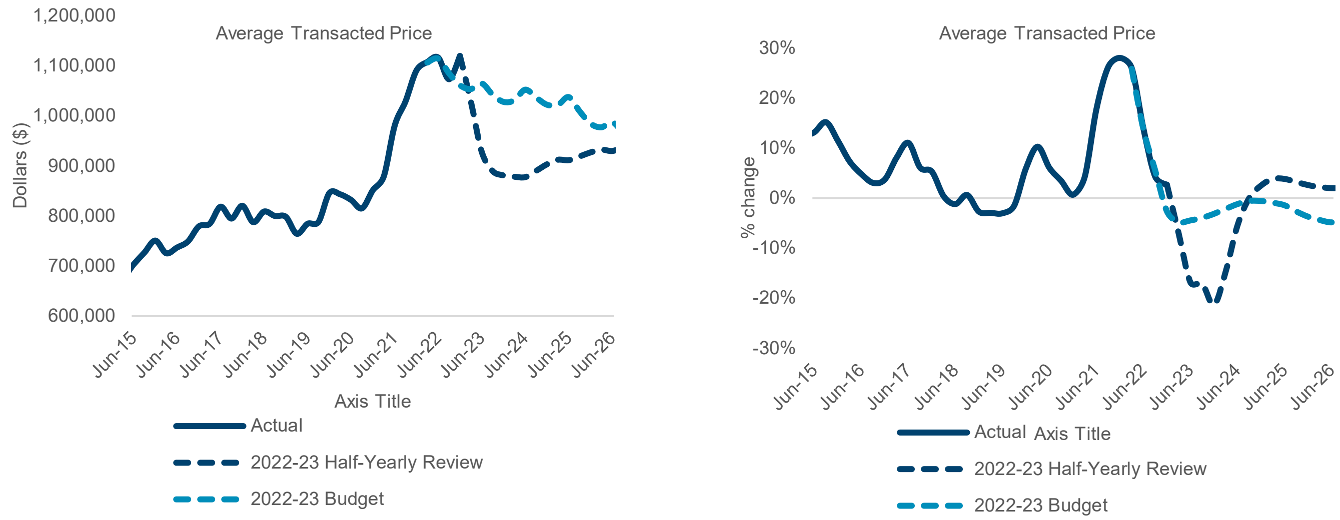
	2021-22	2022-23		2023-24	2024-25	2025-26	% Average growth p.a. 2021-22 to 2025-26
	Actual	Budget	Revised	Forward Estimates			
	$m	$m	$m	$m	$m	$m	
Stamp duties							
Transfer duty	14,356	10,825	9,159	7,241	9,543	10,786	(6.9)
Insurance	1,318	1,375	1,444	1,549	1,665	1,759	7.5
Motor vehicles	939	938	1,014	1,003	1,007	1,053	2.9
Other	2	0	0	0	0	0	
	16,615	**13,138**	**11,617**	**9,793**	**12,215**	**13,598**	**(4.9)**
Payroll tax	9,069	11,054	11,255	11,942	12,515	13,276	10.0
Taxes on land							
Land tax	4,840	5,657	6,037	6,502	6,353	5,459	3.1
Property tax	...	9	7	19	28	38	...
	4,838	**5,666**	**6,044**	**6,520**	**6,381**	**5,498**	**3.2**
Taxes on motor vehicle ownership and operation							
Weight tax	2,478	2,560	2,602	2,929	3,147	3,325	7.6
Vehicle transfer fees	50	55	52	56	60	62	5.6
Other motor vehicle taxes	38	39	42	45	48	50	7.2
	2,566	**2,654**	**2,696**	**3,030**	**3,255**	**3,438**	**7.6**
Gambling and betting taxes							
Wagering	256	452	355	378	400	420	13.1
Club gaming devices	633	879	979	1,009	1,040	1,072	14.1
Hotel gaming devices	824	1,147	1,375	1,464	1,571	1,682	19.5
Lotteries and lotto	578	535	566	523	539	554	(1.1)
Casino	129	231	210	373	392	408	33.4
Keno	10	19	20	21	22	23	22.3
	2,431	**3,262**	**3,505**	**3,767**	**3,963**	**4,159**	**14.4**
Other taxes and levies							
Health insurance levy	263	238	228	256	272	288	2.3
Parking space levy	102	107	105	112	117	121	4.4
Emergency services levy contributions	909	1,173	1,173	1,447	1,232	1,198	7.1
Emergency services council contributions	186	215	229	196	190	185	(0.0)
Waste and environment levy	719	783	783	832	832	832	3.7
Government guarantee fee	321	327	309	333	375	416	6.7
Private transport operators levy	47	56	53	74	81	88	16.9
Pollution control licences	18	27	30	18	18	18	0.1
Other taxes	923	938	788	1,005	1,027	1,040	3.0
	3,487	**3,863**	**3,698**	**4,273**	**4,144**	**4,186**	**4.7**
Total taxation revenue	**39,007**	**39,637**	**38,815**	**39,326**	**42,474**	**44,155**	**3.1**
Annual change	*13.4%*	*1.6%*	*-0.5%*	*1.3%*	*8.0%*	*4.0%*	

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

Transfer duty

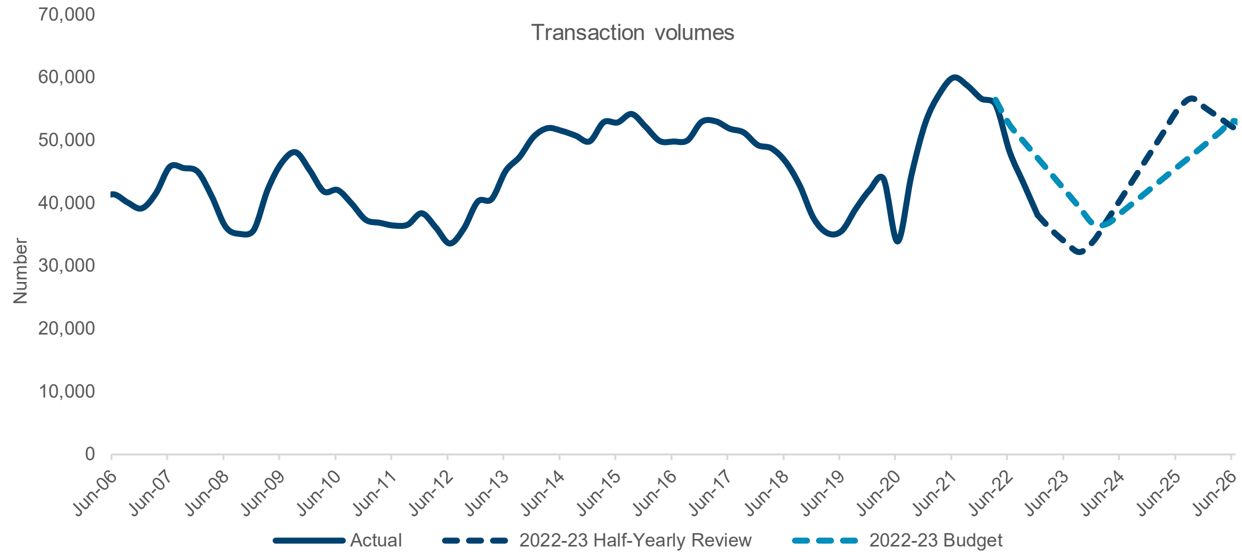
Transfer duty revenue has been revised down by $1.7 billion (15.4 per cent) in 2022-23 and by $3.9 billion (9.6 per cent) over the four years to 2025-26. The outlook for residential property markets has weakened further since Budget. Residential mortgage interest rates have risen sharply since the Budget was finalised and are now expected to be significantly higher across the forward estimates in comparison to 2022-23 Budget forecasts. The residential average transacted price is now forecast to fall 21.6 per cent from 2022-23 through to 2023-24. This is the primary driver for the downward revision to taxation revenue over the forecast horizon. The average transacted price has remained elevated in recent months due to a compositional change in the properties transacted, with higher value properties making up a greater proportion of total transactions. However, this effect is expected to dissipate over the next year, leading to the sharp fall in the average transacted price (see Section 2.3 – *The NSW economic outlook*).

Chart 3.6: Underlying average residential transacted price, quarterly



Residential transactional activity has fallen faster than expected at the 2022-23 Budget. Looking ahead, transactional activity is forecast to fall further in 2022-23 and 2023-24 due to the impact of higher residential mortgage interest rates (see Chart 3.7). Historical experience suggests property owners will only defer the decision to transact for a short period and so transaction volumes are expected to recover in 2024-25 and beyond.

Chart 3.7: Transaction volumes, quarterly (seasonally adjusted)



The forecasts for both residential transacted prices and residential transactional activity reflect expectations for key macroeconomic and financial indicators, including household incomes, population and the cost and availability of credit. There remains significant uncertainty as to the realisation of these expectations. The risks to the central forecasts are discussed in more detail in Appendix E *Fiscal risks.*

Land tax

Forecast land tax revenue has been revised up by $380.0 million (6.7 per cent) in 2022-23 and down by $30.0 million (0.1 per cent) in the four years to 2025-26. The upward revision in 2022-23 reflects higher-than-expected land values in 2021-22. Weaker property price growth from 2022-23 through to 2023-24 is, however, expected to flow into lower land valuations and land tax revenue over the three years to 2025-26.

Payroll tax

Payroll tax has been revised up by $200.1 million (1.8 per cent) in 2022-23 and by $1.3 billion (2.8 per cent) over the four years to 2025-26. This upwards revision is mainly driven by the higher-than-expected final payroll tax receipts for 2021-22 from the strong economic recovery. Forecasts for underlying economic drivers across the forward estimates include an upward revision of NSW employment levels.

Taxes on motor vehicle ownership and operation

Taxes on motor vehicle ownership and operation have been revised up by $42.1 million (1.6 per cent) in 2022-23 and $708.8 million (6.1 per cent) over the four years to 2025-26. This is primarily due to higher-than-expected weight tax collections in 2021-22, stronger-than-expected vehicle fleet growth and an upward revision of forecast CPI.

Gambling and betting taxes

Gambling and betting taxes have been revised up by $243.3 million (7.5 per cent) in 2022-23 and by $1.0 billion (7.1 per cent) over the four years to 2025-26. The main driver of the upgrade is the elevated levels of activity in clubs and hotels, which have continued long after COVID-19 restrictions were lifted. The Government's proposed changes to casino duty rates have increased gambling revenue by $364.0 million, although this is partly offset by weaker underlying activity (see Box 3.4). Point of consumption revenue across the forwards has been downgraded but is still projected to be much higher than anticipated prior to the pandemic.

Insurance duties

Insurance duties have been revised up by $68.2 million (5.0 per cent) in 2022-23 and by $430.5 million (7.2 per cent) over the four years to 2025-26. Upward pressure on premiums has resulted in higher-than-expected insurance duty projections since the 2022-23 Budget.

Grant revenue

In addition to taxation revenue, New South Wales receives grant revenue from the Australian Government including GST payments, National Agreements, Federation Funding Agreements and other Australian Government payments. Grant revenue also includes a small number of other grants and subsidies received from other sources.

Grant revenue is forecast to be $43.7 billion in 2022-23, which is $729 million (1.7 per cent) higher than at Budget.

GST revenue

GST revenue (including no worse off payments) has been revised upwards by $702.0 million (2.8 per cent) in 2022-23 and $1.3 billion (1.2 per cent) over the four years to 2025-26.

The upgrade is largely due to increased expectations for the national GST pool, driven by a higher taxable share of consumption and stronger-than-expected GST collections since the 2022-23 Budget. This is offset by a lower NSW population share and a downgrade to the State's relativities, due to the increase in NSW's mining royalties.

Looking forward, there are risks to the levels of GST revenue forecast for New South Wales. The risk of higher and more prolonged inflation remains a persistent upside risk to the National GST pool, although faster-than-expected tightening in monetary policy could weigh on household consumption and dwelling investment. Further, the volatility in commodity markets associated with global recession risks and Russia's invasion of Ukraine will continue to create uncertainty over the State's revenue-raising capacity - a major driver of NSW's relativity.

National Agreement payments

National Agreement payments are anticipated to provide $12.3 billion in 2022-23 and $52.5 billion over the four years to 2025-26. Since the 2022-23 Budget, revenue from National Agreements is projected to be $140.7 million (1.1 per cent) lower in 2022-23 mainly due to an expected decrease of $173.4 million in payments under the National Health Reform Agreement (NHRA). This downgrade is partially offset by $41.1 million in increased National School Reform Agreement payments.

Federation Funding Agreement

Federation Funding Agreement payments are estimated to provide $3.8 billion in 2022-23 and $20.7 billion over the four years to 2025-26. Since the 2022-23 Budget, revenue from Federation Funding Agreements is estimated to be $252.9 million (7.2 per cent) higher in 2022-23. This increase is mainly driven by an additional $119.1 million in projected revenue under the 12-Month Skills Agreement.

Non-taxation revenue

In addition to taxation and Australian Government grants, New South Wales receives revenue from other sources, including mineral royalties, sales of goods and services, interest income and dividends from state-owned corporations.

Mineral royalties

Mineral royalties have been revised up by $2.0 billion (49.5 per cent) in 2022-23 and by $6.1 billion (55.1 per cent) over the four years to 2025-26. The revision is largely due to a surge in global thermal coal prices following Russia's invasion of Ukraine. Coal prices are expected to remain well above long-run average until the second half of 2023, and then begin to normalise in 2024 at a level above long-run average. This upgrade is partly offset by weaker production levels, which have been impacted by heavy rainfall over the second half of 2022. The outlook for coal royalties is subject to greater uncertainty than usual and recent developments indicate downside risks to the outlook.

Total revenue from fines, regulatory fees and other revenue sources

Total revenue from regulatory fees and other revenue sources has been revised up by $1.0 billion (8.3 per cent) over the four years to 2025-26, primarily due to changes to industry contributions for State and Regional Infrastructure.

This has been partly offset by lower fines revenue, owing to the withdrawal of fines related to breaches of COVID-19 health restrictions and downward revisions to safety camera motor traffic fines volumes, due to reduced operational hours and changes to the mobile speed camera warning signage policy.

Sales of goods and services

Sales of goods and services have been revised up by $400.2 million (3.9 per cent) in 2022-23 and $3.0 billion (7.7 per cent) over the four years to 2025-26. The increase is largely related to fee for service revenue recognised by Transport for NSW (TfNSW) for the delivery and management of rail infrastructure and rolling stock projects owned by the Transport Asset Holding Entity NSW (TAHE). Partially offsetting this upward revision is a downgrade in health infrastructure and facility charges.

Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. Interest income is expected to be $154.0 million (41.4 per cent) higher in 2022-23 and $240.9 million (14.2 per cent) higher over the four years to 2025-26, due largely to an increase in the estimated interest income from deposits.

Dividends and income tax equivalents

State Owned Corporations and public financial corporations pay dividends that provide a commercially appropriate return on government investment.

Over the four years to 2025-26, dividends and tax equivalent payments are forecast to be $4.8 billion, which is $13.7 million (0.3 per cent) lower compared with the 2022-23 Budget.

Other dividends and distributions

Other dividends and distributions are received from the State's investments in TCorp managed funds, as well as from the State's equity investment in associates such as Ausgrid and Endeavour Energy. Estimated revenue has been revised down by $454.4 million (16.9 per cent) in 2022-23, mainly reflecting a combination of investment market volatility and changes to the funds' underpinning cash flows. Over the four years to 2025-26, it has been revised down by $439.3 million (3.0 per cent), driven mostly by higher-than-expected returns in some funds not quite offsetting lower expected returns in others.

3.3 Expenses outlook

Table 3.7: General government sector expenses by category and year

	2021-22 Actual $m	2022-23 Budget $m	2022-23 Revised $m	2023-24 Forward Estimates $m	2024-25 $m	2025-26 $m	% Average growth p.a. 2021-22 to 2025-26
Employee	40,207	42,640	41,910	43,185	44,834	45,907	3.4
Superannuation	4,594	5,397	5,522	5,653	5,789	5,864	6.3
Depreciation & Amortisation	7,101	7,907	7,883	8,245	8,566	9,107	6.4
Interest	2,527	3,566	4,400	5,547	6,240	6,826	28.2
Other Operating Expense	29,697	28,368	30,508	29,353	26,395	26,276	(3.0)
Grants, Subsidies and Other Transfers	34,689	27,000	26,876	23,721	21,685	20,556	(12.3)
Total expenses	**118,815**	**114,878**	**117,099**	**115,704**	**113,509**	**114,538**	(0.9)
Annual change %	*25.0*	*(3.3)*	*(1.4)*	*(1.2)*	*(1.9)*	*0.9*	

Notes

(a) As noted in the 2022-23 Budget (Chapter 5 of Budget Paper 1), the total estimated expenses includes an annual allowance for the established tendency for parameter and technical adjustments (PTAs) to increase expenses over time, along with an allowance for the established tendency of expenditure to slip and be carried forward to future years (Carry Forwards). As requests for eligible PTAs[3] and Carry Forwards[4] have been approved since Budget, the impacts are reflected in agency budget allocations and the allowances in the total estimated expenses are reduced accordingly.

Compared to expectations at Budget, the Half-Yearly Review projects higher expenses across the four years to 2025-26. This is primarily driven by:

- the significant and ongoing NSW Government response to major storms and floods across New South Wales
- increased health expenses, as the health system continues to manage pressures associated with the recovery from the COVID-19 pandemic
- increased transport expenses to maintain public transport services and manage cost pressures while public transport farebox revenue continues to recover and stabilise following the COVID-19 pandemic
- additional expenses to meet cost pressures on the State's existing rail infrastructure program including fleet modifications and upgrades due to industrial action
- new policy measures including energy bill relief, train network enhancements, additional financial assistance to taxi license owners, and urgent health care services
- higher borrowing costs, reflecting higher interest rates relative to expectations at Budget.

Table 3.8 outlines the revisions to estimated expenses since Budget.

Government expenses are now projected to be $117.1 billion in 2022-23, an increase of $2.2 billion since the Budget. Expenses, nevertheless, remain on track to be lower this financial year than in 2021-22 ($118.8 billion).

Notwithstanding the upwards revision to estimated expenses since Budget, overall expenses are projected to decline over the forward estimates as COVID-19 and natural disaster response and recovery measures are phased out. The average annual reduction in expenses is 0.9 per cent over the 4 years to 2025-26.

[3] Under *TPG21-11 Parameter and Technical Adjustments and New Policy Proposals (Measures)*
[4] Under *TPG22-05 Carry Forwards Policy*

Table 3.8: Expense reconciliation – 2022-23 Budget to Half-Yearly Review

	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m
Expenses – 2022-23 Budget	**114,878**	**109,497**	**109,500**	**111,513**
Policy measures	1,763	3,555	705	50
Total parameter and other budget variations	458	2,653	3,305	2,974
Expenses – 2022-23 Half-Yearly Review	**117,099**	**115,704**	**113,509**	**114,538**

Revisions to estimated expenses since Budget fall into two categories (see Table 3.8):

- new policy measures – these have a net impact of $6.1 billion over four years to 2025-26, with most of the impact ($3.6 billion) in the next financial year.
- parameter and other budget variations – these have driven four-year expenses to 2025-26 up by $9.4 billion.

Major new policy measures since Budget include:

- $2.6 billion over four years[5] to 2025-26 to support families, businesses and councils in response to major storms and flooding events in partnership with the Australian Government (See Box 1.1 for more detail). This includes $500 million to deliver the Regional and Local Roads Repair Program and $800 million for the Resilient Homes Fund.
- $3.0 billion over four years to meet cost pressures on NSW's existing rail infrastructure program including fleet modifications and upgrades due to industrial action[6]
- $1.5 billion over four years to support delivery of next generation signalling and train control technology, Western Sydney Airport Metro Stations, Central Precinct Renewal and the Opal Next Generation Ticketing System[6]
- The Energy Bill Price Relief Plan to put downward pressure on energy prices in partnership with the Australian Government including support for energy generators, households and small businesses.[7]
- $612.5 million in 2023-24 for continuing the NSW Health responses to COVID-19 including higher staffing levels, additional cleaning, infection control, enhanced population and public health, PCR screening and non-emergency patient transport.
- $430.0 million in 2022-23 to deliver additional financial assistance for taxi licence owners.
- $179.0 million in additional funding over two years to continue the Intensive Learning Support Program to provide small group tutoring to support students.
- $919.4 million over 3 years to 2025-26[8] to support the delivery of growth-enabling infrastructure projects and unlock new housing supply as part of the ongoing reforms to the Special Infrastructure Contribution (SIC) system to create a fairer system.
- $162.6 million over two years for Fire and Rescue NSW to support critical services and staff the new Oran Park Fire Station.
- $156.5 million over two years to deliver the 12-month Skills Agreement in partnership with the Australian Government providing approximately 120,000 Fee Free TAFE and vocational education places in 2023.

5 Includes $473.0 million of capital expenditure ($430.0 million for the Resilient Homes Fund)
6 These measures are partially offset by Transport Asset Holding Entity of NSW (TAHE) fee-for-service revenue.
7. The final financial impacts are still subject to negotiation with the Australian Government.
8 Includes $170.8 million recurrent expenses and $748.6 million capital expenditure, see Chapter 3.2 for associated revenue impacts

- $185.6 million ($68.0 million recurrent expenses and $117.6 million capital expenditure) over two years in 35 projects delivered through the Digital Restart Fund, which includes:
  - $24.6 million towards the Education Wallet Program that will enable people in New South Wales to access employment or education pathways and maintain their verified records securely online.
  - $20.2 million for six agency initiatives to uplift cyber security of digital operating systems and applications to protect against cyber threats.
  - $20.0 million to the Consumers at the Centre of their Care Program to support the development of a state-wide Remote Patient Monitoring platform.
  - $8.4 million for a Whole of Government Grants Management System that will deliver an end-to-end integrated grants administration system across NSW Government.
- $139.0 million over three years to 2024-25 to fund the delivery of new or enhanced urgent health care services in collaboration with the primary, community and acute care sectors to reduce pressure on hospital emergency departments ($15 million in 2022-23 is funded from within NSW Health's existing budget).
- $105.1 million over five years to 2027-28 to invest in the Recruitment and Retention Fund and the PULSE program to better look after the wellbeing of the NSW Police workforce.
- $99.8 million over five years to provide increased support to young people in out-of-home care to the age of 21. This includes a new 'staying on' allowance for carers, a new independent living allowance, the expansion of a specialist aftercare program and additional caseworkers.
- $75.0 million over four years to provide cell and gene therapies to patients with rare diseases (including an Australian Government contribution).
- $67.4 million investment over four years to combat biosecurity threats, including foot and mouth disease, with an expanded response workforce, on-ground animal control activities and enhanced disease surveillance.
- $64.3 million over four years from 2023-24 to expand the Child Sexual Offence Evidence Program which aims to reduce the stress and trauma experienced by children and young people who are victims or witnesses of child sex offences through the provision of a witness intermediary in police interviews and pre-recorded hearings for a trial across the state.
- $45.1 million over four years in partnership with the Australian Government to support student and school community wellbeing through the National Student Wellbeing Program.

The expense impact of these measures are partially offset by decisions taken to:

- Repurpose underspends in acute-phase COVID-19 support grants, funds and programs
- Align the timing of projects with revised Australian Government payment profiles based on the October 2022 Budget Update
- Reallocate funding to support the flood response by reprioritising sub-programs within the Future Economy Fund.

Parameter and other budget variations since the 2022-23 Budget include:

- expenditure increases to address operational pressures in the transport system and maintain public transport services while farebox revenue continues to recover and stabilise following the COVID-19 pandemic
- higher interest expenses reflecting additional borrowings (primarily for floods, COVID-19, health and transport expenses) and an increase in projected bonds yields driven by a faster than anticipated tightening of monetary policy
- upward revision to expenses for State insurance schemes to reflect updated parameters, cost pressures and actuarial adjustments
- parameter driven adjustments to decrease expenses associated with industry portable long service schemes, and to increase expenses associated with defined benefit superannuation and long service leave
- increased expenditure arising from the October 2022 Australian Budget Update, including an upward revision to parameters underpinning the National School Reform Agreement
- technical adjustments including reclassification of capital expenditure for Sydney Metro City and South West – Central Walk and associated works
- reprofiling expenditure across the budget and forward estimates period[9] to better align with revised service and project delivery schedules
- increasing the health expenditure growth rate to address operational pressures in the health system following the COVID-19 pandemic.

Government's commitment to effectively manage expenses growth

Sustained fiscal discipline over the last decade enabled the Government to provide economic support during the pandemic, including the Delta outbreak. Notwithstanding the temporary impacts of COVID-19, sustainable expense growth remains a central pillar of the Government's fiscal strategy. The *2021-22 NSW Intergenerational Report* highlights that sustainable expense growth over the longer term is crucial for intergenerational equity.

The NSW Government is continuing to implement the fiscal repair and savings measures announced in recent budgets. The 2022-23 Half-Yearly Review continues to see the Government on track to meet the *Fiscal Responsibility Act 2012* expense growth targets across the four years to 2025-26.

As Table 3.7 illustrates, projected expenses growth will be below the 5.6 per cent target in 2022-23 and across the forward estimates period. Total estimated expenses are projected to fall by 1.4 per cent in 2022-23, declining by a further by 1.2 per cent in 2023-24 and 1.9 per cent in 2024-25, before rising modestly in 2025-26 by 0.9 per cent.

[9] Under the *TPG22-05 Carry Forwards Policy*, with impacts partially offset by allowances established in the 2022-23 Budget.

3.4 Capital expenditure outlook

Capital expenditure across the general government sector is forecast to be $22.8 billion in 2022-23, which is $102 million greater than Budget.

COVID-19 and other global events continue to present unprecedented challenges to infrastructure delivery. The Government is taking numerous steps to meet the increased demand for labour and address skills shortages – including making changes to the NSW Skills List under the skilled migration program and boosting trade and construction skills. Supply chain and market capacity constraints are also impacting delivery schedules and putting further inflationary pressure on construction costs. The Government will continue to work alongside the sector to minimise disruptions and manage other impacts.

Despite these challenges, the NSW Government is maintaining its commitment to deliver a record infrastructure program and enhance the liveability of communities across the State. Investments made today will bolster the State's resilience against future risks and deliver benefits for generations to come.

Table 3.9 provides a reconciliation of capital expenditure between the 2022-23 Budget and the Half-Yearly Review.

Table 3.9: General government capital reconciliation – 2022-23 Budget to 2022-23 Half-Yearly Review

	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m
Capital – 2022-23 Budget	**22,666**	**22,646**	**21,968**	**21,114**
Policy measures	300	723	937	695
Parameter and other variations[a]	(198)	(854)	(590)	(692)
Capital – 2022-23 HYR	**22,768**	**22,515**	**22,315**	**21,118**

(a) Includes reprofiling of capital expenditure across years to align with revised project delivery schedules. This also includes an allowance for the established tendency for capital expenditure to slip each year due to multiple factors including market capacity constraints and supply chain disruptions. The 2022-23 Budget allowance for capital slippage remains unchanged with $8.0 billion in 2022-23, reducing to $50 million in 2025-26.

Since the 2022-23 Budget, the NSW Government has invested in additional infrastructure projects, which are expected to start over the next few months. Key projects include:

- various new projects and upgrades across the **transport** network:
  - Upgrading Elizabeth Drive to connect it to the M12, building a new interchange between the M7 and M12 motorways to connect the new Western Sydney International Airport and Western Parkland City, and widening of the M7 motorway to six lanes between Prestons and Oakhurst
  - $1.3 billion (over next four years) for the first stage of the Zero Emission Bus transition program, introducing approximately 1,200 new electric buses supported by new charging infrastructure
  - $1 billion for upgrades of critical roads in Western Sydney (under WestInvest), including $200 million for safety improvements on Elizabeth Drive (at Kemps Creek), $100 million for the Pitt Town bypass, $100 million for upgrades to Garfield Road East between Piccadilly Street (Riverstone) and Windsor Road (Box Hill), and $600 million set aside for other road upgrades across the 15 eligible WestInvest local government areas.
- Westmead Education Campus, a primary and selective high school within the Westmead Health and Innovation District

- further new and upgraded **health** facilities, including:
  - $450 million additional capital expenditure as a part of a $558 million redevelopment of the Albury Base Hospital funded by the NSW, Victorian and Australian governments, will deliver a world-class health facility in the Albury-Wodonga community. The redevelopment will include a new Clinical Services Building at the existing Albury Hospital campus, bringing together acute health services onto one site and expanding the range and complexity of services.

A number of key infrastructure projects have been completed since the 2022-23 Budget, including:

- new **transport** infrastructure: the next stage of WestConnex (7.5km tunnel linking the M4 and M8 motorways)
- the record **schools** building program, including:
  - eight upgrades delivered for Term 4 2022 (Glenmore Park High School, Milperra Public School, Monaro High School, Samuel Gilbert Public School, Stanwell Park Public School, Wentworthville Public School, Teven-Tintenbar Public School and Yass High School)
  - five upgrades delivered for Term 1 2023 (Bankstown North Public School, Epping West Public School, Galungara Public School, Jannali East Public School, and Jordan Springs Public School)
  - six new schools delivered for Term 1 2023 (Murrumbateman Public School, Googong Public School, Edmondson Park Public School, Nangamay Public School, Ngarala Public School and the redevelopment of Canterbury South Public School).
- new and upgraded **health** facilities, including:
  - refurbishment of the Coffs Harbour Hospital, which was completed in December 2022 and includes upgrades to the Emergency Department staff areas, perioperative services, support services areas, sterilising services, medical and rehabilitation wards, outpatient services, cardiac catheter laboratory, and education and administration services
  - Manly Adolescent and Young Adult Hospice, which was completed in December 2022 and is the first facility of its kind in Australia. It will provide respite care, symptom management or end-of-life care to 15 to 25-year-old patients with life-limiting illness
  - Buronga HealthOne, part of the $100 million HealthOne program, is a new purpose-built facility officially opened in July 2022. It brings together a wide range of health services and complements existing health services and facilities in the region.

The NSW Government will continue to explore infrastructure solutions (including smaller and more targeted projects, staging of delivery to coincide with service growth and other measures) that meet the demands of our growing state, make best use of existing assets and achieve value for money.

Refer to Box 3.4 for more details on the Government's record infrastructure program.

The NSW Government will also continue to draw on the Restart NSW Fund to deliver new infrastructure, particularly in regional New South Wales. See the 2022-23 Budget Paper No. 3 *Infrastructure Statement* for further information on the Government's Restart NSW commitments as at 30 June 2022.

Box 3.4: The record infrastructure program of $116.6 billion

To secure a bright and prosperous future for our State, the NSW Government is continuing its record investment in infrastructure, with a project pipeline of $116.6 billion over the four years to 2025-26. The investment across the non-financial public sector[10] is an increase of $3.9 billion compared to the 2022-23 Budget.

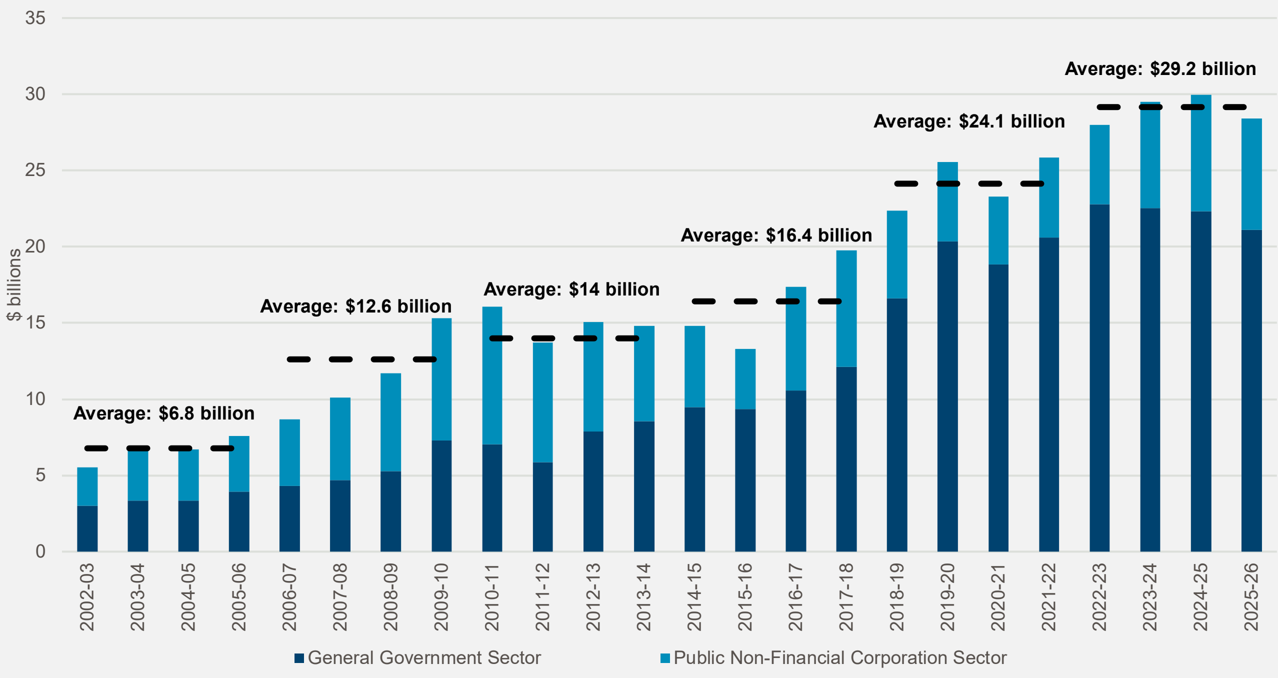
The investment pipeline currently comprises:

- $79.7 billion for transport and infrastructure
- $11.4 billion[11] for hospitals and health facilities
- $9.8 billion for schools and skills infrastructure.

The range of projects being delivered span transport mega projects that will reduce commute times, enhance productivity and encourage active lifestyles, to smaller, local projects that improve local amenities and community participation.

Chart 3.8 shows the significant growth of the Government's infrastructure program since 2002-03, ensuring the current and future needs of the State are met. These investments are supported by the Government's strong track record in financial management and successful asset recycling strategy.

Chart 3.8: Infrastructure program from 2002-03 to 2025-26



Following the initial tranche of WestInvest projects announced at Budget, the Government has announced support for further infrastructure from the $5 billion allocated to WestInvest projects, which will enhance communities and help create jobs throughout Western Sydney (see Box 3.5 for more detail on WestInvest).

10. The general government sector and the public non-financial corporation sector.

11. Excludes capital expensing amounts totalling $623.1 million over the four years relating to certain expenditure associated with the construction of health capital projects, which fall below the capitalisation threshold and are not classified as capital expenditure under the accounting standards.

Box 3.5: WestInvest – transforming and enhancing liveability across Western Sydney

In 2021, the NSW Government launched WestInvest – a $5 billion commitment to delivering infrastructure across Western Sydney, transforming the region into an even better place to live, work and raise a family.[12] WestInvest projects will support Western Sydney across six focus areas:

- Quality Green and Open Spaces
- Community Infrastructure
- School Modernisation
- Arts and Cultural Facilities
- High Street Activation
- Local Traffic Programs

To better understand local infrastructure needs and inform the projects funded by WestInvest, the NSW Government engaged extensively with the Western Sydney community through the *Have Your Say* survey in early 2022. The $5 billion program comprises the $3 billion State Government stream and the $2 billion Community Projects Fund.

The $3 billion **State Government stream** will go towards projects led by NSW Government agencies. Since the initial tranche announced at the 2022-23 Budget, further projects have been approved, including:

- the Westmead Education Campus, a primary and selective high school within the Westmead Health and Innovation District
- $1 billion for upgrades of critical roads in Western Sydney, including $200 million for safety improvements on Elizabeth Drive (at Kemps Creek), $100 million for the Pitt Town bypass, $100 million for upgrades to Garfield Road East between Piccadilly Street (Riverstone) and Windsor Road (Box Hill), and $600 million set aside for other road upgrades across the 15 eligible local government areas.

The $2 billion **Community Projects Fund** is made up of $400 million in grants allocated directly to 15 eligible local governments (based on population), and $1.6 billion in grants to non-government organisations allocated via a competitive process.

12. WestInvest funds projects' capital costs as well as one-off operating costs associated with project delivery or improvement. Contributions to local councils and community organisations are grants, are therefore recorded as expenses for accounting and budget reporting purposes.

3.5 Managing the State's assets and liabilities

New South Wales continues to use its strong balance sheet to support the long-term productive capacity of the economy.

General government sector net debt is projected to be $78.4 billion by June 2023 (10.2 per cent of GSP), $0.2 billion higher than estimated at the 2022-23 Budget. This broadly stable position is the result of upward revisions to operating payments since the 2022-23 Budget. This is largely offset by upward revisions to estimated cash receipts from taxes received and other operating receipts.

Net debt is projected to stabilise from June 2026 onwards at around 14 per cent of GSP before gradually declining towards the end of the decade. The increase in net debt over the four years to June 2026 is primarily driven by increased borrowings to fund infrastructure investment. This is consistent with the Government's commitment to build the necessary infrastructure to support future economic growth in New South Wales and provide public services to a growing community.

Net worth is projected to be $277.4 billion by June 2023, $10.2 billion higher than in the 2022-23 Budget. This is primarily driven by higher-than-expected valuations of land, buildings, and infrastructure systems following the 2022-23 Budget in June 2022.

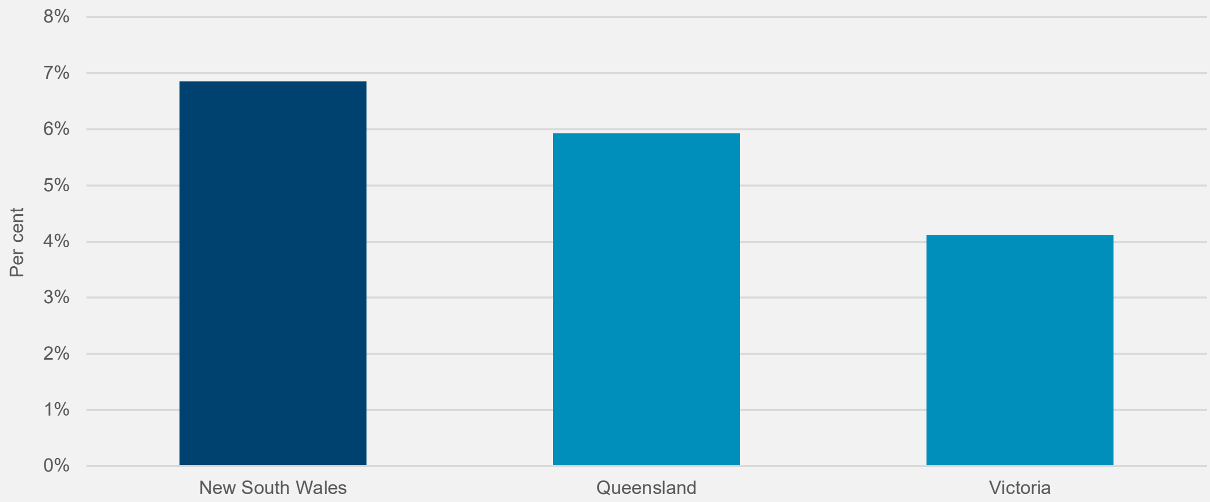
The State continues to integrate Environmental, Social and Governance (ESG) considerations into its strategic balance sheet management

The Government continues to align the State's financial activities (e.g., investing, issuing bonds, procuring, and stewarding resources) with more sustainable outcomes. Since the 2022-23 Budget, over $1.9 billion in Green and Sustainability bonds have been issued through the NSW Sustainability Bond Programme to January 2023 (see Box 3.6).

Box 3.6: NSW Government is leading impact investing

Sustainability bonds enable the NSW Government to diversify the State's investor base and encourage capital flows towards ESG objectives, with $8.9 billion in Green and Sustainability bonds issued to date. The NSW Government is a leader in this space, having the largest sustainability bond program amongst Australian states (see Chart 3.9).

Chart 3.9: Green and Sustainability bond issuance as a portion of total bond issuance[(a)]



(a) As of 27 January 2023. Western Australia, South Australia and Tasmania have yet to issue sustainability bonds.

New South Wales's strong economy helps stabilise net debt

Net debt to GSP is projected to be 10.2 per cent by June 2023, which represents a 0.2 per cent improvement since the 2022-23 Budget. This reflects a stronger than expected economic and revenue outlook.

Net debt is projected to stabilise from June 2026 onwards at around 14 per cent of GSP before gradually declining towards the end of this decade. This is broadly consistent with projections at the 2022-23 Budget.

Table 3.10: NSW general government sector balance sheet aggregates

	June 2022 Actual	June 2023 Budget	June 2023 Revised	June 2024	June 2025	June 2026
					Forward Estimates	
Total Assets ($m)	510,549	514,439	524,516	547,575	568,676	592,320
Financial Assets ($m)	193,513	189,143	189,438	196,116	203,273	214,863
Non-Financial Assets ($m)	317,036	325,296	335,078	351,459	365,403	377,457
Total Liabilities ($m)	223,828	247,236	247,120	272,542	288,988	304,455
Net Worth ($m)	286,722	267,203	277,396	275,033	279,688	287,865
Net Worth as a per cent of GSP	41.1	35.5	36.0	34.9	34.4	34.1
Net Debt ($m)	55,781	78,169	78,403	96,201	107,444	116,505
Net Debt as a per cent of GSP	8.0	10.4	10.2	12.2	13.2	13.8

The State's financial assets included in the calculation of net debt are projected to be $51.1 billion at June 2023, broadly in line with projections at the 2022-23 Budget. Financial assets at fair value are projected to be similar to Budget projections as investment fund performance has tracked generally in line with Budget expectations.

Since the 2022-23 Budget, there has been significant volatility in interest rates and interest expense projections. This has been driven by forecasts of aggressive central bank action to counter high global inflation. Consequently, interest expenses are estimated to average 5.2 per cent of revenue over the four years to 2025-26. Whilst this is above the 4.5 per cent projected at the 2022-23 Budget, the cost of borrowings remains manageable over the forward estimates.

The strongest net worth of all Australian states and territories

Net worth is projected to be $277.4 billion by June 2023, the highest of all States and Territories in Australia. This represents a $10.2 billion increase since the Budget, reflecting the higher than projected asset valuations of land, buildings, and infrastructure systems.

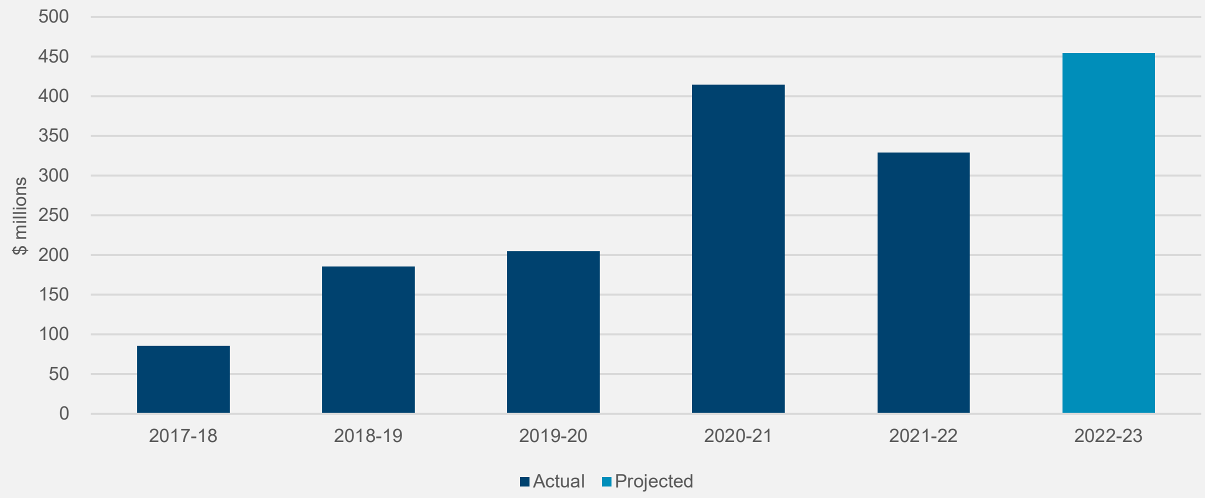
Financial assets as at June 2023 are also projected to be broadly in line with Budget. Financial assets at fair value are projected to grow to $66.3 billion by June 2026, supported by growth in the State's investment funds.

Box 3.7: The Social and Affordable Housing Fund (SAHF) continues to deliver

The Government aims to maximise access to social, affordable and secure housing in NSW through the SAHF. From its inception in August 2017 to December 2022, SAHF has returned 5.8 per cent per annum (see Chart 3.10) and has delivered 3,069 social and affordable dwellings and associated services across NSW, in partnership with key service providers.

The *Social and Affordable Housing Fund Act 2016* was reviewed in late 2022 as required by legislation. The review found that the legislation's policy objectives remain valid and appropriate, and that the SAHF program is on track to achieve its target of securing 3,486 social and affordable housing units by 2024. The report was tabled in Parliament in October 2022.

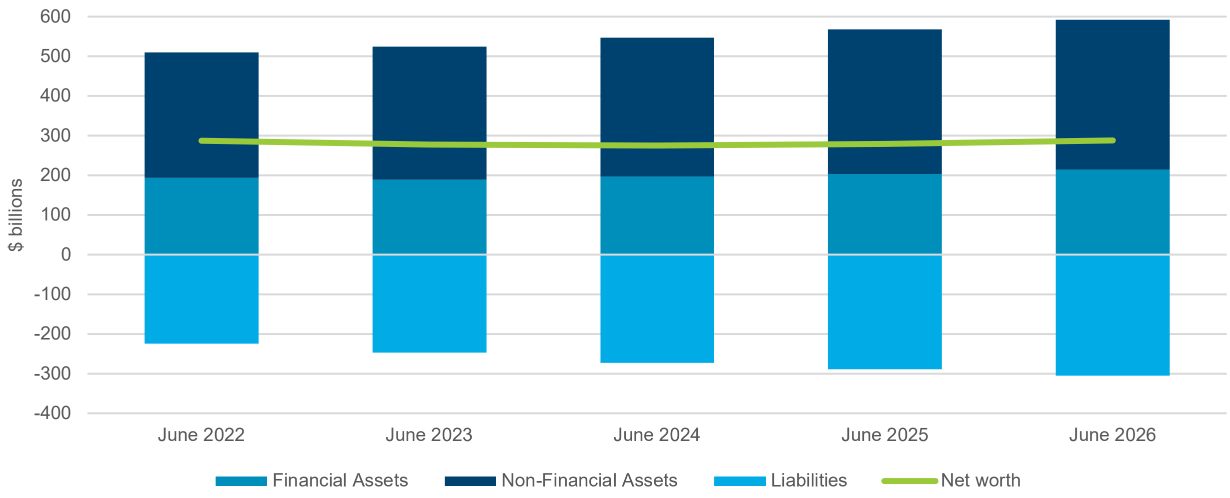
Chart 3.10: SAHF cumulative returns



The State manages its self-insurance schemes through the Treasury Managed Fund. These schemes face pressures driven by rising costs and claims relating to flood damages, historic abuse claims, and emerging risks such as cyber security. The Government actively manages scheme funding and will continue to ensure the schemes are sufficiently capitalised to meet all future costs when they fall due.

From June 2023 to June 2026, net worth is projected to increase by $10.5 billion to $287.9 billion (see Chart 3.11). This is primarily driven by higher asset and equity valuations and a fall in the value of the State's defined benefit superannuation liabilities.

Chart 3.11: General government sector assets, liabilities, and net worth



3.6 Commercial performance in the broader public sector

Commercial operations of the public sector are delivered through agencies in the public non-financial corporation (PNFC) sector and the public financial corporation (PFC) sector. Entities in both sectors are guided by a Commercial Policy Framework, which applies a range of policies aimed at instilling the disciplines and incentives that lead private sector businesses towards efficient commercial practices.

Dividends and tax equivalent payments

Dividends received by the general government sector from the PNFC and PFC sectors are based on the operating performance and credit worthiness of those businesses. To ensure competitive neutrality with private sector counterparts, some of these corporations make tax equivalent payments and, with respect to the cost of debt, pay debt neutrality charges (government guarantee fees).

In 2022-23, the dividend and tax equivalent payments are forecast at $719.1 million, which is $42.0 million lower compared to the 2022-23 Budget. Over the Budget and forward estimates, dividends and tax equivalent payments are forecast to be $5.3 billion, which is $16 million lower compared with the 2022-23 Budget. These reductions are primarily due to a delay in the strategic divestment of properties in the Transport Asset Holding Entity's (TAHE) property portfolio which were originally expected to occur in 2022-23, and are now due to occur in the 2023-24 financial year.

Table 3.11 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors from 2022-23 to 2025-26.

Table 3.11: Dividends and tax equivalent payments from the PNFC and PFC sectors

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Public non-financial corporations					
Essential Energy	16	3	63	81	78
Forestry Corporation of NSW	16	15	22	34	29
Hunter Water Corporation	54	43	54	35	43
Landcom[(a)]	21	21	25	49	51
Port Authority of NSW	36	39	46	50	45
Sydney Water Corporation	259	295	355	412	641
Transport Asset Holding Entity of NSW	125	65	384	430	517
Water NSW	47	51	56	44	54
Public financial corporations					
NSW Treasury Corporation	152	152	159	169	179
Total Dividends and Tax Equivalent Payments in Revenue from Transactions section	**726**	**684**	**1,165**	**1,304**	**1,636**
Public non-financial corporations					
Landcom	35	35	42	345	83
Total Dividends in Other Economic Flows section[(b)]	**35**	**35**	**42**	**345**	**83**
TOTAL DIVIDENDS AND TAX EQUIVALENT PAYMENTS	**761**	**719**	**1,207**	**1,649**	**1,719**

(a) Landcom's returns classified under the 'Revenue from Transactions' section in the General Government Operating Statement relate to tax equivalent payments.
(b) Dividends paid by Landcom across the four years to 2025-26 are classified as income within the 'Other Economic Flows' section of the General Government Operating Statement, rather than the 'Revenue from Transactions' section.

Capital expenditure

In 2022-23, capital expenditure within the PNFC sector is forecast to be $7.0 billion, which is $411.9 million greater than the 2022-23 Budget. This variance is primarily attributable to the reprofiling of Sydney Water and TAHE's projects.

Capital expenditure within the sector over the budget and forward estimates period is estimated to be $27.9 billion, which is $3.6 billion greater than estimated for the same period at the 2022-23 Budget. This variance is driven by additional capital investment in several TAHE capital projects.

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A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements for the General Government Sector

This Statement of Significant Accounting Policies and Forecast Assumptions applies to the Half-Yearly Review of the estimated financial statements for the general government sector (GGS).

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 Estimated Financial Statements of the GGS (GGS Estimated Financial Statements) presented in *Appendix B Uniform Financial Reporting* include the:

- GGS operating statement (Table B.1)
- GGS balance sheet (Table B.2)
- GGS cash flow statement (Table B.3).

The 2022-23 Budget information included in the GGS Estimated Financial Statements reflects the original budget tabled in Parliament on 21 June 2022. The revised budget estimates relate to the current year ending 30 June 2023, and estimates for the three forward years ending 30 June 2024, 2025 and 2026.

Basis of preparation

The GGS Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2022-23 Budget and based on the assumptions outlined below.

The GGS 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 Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by the NSW Government, where their financial effect can be reliably estimated, as well as known Australian Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review.

The revised GGS estimates for the 2022-23 financial year are based on updated year-end projections provided by agencies. They have been prepared to take into account economic and financial data available to Treasury as at 24 January 2023 and estimates of Government policy decisions and parameter and technical adjustments up to 3 February 2023.

In keeping with these principles, where the impact of a policy decision or a planned event cannot be reliably measured, the impact is not reflected within the GGS Estimated Financial Statements (for example, 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, under the headings: *Material economic and other assumptions* and *Summary of other key assumptions*.

Accounting policies

Australian Accounting Standards (AAS) do not include requirements for, or provide guidance on, the preparation and presentation of prospective financial statements, 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 follow the presentation and principles in the 2022-23 Budget. The revised estimates have been prepared in accordance with the accounting policies expected to be used in the preparation of the *Total State Sector Accounts* for 2022-23.

Except for the matters set out below under: *Changes in accounting policies*, the accounting policies applied in preparing the GGS Estimated Financial Statements are not materially different from those applied in the audited 2021-22 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* as presented to Parliament.

Note 1 Statement of Significant Accounting Policies of the 2021-22 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenue, expenses, other comprehensive income, assets and liabilities.

Changes in accounting policies

Changes in AAS are considered when preparing the GGS Estimated Financial Statements.

The accounting policies applied in the 2022-23 Budget are consistent with those of the previous Budget. There are no significant changes to AAS or accounting policies adopted in 2022-23 that materially impact the GGS Estimated Financial Statements.

New accounting standards issued but not effective

AASB 17 *Insurance Contracts* (AASB 17) replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 applies from 1 January 2023 to the private sector and for-profit public sector entities. In December 2022, the Australian Accounting Standards Board (AASB) issued AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector* to include modifications that apply to public sector entities. This standard applies to annual reporting periods beginning on or after 1 July 2026 with earlier application permitted. The estimated impact of AASB 2022-9 on estimated financial statements has not been sufficiently identified and quantified at this stage and thus not disclosed.

There are no other standards and interpretations 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.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 39 of the *2021-22 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2022-23 *How to Read the Budget Papers*.

Presentation of the GGS Estimated Financial Statements

The GGS Estimated Financial Statements follow the presentation requirements for GGS reporting contained in AASB 1049 *Whole of Government and General Government Sector Financial Reporting (AASB 1049)*.

AASB 1049 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). The statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective.

The net operating balance (that is, the budget result) presented in accordance with AASB 1049 is the net result of harmonised GFS-GAAP transactions for the GGS.

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. It excludes *other economic flows*, which represents 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 estimated financial statements adopt the recognition, measurement and disclosure requirements of GAAP consistent with the following principles in AASB 1049:

- where options exist in GAAP, the GGS financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS.
- where options do not exist 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 (4) 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.

Presentation changes

There have been no significant presentation changes since the release of the 2022-23 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Material economic and other assumptions

The GGS Estimated Financial Statements included in the Half-Yearly Review have been prepared using the material economic and other assumptions as set out below.

Table A.1: Key economic performance assumptions[(a)]

	2021-22 Outcomes	2022-23 Forecasts	2023-24 Forecasts	2024-25 Projections	2025-26 Projections
New South Wales population (persons)[(b)]	8,154,000	8,237,000	8,334,000	8,434,000	8,533,000
Nominal gross state product ($million)	697,400	769,500	787,300	813,100	845,100
Real gross state product (per cent)	1.8	3¾	1½	2¼	2½
Real state final demand (per cent)	3.3	5¼	1	2½	2¾
Employment (per cent)	0.9	5½	¾	1¼	1
Unemployment rate (per cent)[(c)]	3.6	3½	4½	4	4
Sydney consumer price index (per cent)	3.9	7	3½	2¾	2½
Sydney consumer price index excluding tobacco excise effect (per cent)	3.8	7	3½	2¾	2½
Wage price index (per cent)[(d)]	2.4	3¾	4	3½	3¼
Nominal gross state product (per cent)	7.4	10¼	2¼	3¼	4

(a) Forecasts are rounded to the nearest quarter point and are annual average per cent change, unless otherwise indicated.
(b) As at 30 June each year
(c) As at June quarter, per cent
(d) Weighted average of private and public sector wages

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 revenue

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, and builds upon NSW Treasury's own forecasts of the relevant macroeconomic indicators. Forecasts of government debt guarantee fees takes into account an assessment of the level of debt of public non-financial corporations (PNFCs) 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 Australian Government are based on the latest available information from the Australian Government and projections of timing of payments at the time of preparation of the Half-Yearly Review. 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 NSW Treasury. For 2022-23, the GST forecast is based on the assessed relativity for New South Wales in 2022-23 and the Australian Government's population projections. The assessed relativity is based on the three-year average of actual data (2018-19, 2019-20 and 2020-21) as published by the Commonwealth Grants Commission.

Beyond 2022-23, the State's share of GST is based on NSW Treasury's forecast relativities, national GST pool estimates and the Australian Government's state population 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 PNFC and public financial corporations (PFC) sectors. They are based on expected profitability and the agreed dividend policy at the time of the Half-Yearly Review.

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 adjustments expected to be required to maintain service provision on a no policy change basis consistent with the policy set out in TPG21-11 NSW Treasury Policy and Guidelines: *Parameter and Technical Adjustments and New Policy Proposals (Measures)*, 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 TPG22-05 NSW Treasury Policy and Guidelines: *Carry Forwards Policy*
- 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. These can vary depending on:

- approved wage agreements and other wage determinations in place
- the State’s public sector wages policy
- new initiatives
- other policy changes.

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 A.2: Superannuation assumptions – pooled fund / state super schemes

	2022-23 Forecast %	2023-24 Forecast %	2024-25 Forecast %	2025-26 Forecast %
Liability discount rate [(a)]	3.53	3.43	3.43	3.53
Expected return on investments [(b)]	8.80/8.30	7.00/6.20	7.00/6.20	7.00/6.20
Expected salary increases [(c)]	3.19	3.68	2.87	2.74
Expected rate of CPI	7.00	3.50	2.75	2.50

(a) The liability discount rate is at 30 June for each financial year.
(b) The expected long-term return on investments is 7.0 per cent on assets backing pension liabilities and 6.2 per cent on assets backing non-pension liabilities. For the EISS, the expected long-term investment return is 5.8 per cent (after fees and charges).
(c) Note that this input includes promotions and other factors, in addition to the expected increase in base salary.

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, 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 and 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 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 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. Service concession assets are measured at estimated current replacement cost.

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 and Half-Yearly Review 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 TPG22-05 NSW Treasury Policy and Guidelines: *Carry Forwards Policy*
- 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, and annual leave.

Superannuation provisions

Refer to *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 claims 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.

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B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Framework tables

The NSW Government's 2022-23 Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS). These revised estimates take into account fiscal and economic developments since the Budget.

The Uniform Presentation Framework (UPF) tables have been prepared consistent with the 2022-23 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-AAS reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-5 of 2022-23 Budget Paper No.1 *Budget Statement*.

The objective of the UPF is to facilitate a better understanding of an individual government's financial results and projections through the provision of a common 'core' of financial information. As part of the Framework, each jurisdiction publishes a mid-year report, that is a half-yearly review of the budget, by the end of February each year.

The UPF financial aggregates:

- allow consistent comparisons between the financial position of Australian governments
- facilitate time series comparisons since they are relatively unaffected by changes in public sector administrative structures
- permit an assessment of how public sector transactions affect the economy by providing data classified by economic type.

Table B.1: General government sector operating statement

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	39,637	38,815	39,326	42,474	44,155
Grants and Subsidies					
- Commonwealth General Purpose	25,538	26,225	26,622	27,213	28,315
- Commonwealth Specific Purpose Payments	12,476	12,335	12,702	13,380	14,098
- Commonwealth National Partnership Payments	3,502	3,755	5,460	6,390	5,070
- Other Commonwealth Payments	586	495	545	591	630
- Other Grants and Subsidies	826	847	752	637	695
Sale of Goods and Services	10,191	10,591	10,798	10,198	9,883
Interest	372	526	512	447	452
Dividend and Income Tax Equivalents from Other Sectors	726	684	1,165	1,304	1,636
Other Dividends and Distributions	2,684	2,229	3,521	4,116	4,481
Fines, Regulatory Fees and Other	7,079	9,234	7,810	7,091	6,289
Total Revenue from Transactions	**103,617**	**105,736**	**109,212**	**113,842**	**115,704**
Expenses from Transactions					
Employee	42,640	41,910	43,185	44,834	45,907
Superannuation					
- Superannuation Interest Cost	1,473	1,582	1,561	1,522	1,496
- Other Superannuation	3,923	3,940	4,093	4,267	4,368
Depreciation and Amortisation	7,907	7,883	8,245	8,566	9,107
Interest	3,566	4,400	5,547	6,240	6,826
Other Operating Expense	28,368	30,508	29,353	26,395	26,276
Grants, Subsidies and Other Transfers	27,000	26,876	23,721	21,685	20,556
Total Expenses from Transactions	**114,878**	**117,099**	**115,704**	**113,509**	**114,538**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(11,260)**	**(11,363)**	**(6,492)**	**333**	**1,166**

Table B.1: General government sector operating statement (cont)

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(74)	(259)	(70)	8	89
Other Net Gains/(Losses)	102	981	1,017	688	213
Share of Earnings/Losses from Equity Investments (excluding Dividends)	209	177	(263)	(201)	(124)
Dividends from Asset Sale Proceeds	35	35	42	345	83
Allowance for Impairment of Receivables	(16)	(18)	(17)	(17)	(18)
Deferred Income Tax from Other Sectors	3	(33)	3	33	41
Other Economic Flows - included in Operating Result	**260**	**882**	**712**	**856**	**286**
Operating Result	**(11,001)**	**(10,481)**	**(5,780)**	**1,189**	**1,452**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**6,392**	**1,155**	**3,418**	**3,466**	**6,725**
Revaluations	4,190	4,593	4,449	1,460	1,521
Actuarial Gain/(Loss) from Superannuation	165	(928)	227	1,025	1,652
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	1,972	(3,147)	(1,342)	893	3,463
Deferred Tax Direct to Equity	46	107	64	68	69
Other	19	530	20	20	19
Items that may be Reclassified Subsequently to Operating Result	**...**	**(0)**	**...**	**...**	**...**
Net Gain/(Loss) on Financial Instruments at Fair Value	...	(0)	...	...	...
Other Economic Flows - Other Comprehensive Income	**6,392**	**1,155**	**3,418**	**3,466**	**6,725**
Comprehensive Result - Total Change in Net Worth	**(4,609)**	**(9,326)**	**(2,362)**	**4,655**	**8,177**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**(4,609)**	**(9,326)**	**(2,362)**	**4,655**	**8,177**
Less: Net Other Economic Flows	(6,652)	(2,037)	(4,130)	(4,322)	(7,011)
Equals: Budget Result - Net Operating Balance	**(11,260)**	**(11,363)**	**(6,492)**	**333**	**1,166**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	21,862	21,344	20,528	21,084	20,564
Sales of Non-Financial Assets	(586)	(558)	(2,236)	(1,792)	(573)
Less: Depreciation	(7,907)	(7,883)	(8,245)	(8,566)	(9,107)
Plus: Change in Inventories	(800)	(631)	(257)	(44)	(66)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	635	705	781	815	498
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	169	718	1,207	416	56
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	1,829	1,963	2,273	623	232
- Other	(724)	(790)	(877)	(1,047)	(945)
Equals: Total Net Acquisition of Non-Financial Assets	**14,479**	**14,869**	**13,173**	**11,489**	**10,659**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(25,740)**	**(26,231)**	**(19,666)**	**(11,156)**	**(9,493)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	22,666	22,768	22,515	22,315	21,118

(a) Capital expenditure comprises purchases of non-financial assets, assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.

Table B.2: General government sector balance sheet

	June 2023 Budget	June 2023 Revised	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	704	1,070	1,116	1,213	1,374
Receivables	11,373	10,229	9,682	10,061	10,130
Investments, Loans and Placements					
Financial Assets at Fair Value	46,165	46,346	53,227	58,571	66,313
Other Financial Assets	1,727	2,667	2,859	2,936	2,682
Advances Paid	2,160	1,056	1,136	1,185	1,123
Tax Equivalents Receivable	129	100	242	302	341
Deferred Tax Equivalents	2,419	3,072	3,073	3,175	3,295
Equity					
Investments in Other Public Sector Entities	116,374	115,858	116,005	117,255	121,153
Investments in Associates	8,086	9,033	8,770	8,570	8,446
Other	6	6	6	6	6
Total Financial Assets	**189,143**	**189,438**	**196,116**	**203,273**	**214,863**
Non-Financial Assets					
Contract Assets	21	18	19	20	20
Inventories	407	943	683	692	683
Forestry Stock and Other Biological Assets	23	23	23	23	23
Assets Classified as Held for Sale	95	58	58	58	58
Property, Plant and Equipment					
Land and Buildings	116,209	121,560	125,799	130,579	133,272
Plant and Equipment	14,405	13,971	14,515	14,625	14,399
Infrastructure Systems	181,513	185,401	197,190	206,496	216,813
Right of Use Assets	6,771	6,836	6,759	6,666	6,279
Intangibles	4,900	5,145	5,248	5,122	4,832
Other	953	1,122	1,164	1,122	1,081
Total Non-Financial Assets	**325,296**	**335,078**	**351,459**	**365,403**	**377,457**
Total Assets	**514,439**	**524,516**	**547,575**	**568,676**	**592,320**
Liabilities					
Deposits Held	282	353	353	353	353
Payables	8,847	9,688	9,743	9,944	10,276
Contract Liabilities	759	774	766	767	769
Borrowings and Derivatives at Fair Value	11	9	8	8	8
Borrowings at Amortised Cost	128,131	128,690	153,736	170,595	187,283
Advances Received	501	490	442	393	354
Employee Provisions	24,715	24,704	25,680	26,631	27,500
Superannuation Provision[(a)]	45,234	45,003	45,190	44,462	42,984
Tax Equivalents Payable	3	86	16	23	16
Deferred Tax Equivalent Provision	50	48	48	48	56
Other Provisions	13,786	14,995	14,727	14,761	14,911
Other	24,917	22,280	21,832	21,003	19,945
Total Liabilities	**247,236**	**247,120**	**272,542**	**288,988**	**304,455**
NET ASSETS	**267,203**	**277,396**	**275,033**	**279,688**	**287,865**

Table B.2: General government sector balance sheet (cont)

	June 2023 Budget	June 2023 Revised	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	66,265	65,572	60,005	62,205	65,295
Reserves	200,938	211,824	215,028	217,483	222,570
TOTAL NET WORTH	**267,203**	**277,396**	**275,033**	**279,688**	**287,865**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**78,169**	**78,403**	**96,201**	**107,444**	**116,505**
Net Financial Liabilities[(c)]	**174,467**	**173,541**	**192,431**	**202,970**	**210,745**
Net Financial Worth[(d)]	**(58,093)**	**(57,683)**	**(76,426)**	**(85,715)**	**(89,592)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.3: General government sector cash flow statement

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxation	39,706	40,725	39,379	42,440	44,131
Sales of Goods and Services	10,576	11,387	10,992	10,340	10,075
Grant and Subsidies Received	43,772	43,906	45,836	47,483	48,138
Interest	295	428	425	369	374
Dividends and Income Tax Equivalents from Other Sectors	558	512	615	773	1,533
Other	8,699	10,767	9,115	8,485	7,453
Total Cash Receipts from Operating Activities	**103,605**	**107,725**	**106,361**	**109,891**	**111,704**
Cash Payments from Operating Activities					
Employee Related	(41,707)	(41,018)	(42,513)	(44,146)	(45,252)
Superannuation	(5,002)	(5,003)	(5,250)	(5,503)	(5,700)
Payments for Goods and Services	(27,348)	(29,762)	(28,530)	(25,546)	(25,619)
Grants and Subsidies	(25,921)	(25,810)	(22,583)	(20,356)	(19,347)
Interest	(3,051)	(3,309)	(3,974)	(4,332)	(4,955)
Other	(3,276)	(4,002)	(2,713)	(2,648)	(2,648)
Total Cash Payments from Operating Activities	**(106,304)**	**(108,904)**	**(105,564)**	**(102,532)**	**(103,521)**
Net Cash Flows from Operating Activities	**(2,699)**	**(1,179)**	**797**	**7,359**	**8,183**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	586	558	3,084	1,871	573
Purchases of Non-Financial Assets	(21,843)	(21,090)	(19,022)	(20,756)	(20,407)
Net Cash Flows from Investments in Non-Financial Assets	**(21,257)**	**(20,533)**	**(15,938)**	**(18,885)**	**(19,834)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	338	345	182	529	277
Payments	(2,663)	(2,576)	(2,339)	(1,433)	(476)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,325)**	**(2,230)**	**(2,157)**	**(904)**	**(199)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	3,795	4,669	4,322	4,186	2,300
Purchase of Investments	(857)	(1,777)	(7,590)	(5,899)	(5,460)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**2,938**	**2,892**	**(3,268)**	**(1,713)**	**(3,160)**
Net Cash Flows from Investing Activities	**(20,644)**	**(19,870)**	**(21,363)**	**(21,502)**	**(23,193)**
Cash Flows from Financing Activities					
Advances (Net)	(98)	(110)	(104)	(92)	(60)
Proceeds from Borrowings	25,835	23,654	23,761	15,512	16,988
Repayment of Borrowings	(4,824)	(4,746)	(3,110)	(1,249)	(1,826)
Deposits Received (Net)	...	(0)	...	...	...
Other (Net)	45	107	64	68	70
Net Cash Flows from Financing Activities	**20,959**	**18,904**	**20,612**	**14,239**	**15,171**
Net Increase/(Decrease) in Cash Held	**(2,384)**	**(2,146)**	**46**	**96**	**162**
Derivation of Cash Result					
Net Cash Flows From Operating Activities	(2,699)	(1,179)	797	7,359	8,183
Net Cash Flows from Investments in Non-Financial Assets	(21,257)	(20,533)	(15,938)	(18,885)	(19,834)
Cash Surplus/(Deficit)	**(23,957)**	**(21,712)**	**(15,141)**	**(11,525)**	**(11,650)**

Table B.4: Public non-financial corporation sector operating statement

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Revenue from Transactions					
Grants and Subsidies					
- Other Commonwealth Payments	4	5	0	...	...
- Other Grants and Subsidies	5,033	5,658	4,704	4,650	4,556
Sale of Goods and Services	7,788	7,695	8,564	8,899	9,306
Interest	28	67	58	63	66
Other Dividends and Distributions	...	23	23	23	23
Fines, Regulatory Fees and Other	526	584	527	605	701
Total Revenue from Transactions	**13,380**	**14,032**	**13,875**	**14,239**	**14,652**
Expenses from Transactions					
Employee	2,479	2,480	2,397	2,539	2,652
Personnel Services Expense	148	131	153	159	162
Superannuation					
- Superannuation Interest Cost	47	51	49	47	44
- Other Superannuation	228	226	237	244	253
Depreciation and Amortisation	2,807	2,823	2,768	2,970	3,046
Interest	1,096	998	1,193	1,278	1,355
Income Tax Expense	280	283	427	458	540
Other Operating Expense	5,884	5,957	5,541	5,496	5,650
Grants, Subsidies and Other Transfers	82	80	74	63	65
Total Expenses from Transactions	**13,050**	**13,030**	**12,839**	**13,254**	**13,767**
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	**330**	**1,001**	**1,036**	**985**	**885**

Table B.4: Public non-financial corporation sector operating statement (cont)

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	...	(0)	...	...	...
Other Net Gains/(Losses)	(95)	(114)	(165)	(102)	(223)
Allowance for Impairment of Receivables	(4)	(1)	(4)	(4)	(4)
Deferred Income Tax	(3)	33	(3)	(33)	(41)
Other Economic Flows - included in Operating Result	**(101)**	**(82)**	**(171)**	**(138)**	**(269)**
Operating Result	**228**	**919**	**864**	**847**	**616**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**2,078**	**(4,466)**	**297**	**1,631**	**2,694**
Revaluations	2,103	(4,618)	418	1,530	2,651
Actuarial Gain/(Loss) from Superannuation	20	259	(57)	169	112
Deferred Tax Direct to Equity	(46)	(107)	(64)	(68)	(69)
Items that may be Reclassified Subsequently to Operating Result	**0**	**64**	**0**	**0**	**(0)**
Net Gain/(Loss) on Financial Instruments at Fair Value	...	0	...	...	...
Other	0	64	0	0	(0)
Other Economic Flows - Other Comprehensive Income	**2,078**	**(4,402)**	**297**	**1,631**	**2,694**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**2,306**	**(3,482)**	**1,161**	**2,478**	**3,310**
Dividends Distributed	(330)	(285)	(620)	(1,022)	(1,001)
Net Equity Injections	2,072	1,980	1,489	357	435
Total Change in Net Worth	**4,048**	**(1,786)**	**2,030**	**1,812**	**2,744**
Key Fiscal Aggregates					
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**2,306**	**(3,482)**	**1,161**	**2,478**	**3,310**
Less: Net Other Economic Flows	(1,976)	4,484	(126)	(1,493)	(2,425)
Equals: Budget Result - Net Operating Balance	**330**	**1,001**	**1,036**	**985**	**885**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	6,486	6,855	7,587	7,215	5,923
Sales of Non-Financial Assets	(649)	(429)	(722)	(786)	(590)
Less: Depreciation	(2,807)	(2,823)	(2,768)	(2,970)	(3,046)
Plus: Change in Inventories	36	21	212	108	(23)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	89	132	59	88	60
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	...	...	...	...	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	...	...	...
- Other	331	360	333	418	517
Equals: Total Net Acquisition of Non-Financial Assets	**3,488**	**4,116**	**4,702**	**4,073**	**2,840**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(3,158)**	**(3,114)**	**(3,666)**	**(3,088)**	**(1,956)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	6,576	6,987	7,647	7,303	5,984
Dividends Accrued[(b)]	330	285	620	1,022	1,001

(a) Capital expenditure comprises purchases of non-financial assets, assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.
(b) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table B.5: Public non-financial corporation sector balance sheet

	June 2023 Budget	June 2023 Revised	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,720	3,298	3,124	3,085	3,166
Receivables	1,260	1,402	1,427	1,350	1,402
Investments, Loans and Placements					
Financial Assets at Fair Value	371	473	473	473	473
Other Financial Assets	597	673	645	606	623
Advances Paid	29	40	26	26	...
Tax Equivalents Receivable	3	86	16	23	16
Deferred Tax Equivalent Assets	50	48	48	48	56
Equity					
Other	156	...	...	...	...
Total Financial Assets	**5,186**	**6,022**	**5,760**	**5,612**	**5,737**
Non-Financial Assets					
Contract Assets	...	9	...	...	...
Inventories	798	786	998	1,107	1,084
Forestry Stock and Other Biological Assets	624	624	624	624	624
Assets Classified as Held for Sale	56	51	52	53	53
Investment Properties	604	605	605	605	605
Property, Plant and Equipment					
Land and Buildings	83,228	77,033	77,217	77,201	78,887
Plant and Equipment	4,289	4,683	5,049	6,063	6,602
Infrastructure Systems	50,010	51,533	55,302	58,760	62,013
Right of Use Assets	4,137	2,444	3,966	3,796	3,596
Intangibles	1,084	1,055	1,174	1,266	1,381
Other	517	535	405	406	310
Total Non-Financial Assets	**145,347**	**139,358**	**145,391**	**149,880**	**155,156**
Total Assets	**150,532**	**145,380**	**151,151**	**155,492**	**160,893**
Liabilities					
Deposits Held	39	26	26	26	26
Payables	2,074	2,417	2,421	2,447	2,523
Contract Liabilities	67	90	83	72	79
Borrowings and Derivatives at Fair Value	2	0	0	0	0
Borrowings at Amortised Cost	33,342	32,027	35,309	37,446	40,012
Advanced Received	297	297	282	267	250
Employee Provisions	1,302	1,207	1,171	1,185	1,198
Superannuation Provision(a)	1,410	1,428	1,490	1,323	1,210
Tax Equivalents Payable	84	55	194	251	287
Deferred Tax Equivalent Provision	2,419	3,072	3,073	3,175	3,295
Other Provisions	607	576	894	1,285	1,255
Other	470	263	255	250	249
Total Liabilities	**42,113**	**41,457**	**45,198**	**47,727**	**50,385**
NET ASSETS	**108,419**	**103,922**	**105,953**	**107,765**	**110,509**
NET WORTH					
Accumulated Funds	54,699	55,826	57,748	58,427	58,845
Reserves	53,720	48,096	48,205	49,338	51,664
TOTAL NET WORTH	**108,419**	**103,922**	**105,953**	**107,765**	**110,509**
OTHER FISCAL AGGREGATES					
Net Debt(b)	**29,962**	**27,865**	**31,348**	**33,549**	**36,026**
Net Financial Liabilities(c)	**36,928**	**35,435**	**39,439**	**42,115**	**44,647**
Net Financial Worth(d)	**(36,928)**	**(35,435)**	**(39,439)**	**(42,115)**	**(44,647)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.6: Public non-financial corporation sector cash flow statement

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Sales of Goods and Services	8,034	7,797	8,848	9,452	9,823
Grant and Subsidies	5,062	5,655	4,690	4,641	4,553
Interest	20	45	35	38	41
Other	689	682	752	772	829
Total Cash Receipts from Operating Activities	**13,805**	**14,179**	**14,325**	**14,903**	**15,246**
Cash Payments from Operating Activities					
Employee Related	(2,621)	(2,646)	(2,596)	(2,688)	(2,809)
Personnel Services	(317)	(293)	(327)	(338)	(347)
Superannuation	(264)	(261)	(280)	(288)	(298)
Payments for Goods and Services	(6,069)	(5,898)	(5,839)	(5,847)	(5,911)
Grants and Subsidies	(82)	(80)	(74)	(63)	(65)
Interest	(1,052)	(958)	(1,117)	(1,160)	(1,237)
Distributions Paid	(174)	(167)	(220)	(339)	(418)
Other	(599)	(278)	(670)	(547)	(576)
Total Cash Payments from Operating Activities	**(11,177)**	**(10,582)**	**(11,122)**	**(11,270)**	**(11,660)**
Net Cash Flows from Operating Activities	**2,628**	**3,596**	**3,202**	**3,633**	**3,585**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	649	430	722	786	590
Purchases of Non-Financial Assets	(6,162)	(6,305)	(7,334)	(7,197)	(5,894)
Net Cash Flows from Investments in Non-Financial Assets	**(5,513)**	**(5,875)**	**(6,612)**	**(6,411)**	**(5,304)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	0	...	15	...	22
Payments	(6)	(20)	(0)	...	...
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(6)**	**(20)**	**14**	**0**	**22**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	221	5	183	171	54
Purchase of Investments	(51)	(45)	...	...	...
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**170**	**(40)**	**183**	**171**	**54**
Net Cash Flows from Investing Activities	**(5,350)**	**(5,935)**	**(6,414)**	**(6,240)**	**(5,228)**
Cash Flows from Financing Activities					
Advances (Net)	2,232	2,140	1,654	1,260	403
Proceeds from Borrowings	1,381	1,461	2,146	2,537	3,066
Repayment of Borrowings	(430)	(639)	(413)	(540)	(646)
Dividends Paid	(286)	(286)	(285)	(620)	(1,022)
Deposits Received (Net)	(8)	(0)	...	0	...
Other (Net)	(46)	(106)	(64)	(68)	(77)
Net Cash Flows from Financing Activities	**2,842**	**2,571**	**3,038**	**2,568**	**1,724**
Net Increase/(Decrease) in Cash Held	**120**	**232**	**(174)**	**(39)**	**81**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	2,628	3,596	3,202	3,633	3,585
Net Cash Flows from Investments in Non-Financial Assets	(5,513)	(5,875)	(6,612)	(6,411)	(5,304)
Dividends Paid	(286)	(286)	(285)	(620)	(1,022)
Cash Surplus/(Deficit)	**(3,172)**	**(2,565)**	**(3,694)**	**(3,398)**	**(2,740)**

Table B.7: Non-financial public sector operating statement

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	39,089	38,289	38,764	41,870	43,420
Grants and Subsidies					
- Commonwealth General Purpose	25,538	26,225	26,622	27,213	28,315
- Commonwealth Specific Purpose Payments	12,476	12,335	12,702	13,380	14,098
- Commonwealth National Partnership Payments	3,502	3,755	5,460	6,390	5,070
- Other Commonwealth Payments	591	500	546	591	630
- Other Grants and Subsidies	736	783	683	571	653
Sale of Goods and Services	14,504	14,380	15,618	16,164	16,893
Interest	305	479	457	393	402
Dividend and Income Tax Equivalents from Other Sectors	152	152	159	169	179
Other Dividends and Distributions	2,684	2,252	3,543	4,139	4,503
Fines, Regulatory Fees and Other	7,561	9,745	8,304	7,663	6,956
Total Revenue from Transactions	**107,138**	**108,895**	**112,858**	**118,543**	**121,119**
Expenses from Transactions					
Employee	45,108	44,380	45,571	47,361	48,548
Superannuation					
- Superannuation Interest Cost	1,520	1,633	1,610	1,569	1,541
- Other Superannuation	4,151	4,165	4,330	4,510	4,620
Depreciation and Amortisation	10,694	10,683	10,989	11,512	12,129
Interest	4,566	5,248	6,568	7,353	8,019
Other Operating Expense	30,391	32,159	30,765	28,530	29,075
Grants, Subsidies and Other Transfers	21,744	21,197	19,005	17,012	15,996
Total Expenses from Transactions	**118,175**	**119,466**	**118,837**	**117,847**	**119,928**
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(11,038)**	**(10,571)**	**(5,979)**	**697**	**1,192**

Table B.7: Non-financial public sector operating statement (cont)

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(74)	(260)	(70)	8	89
Other Net Gains/(Losses)	8	866	852	586	(10)
Share of Earnings/Losses from Equity Investments (excluding Dividends)	209	177	(263)	(201)	(124)
Allowance for Impairment of Receivables	(20)	(19)	(20)	(21)	(21)
Deferred Income Tax from Other Sectors	0	...	0	(0)	0
Other Economic Flows - included in Operating Result	**123**	**765**	**499**	**372**	**(65)**
Operating Result	**(10,915)**	**(9,806)**	**(5,480)**	**1,069**	**1,127**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**6,306**	**480**	**3,118**	**3,586**	**7,051**
Revaluations	6,293	(24)	4,867	2,990	4,172
Actuarial Gain/(Loss) from Superannuation	185	(669)	171	1,194	1,764
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(195)	617	(1,944)	(622)	1,091
Deferred Tax Direct to Equity	(0)	...	(0)	0	(0)
Other	23	557	24	24	23
Items that may be Reclassified Subsequently to Operating Result	**...**	**(0)**	**...**	**...**	**...**
Net Gain/(Loss) on Financial Instruments at Fair Value	0	(0)	...	...	...
Other Economic Flows - Other Comprehensive Income	**6,306**	**480**	**3,118**	**3,586**	**7,051**
Total Change in Net Worth	**(4,609)**	**(9,326)**	**(2,362)**	**4,655**	**8,177**
Key Fiscal Aggregates					
Total Change in Net Worth	**(4,609)**	**(9,326)**	**(2,362)**	**4,655**	**8,177**
Less: Net Other Economic Flows	(6,429)	(1,245)	(3,617)	(3,958)	(6,985)
Equals: Budget Result - Net Operating Balance	**(11,038)**	**(10,571)**	**(5,979)**	**697**	**1,192**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	28,348	28,199	28,115	28,299	26,487
Sales of Non-Financial Assets	(1,235)	(987)	(2,959)	(2,578)	(1,164)
Less: Depreciation	(10,694)	(10,683)	(10,989)	(11,512)	(12,129)
Plus: Change in Inventories	(763)	(611)	(44)	65	(89)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	724	839	840	903	558
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	169	718	1,207	416	56
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	1,829	1,963	2,273	623	232
- Other	(399)	(436)	(547)	(632)	(431)
Equals: Total Net Acquisition of Non-Financial Assets	**17,980**	**19,002**	**17,897**	**15,584**	**13,521**
Equals: Net Lending/(Borrowing) [Fiscal Balance][(b)]	**(29,018)**	**(29,573)**	**(23,876)**	**(14,888)**	**(12,329)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	29,242	29,756	30,162	29,618	27,102

(a) Capital expenditure comprises purchases of non-financial assets, assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.
(b) Net borrowing for the NFPS sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table B.8: Non-financial public sector balance sheet

	June 2023 Budget	June 2023 Revised	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	3,428	4,420	4,352	4,457	4,745
Receivables	11,542	10,459	9,598	9,445	9,551
Investments, Loans and Placements					
Financial Assets at Fair Value	46,537	46,819	53,700	59,045	66,787
Other Financial Assets	2,319	2,388	2,445	2,468	2,249
Advances Paid	935	799	881	945	873
Tax Equivalents Receivable	46	46	48	51	54
Deferred Tax Equivalents	(0)	0	0	0	0
Equity					
Investments in Other Public Sector Entities	7,845	11,968	10,024	9,402	10,493
Investments in Associates	8,086	9,033	8,770	8,570	8,446
Other	162	6	6	6	6
Total Financial Assets	**80,898**	**85,938**	**89,824**	**94,387**	**103,202**
Non-Financial Assets					
Contract Assets	21	28	19	20	20
Inventories	1,205	1,729	1,681	1,800	1,767
Forestry Stock and Other Biological Assets	647	647	647	647	647
Assets Classified as Held for Sale	151	109	110	110	111
Investment Properties	604	605	605	605	605
Property, Plant and Equipment					
Land and Buildings	199,437	198,593	203,016	207,779	212,159
Plant and Equipment	18,694	18,704	19,614	20,738	21,051
Infrastructure Systems	231,522	236,948	252,505	265,268	278,838
Right of Use Assets	10,736	9,048	10,512	10,269	9,700
Intangibles	5,984	6,201	6,422	6,388	6,213
Other	1,465	1,650	1,563	1,522	1,384
Total Non-Financial Assets	**470,466**	**474,260**	**496,694**	**515,146**	**532,495**
Total Assets	**551,364**	**560,197**	**586,518**	**609,533**	**635,698**
Liabilities					
Deposits Held	321	379	379	379	379
Payables	10,162	11,209	11,271	11,445	11,815
Contract Liabilities	819	862	848	837	846
Borrowings and Derivatives at Fair Value	13	10	9	8	8
Borrowings at Amortised Cost	160,470	159,713	187,937	206,920	226,194
Advanced Received	501	490	442	393	354
Employee Provisions	26,007	25,900	26,840	27,806	28,687
Superannuation Provision[(a)]	46,644	46,431	46,681	45,785	44,194
Deferred Tax Equivalent Provision	(0)	(0)	(0)	(0)	(0)
Other Provisions	14,058	15,283	14,998	15,020	15,162
Other	25,165	22,525	22,080	21,251	20,193
Total Liabilities	**284,161**	**282,801**	**311,485**	**329,844**	**347,832**
NET ASSETS	**267,203**	**277,396**	**275,033**	**279,688**	**287,865**

Table B.8: Non-financial public sector balance sheet (cont)

	June 2023 Budget	June 2023 Revised	June 2024	June 2025 Forward Estimates	June 2026
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	109,397	109,936	104,891	107,442	110,570
Reserves	157,806	167,460	170,143	172,246	177,296
TOTAL NET WORTH	**267,203**	**277,396**	**275,033**	**279,688**	**287,865**
OTHER FISCAL AGGREGATES					
Net Debt[b]	**108,088**	**106,165**	**127,389**	**140,786**	**152,282**
Net Financial Liabilities[c]	**211,108**	**208,831**	**231,684**	**244,860**	**255,123**
Net Financial Worth[d]	**(203,263)**	**(196,864)**	**(221,661)**	**(235,458)**	**(244,630)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total liabilities.

Table B.9: Non-financial public sector cash flow statement

	2022-23 Budget	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxation	39,172	40,191	38,840	41,894	43,441
Sales of Goods and Services	14,916	15,270	16,166	16,921	17,664
Grant and Subsidies	43,681	43,841	45,765	47,415	48,093
Interest	235	375	363	306	312
Dividends and Income Tax Equivalents	133	105	152	159	169
Other	9,366	11,383	9,824	9,239	8,264
Total Cash Receipts from Operating Activities	**107,503**	**111,164**	**111,109**	**115,934**	**117,943**
Cash Payments from Operating Activities					
Employee Related	(44,163)	(43,498)	(44,935)	(46,658)	(47,881)
Superannuation	(5,266)	(5,263)	(5,530)	(5,790)	(5,999)
Payments for Goods and Services	(29,849)	(31,653)	(30,645)	(28,444)	(29,103)
Grants and Subsidies	(20,677)	(20,131)	(17,867)	(15,682)	(14,786)
Interest	(4,023)	(4,133)	(4,934)	(5,344)	(6,045)
Other	(3,879)	(4,230)	(3,382)	(3,250)	(3,261)
Total Cash Payments from Operating Activities	**(107,857)**	**(108,908)**	**(107,292)**	**(105,169)**	**(107,075)**
Net Cash Flows from Operating Activities	**(354)**	**2,256**	**3,816**	**10,765**	**10,868**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	1,235	987	3,806	2,657	1,164
Purchases of Non-Financial Assets	(27,943)	(27,440)	(26,356)	(27,953)	(26,301)
Net Cash Flows from Investments in Non-Financial Assets	**(26,709)**	**(26,452)**	**(22,550)**	**(25,296)**	**(25,138)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	268	275	85	86	117
Payments	(406)	(424)	(654)	(143)	(42)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(138)**	**(148)**	**(569)**	**(57)**	**76**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	4,016	4,670	4,502	4,354	2,351
Purchase of Investments	(908)	(1,822)	(7,590)	(5,899)	(5,460)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**3,108**	**2,848**	**(3,088)**	**(1,545)**	**(3,109)**
Net Cash Flows from Investing Activities	**(23,739)**	**(23,753)**	**(26,207)**	**(26,898)**	**(28,171)**
Cash Flows from Financing Activities					
Advances (Net)	(94)	(106)	(64)	(24)	7
Proceeds from Borrowings	27,216	25,115	25,906	18,049	20,037
Repayment of Borrowings	(5,253)	(5,382)	(3,520)	(1,786)	(2,452)
Deposits Received (Net)	(8)	(0)	...	0	...
Other (Net)	(1)	0	0	0	0
Net Cash Flows from Financing Activities	**21,860**	**19,627**	**22,322**	**16,239**	**17,592**
Net Increase/(Decrease) in Cash Held	**(2,233)**	**(1,870)**	**(68)**	**105**	**288**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	(354)	2,256	3,816	10,765	10,868
Net Cash Flows from Investments in Non-Financial Assets	(26,709)	(26,452)	(22,550)	(25,296)	(25,138)
Cash Surplus/(Deficit)	**(27,063)**	**(24,196)**	**(18,734)**	**(14,531)**	**(14,270)**

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C. VARIATIONS ON REVISED 2022-23 BUDGET

C.1 Revised 2022-23 Budget

The revised budget result for 2022-23 is a deficit of $11.4 billion, an increase of $102 million compared to a forecast deficit of $11.3 billion at the time of the 2022-23 Budget.

Total revenue in 2022-23 is estimated to be $105.7 billion, which is $2.1 billion higher than the Budget estimate of $103.6 billion.

Total expenses in 2022-23 are estimated to be $117.1 billion, which is $2.2 billion higher than the Budget estimate of $114.9 billion.

C.2 Operating statement

Total revenue in 2022-23 is estimated to be $2.1 billion higher than forecast in the 2022-23 Budget, primarily reflecting stronger economic activity in certain sectors that has led to upward revisions in mining royalties, GST and sale of goods and services.

Key increases to estimated revenue include:

- mining royalties have been revised up by $2.1 billion in 2022-23, reflecting a surge in global thermal coal prices following Russia's invasion of the Ukraine
- GST revenues have been revised up by $708 million in 2022-23
- sale of goods and services have been revised up by $400 million in 2022-23
- interest revenues have been revised up by $154 million in 2022-23, largely due to higher interest rates and higher forecast cash balances.

These increases are partially offset by:

- lower tax and duties by $823 million from lower stamp duties
- lower other dividends and distributions by $454 million primarily due to a decline in investment fund values due to tightening monetary policy to combat rising inflation and lower distribution income from the TCorp managed funds due to the volatility in equity markets and rising interest rates.

Total expenses in 2022-23 are estimated to be $2.2 billion higher than the budget estimate. This is primarily due to:

- an increase in other operating expenses of $2.1 billion across the sector primarily relating to Transport for NSW, Department of Regional NSW and Department of Education
- an increase in interest expenses of $834 million due to higher interest rates on borrowings and provision liabilities
- an increase in superannuation interest expense of $109 million due to higher interest rates

These increases have been partially offset by lower employee expenses of $730 million and lower grants and subsidies expenses of $112 million across the government sector.

C.3 Balance sheet

Net debt is estimated to be $78.4 billion at June 2023, an increase of $233 million compared to the Budget estimate. This is primarily due to the $557 million increase in borrowings partially offset by the $367 million increase in cash and cash equivalents.

The State's net worth is estimated to increase to $277.4 billion at June 2023. This represents an increase of $10.2 billion since the Budget and primarily reflects higher recognition of non-financial assets of $9.8 billion.

C.4 Cash flow statement

The State's forecast cash deficit is $21.7 billion, which is a decrease of $2.2 billion since the time of the Budget. The decrease is mainly driven by higher mining royalties of $2.1 billion due to a surge in global thermal coal prices following Russia's invasion of the Ukraine.

Table C.1: General government sector operating statement

	2021-22 Actual $m	2022-23 Budget $m	2022-23 Revised $m	Variance $m	Variance %
Revenue from Transactions					
Taxation	39,007	39,637	38,815	(823)	(2.1)
Grants and Subsidies					
- Commonwealth General Purpose	23,298	25,538	26,225	687	2.7
- Commonwealth Specific Purpose Payments	11,100	12,476	12,335	(141)	(1.1)
- Commonwealth National Partnership Payments	9,220	3,502	3,755	253	7.2
- Other Commonwealth Payments	475	586	495	(91)	(15.6)
- Other Grants and Subsidies	795	826	847	22	2.6
Sale of Goods and Services	9,451	10,191	10,591	400	3.9
Interest	262	372	526	154	41.4
Dividend and Income Tax Equivalents from Other Sectors	454	726	684	(42)	(5.8)
Other Dividends and Distributions	2,442	2,684	2,229	(454)	(16.9)
Fines, Regulatory Fees and Other	6,982	7,079	9,234	2,155	30.4
Total Revenue from Transactions	**103,486**	**103,617**	**105,736**	**2,119**	**2.0**
Expenses from Transactions					
Employee	40,207	42,640	41,910	(730)	(1.7)
Superannuation					
- Superannuation Interest Cost	858	1,473	1,582	109	7.4
- Other Superannuation	3,736	3,923	3,940	17	0.4
Depreciation and Amortisation	7,101	7,907	7,883	(24)	(0.3)
Interest	2,527	3,566	4,400	834	23.4
Other Operating Expense	29,697	28,368	30,508	2,128	7.5
Grants, Subsidies and Other Transfers	34,689	27,000	26,876	(112)	(0.4)
Total Expenses from Transactions	**118,815**	**114,878**	**117,099**	**2,221**	**1.9**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(15,329)**	**(11,260)**	**(11,363)**	**(102)**	**0.9**

Table C.1: General government sector operating statement (cont.)

	2021-22 Actual	2022-23 Budget	Revised	Variance	Variance
	$m	$m	$m	$m	%
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	2,862	(74)	(259)	(186)	251.1
Other Net Gains/(Losses)	932	102	981	878	857.1
Share of Earnings/Losses from Equity Investments (excluding Dividends)	273	209	177	(32)	(15.4)
Dividends from Asset Sale Proceeds	85	35	35	(0)	0.2
Allowance for Impairment of Receivables	(81)	(16)	(18)	(2)	9.8
Deferred Income Tax from Other Sectors	191	3	(33)	(36)	(1,235.9)
Other	...	...	...	...	...
Other Economic Flows - included in Operating Result	**4,261**	**260**	**882**	**622**	**239.8**
Operating Result	**(11,068)**	**(11,001)**	**(10,481)**	**520**	**(4.7)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**63,769**	**6,392**	**1,155**	**(5,237)**	**(81.9)**
Revaluations	19,782	4,190	4,593	403	9.6
Actuarial Gain/(Loss) from Superannuation	15,108	165	(928)	(1,093)	(663.5)
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	28,705	1,972	(3,147)	(5,120)	(259.6)
Deferred Tax direct to Equity	492	46	107	61	131.7
Other	(317)	19	530	511	2,689.2
Items that may be Reclassified Subsequently to Operating Result	**959**	**...**	**(0)**	**(0)**	**...**
Net Gain/(Loss) on Financial Instruments at Fair Value	0	...	(0)	(0)	...
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	959	...	...	...	...
Other Economic Flows - Other Comprehensive Income	**64,729**	**6,392**	**1,155**	**(5,237)**	**(81.9)**
Comprehensive Result - Total Change in Net Worth	**53,661**	**(4,609)**	**(9,326)**	**(4,717)**	**102.4**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**53,661**	**(4,609)**	**(9,326)**	**(4,717)**	**102.4**
Less: Net Other Economic Flows	(68,990)	(6,652)	(2,037)	4,615	(69.4)
Equals: Budget Result - Net Operating Balance	**(15,329)**	**(11,260)**	**(11,363)**	**(102)**	**0.9**
Less: Net Acquisition of Non-Financial Assets					
Purchases of Non-Financials Assets	18,853	21,862	21,344	(518)	(2.4)
Sales of Non-Financial Assets	(476)	(586)	(558)	28	(4.8)
Less: Depreciation	(7,101)	(7,907)	(7,883)	24	(0.3)
Plus: Change in Inventories	(819)	(800)	(631)	168	(21.0)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases	1,499	635	705	71	11.1
- Assets Acquired Using Service Concession Arrangements (Financial Liability model)	248	169	718	549	323.9
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	517	1,829	1,963	134	7.3
- Other	(1,098)	(724)	(790)	(66)	9.2
Equals: Total Net Acquisition of Non-Financial Assets	**11,624**	**14,479**	**14,869**	**389**	**2.7**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(26,953)**	**(25,740)**	**(26,231)**	**(491)**	**1.9**
OTHER FISCAL AGGREGATES					
Capital Expenditure [(a)]	**20,600**	**22,666**	**22,768**	**101**	**0.4**

(a) Capital expenditure comprises purchases of non-financial assets, plus assets acquired using leases and assets acquired using service concession arrangements under the financial liability model.

Table C.2: General government sector balance sheet

	2021-22 Actual $m	2022-23 Budget $m	Revised $m	Variance $m	Variance %
Assets					
Financial Assets					
Cash and Cash Equivalents	3,216	704	1,070	367	52.1
Receivables	12,093	11,373	10,229	(1,144)	(10.1)
Investments, Loans and Placements					
Financial Assets at Fair Value	44,572	46,165	46,346	180	0.4
Other Financial Assets	3,598	1,727	2,667	940	54.4
Advances Paid	1,185	2,160	1,056	(1,104)	(51.1)
Tax Equivalents Receivable	29	129	100	(29)	(22.5)
Deferred Tax Equivalent	2,985	2,419	3,072	653	27.0
Equity					
Investments in Other Public Sector Entities	117,025	116,374	115,858	(516)	(0.4)
Investments in Associates	8,805	8,086	9,033	948	11.7
Other	6	6	6	0	0.0
Total Financial Assets	**193,513**	**189,143**	**189,438**	**295**	**0.2**
Non- Financial Assets					
Contract Assets	53	21	18	(3)	(12.5)
Inventories	1,307	407	943	536	131.6
Forestry Stock and Other Biological Assets	23	23	23	0	0.6
Assets Classified as Held for Sale	62	95	58	(38)	(39.4)
Property, Plant and Equipment					
Land and Buildings	116,737	116,209	121,560	5,351	4.6
Plant and Equipment	13,530	14,405	13,971	(434)	(3.0)
Infrastructure Systems	171,990	181,513	185,401	3,889	2.1
Right of Use Assets	7,174	6,771	6,836	66	1.0
Intangibles	4,774	4,900	5,145	245	5.0
Other	1,386	953	1,122	169	17.7
Total Non- Financial Assets	**317,036**	**325,296**	**335,078**	**9,782**	**3.0**
Total Assets	**510,549**	**514,439**	**524,516**	**10,077**	**2.0**
Liabilities					
Deposits Held	353	282	353	70	24.9
Payables	9,700	8,847	9,688	842	9.5
Contract Liabilities	873	759	774	15	2.0
Borrowings and Derivatives at Fair Value	14	11	9	(2)	(16.8)
Borrowings at Amortised Cost	107,441	128,131	128,690	559	0.4
Advances Received	545	501	490	(11)	(2.3)
Employee Provisions	23,603	24,715	24,704	(11)	(0.0)
Superannuation Provision [(a)]	43,556	45,234	45,003	(230)	(0.5)
Tax Equivalents Payable	57	3	86	84	3,005.7
Deferred Tax Equivalent Provision	50	50	48	(2)	(3.2)
Other Provisions	15,355	13,786	14,995	1,209	8.8
Other	22,282	24,917	22,280	(2,638)	(10.6)
Total Liabilities	**223,828**	**247,236**	**247,120**	**(116)**	**(0.0)**
NET ASSETS	**286,722**	**267,203**	**277,396**	**10,192**	**3.8**

Table C.2: General government sector balance sheet (cont.)

	2021-22 Actual	2022-23 Budget	Revised	Variance	Variance
	$m	$m	$m	$m	%
NET WORTH					
Accumulated Funds	76,924	66,265	65,572	(694)	(1.0)
Reserves	209,798	200,938	211,824	10,886	5.4
TOTAL NET WORTH	**286,722**	**267,203**	**277,396**	**10,192**	**3.8**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**55,781**	**78,169**	**78,403**	**233**	**0.3**
Net Financial Liabilities [(c)]	**147,340**	**174,467**	**173,541**	**(926)**	**(0.5)**
Net Financial Worth [(d)]	**(30,315)**	**(58,093)**	**(57,683)**	**410**	**(0.7)**

(a) The superannuation provision is reported net of the fair value of fund assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equal total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table C.3: General government sector cash flow statement

	2021-22 Actual	2022-23 Budget	Revised	Variance	Variance
	$m	$m	$m	$m	%
Cash Receipts from Operating Activities					
Taxation	38,275	39,706	40,725	1,020	2.6
Sales of Goods and Services	9,696	10,576	11,387	811	7.7
Grant and Subsidies Received	45,082	43,772	43,906	134	0.3
Interest	195	295	428	133	45.2
Dividends and Income Tax Equivalents from other sectors	536	558	512	(46)	(8.2)
Other	10,957	8,699	10,767	2,068	23.8
Total Cash Receipts from Operating Activities	**104,742**	**103,605**	**107,725**	**4,120**	**4.0**
Cash Payments from Operating Activities					
Employee Related	(38,405)	(41,707)	(41,018)	690	(1.7)
Superannuation	(3,521)	(5,002)	(5,003)	(1)	0.0
Payments for Goods and Services	(26,614)	(27,348)	(29,762)	(2,414)	8.8
Grants and Subsidies Paid	(33,039)	(25,921)	(25,810)	110	(0.4)
Interest	(2,543)	(3,051)	(3,309)	(258)	8.5
Other	(5,554)	(3,276)	(4,002)	(726)	22.2
Total Cash Payments from Operating Activities	**(109,677)**	**(106,304)**	**(108,904)**	**(2,599)**	**2.4**
Net Cash Flows from Operating Activities	**(4,935)**	**(2,699)**	**(1,179)**	**1,521**	**(56.3)**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sales of Non-Financial Assets	493	586	558	(28)	(4.8)
Purchases of Non-Financial Assets	(19,881)	(21,843)	(21,090)	753	(3.4)
Net Cash Flows from Investments in Non-Financial Assets	**(19,387)**	**(21,257)**	**(20,533)**	**724**	**(3.4)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	10,794	338	345	7	2.2
Payments	(2,436)	(2,663)	(2,576)	87	(3.3)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**8,358**	**(2,325)**	**(2,230)**	**95**	**(4.1)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	3,158	3,795	4,669	875	23.1
Purchase of Investments	(3,807)	(857)	(1,777)	(920)	107.4
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(650)**	**2,938**	**2,892**	**(45)**	**(1.5)**
Net Cash Flows from Investing Activities	**(11,679)**	**(20,644)**	**(19,870)**	**774**	**(3.7)**
Cash Flows from Financing Activities					
Advances (net)	(109)	(98)	(110)	(12)	12.7
Proceeds from Borrowings	27,011	25,835	23,654	(2,182)	(8.4)
Repayment of Borrowings	(10,921)	(4,824)	(4,746)	77	(1.6)
Deposits Received (Net)	70	...	(0)	(0)	...
Other (Net)	(0)	45	107	62	136.5
Net Cash Flows from Financing Activities	**16,051**	**20,959**	**18,904**	**(2,056)**	**(9.8)**
Net Increase/(Decrease) in Cash Held	**(563)**	**(2,384)**	**(2,146)**	**239**	**(10.0)**
Derivation of Cash Result					
Net Cash Flows From Operating Activities	(4,935)	(2,699)	(1,179)	1,521	(56.3)
Net Cash Flows from Investments in Non-Financial Assets	(19,387)	(21,257)	(20,533)	724	(3.4)
Cash Surplus/(Deficit)	**(24,322)**	**(23,957)**	**(21,712)**	**2,245**	**(9.4)**

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D. ECONOMIC SCENARIO ANALYSIS

The 2022-23 Half-Yearly Review relies on forecasts and judgements about the future of the economy, based on information available at the time of preparation. These forecasts are subject to inherent uncertainties, such as changes in behaviours, evolving relationships between variables and unexpected events or shocks.

This Appendix explores the impact of variations in key economic parameters on other areas of the economy, the overall macroeconomic outlook and general government tax revenues. This is intended to provide greater insight into the interdependencies within our complex economy, that a partial sensitivity analysis does not capture.

These scenarios were selected to cover plausible economic events that could affect New South Wales over the forecast horizon. The modelling takes account of linkages between key international, Australian and New South Wales economic aggregates.

The summary of these results should be interpreted with care because economic events tend to be unique in nature. The scenarios presented in this Appendix are unlikely to completely reflect any future shock to the State economy. Any departures from the specified scenario would result in different impacts on the economic and revenue outlook.

D.1 Impact of variations in key forecast assumptions

This scenario analysis is intended to complement the central economic outlook as presented in Chapter 2 – *Economic Outlook* by quantifying some of the key risks to the outlook. The economic and revenue impact of these scenarios were modelled using the Centre of Policy Studies (CoPS) Victoria University Regional Model Tax (VURMTAX)[13] and presented as a deviation from baseline forecasts.

Scenario 1: A lower than expected household savings rate

Households across Australia and New South Wales substantially increased their aggregate savings throughout the acute phase of the pandemic. Measures designed to reduce mobility and slow the spread of COVID-19 temporarily restricted the consumption of some goods and services. Meanwhile, the response of governments and other authorities to the pandemic meant that the labour market and household incomes (including transfer payments) held up surprisingly well. Consequently, the national household savings rate rose sharply to 15.2 per cent in 2020-21 (from 5.6 per cent in 2018-19 before the pandemic), with a similar increase also seen for New South Wales.

Since the easing of COVID-related restrictions in late 2021, the national household savings rate has declined significantly, falling to 6.9 per cent in the September quarter 2022. This partly reflects stronger growth in household consumption relative to pre-pandemic growth and the gradual withdrawal of temporary fiscal support.

In the baseline forecasts, both the national and NSW net household savings rates are expected to decline over the forecast horizon to 2025-26. The NSW household savings rate declines from 12.6 per cent in 2021-22 to 4.4 per cent in 2025-26. However, there is significant uncertainty as to how low the household savings rate will fall over the forecast horizon, particularly given the significant savings accumulated during the pandemic.

[13] VURMTAX is a dynamic computable general equilibrium model of Australia's six states and two territories, with each region modelled as an economy in its own right. See Adams, Philip, Dixon, Janine and Horridge, Mark (2015), 'The Victoria University Regional Model (VURM): Technical Documentation, Version 1.0', CoPS/IMPACT Working Paper Number G-254 for more detail on the model.

There have been historical episodes where the national and NSW household savings rates have declined to levels far lower than assumed in these baseline forecasts. For example, in the early 2000s, the national household savings rate reached a low of -1.4 per cent in 2002-03. Given the current levels of uncertainty, it is plausible that the household savings rate could fall to levels significantly lower than assumed in the baseline forecasts.

This scenario assumes that households are more willing to consume (rather than save) income than in the baseline. This shock to household savings is implemented via a change in the national average propensity to consume, which represents the percentage of disposable income that is spent rather than saved. Since disposable income can only be either spent or saved, an increase in the average propensity to consume would coincide with a similar decline in the average propensity to save.

Specifically, the national average propensity to consume from income is assumed to be respectively 2.0 and 1.9 percentage points higher relative to the baseline in 2023-24 and 2024-25, before returning to the baseline forecast level in 2025-26. Consequently, the average household savings rate across the forecast horizon is lower than in the baseline forecasts.

Macroeconomic impact over the Budget and forward estimates

In this scenario, there is an immediate increase in household consumption of more than 2 per cent in the shock years of 2023-24 and 2024-25, reflecting households' higher average propensity to consume.

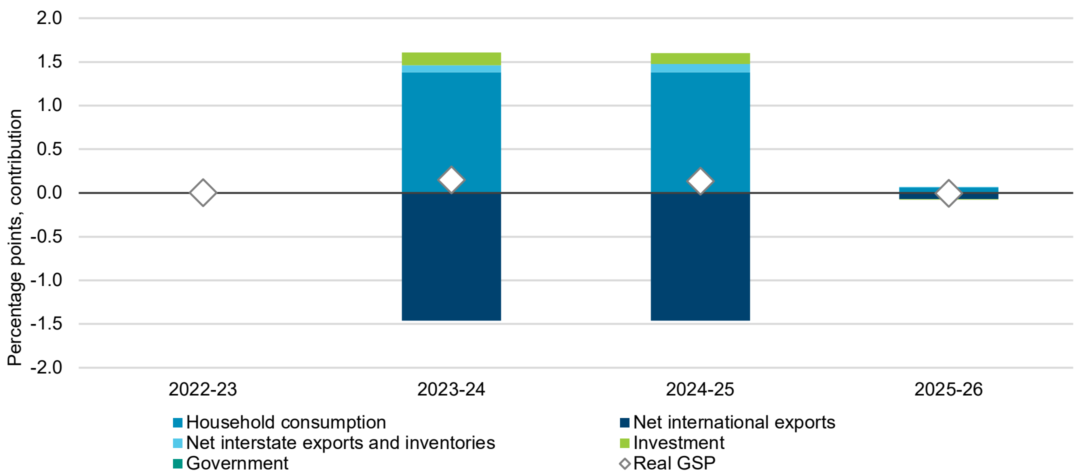
Private investment also increases. As household consumption rises, there is increased demand and spending on all goods, including housing. Given housing supply cannot increase significantly in the short-run, this rise in demand causes dwelling rents to increase relative to the cost of constructing a dwelling. This improves the rate of return on housing, driving dwelling investment up relative to the baseline.

The strong economic performance puts upward pressure on the exchange rate. This makes exports more expensive for overseas consumers. The consequent fall in international exports partially offsets the improvement in domestic economic activity (see Chart D.1). Export-intensive industries, like mining, are particularly affected, and experience contractions in investment activity.

This fall in exports, combined with a rise in imports (reflecting higher consumption and the stronger Australian dollar) offsets much of the positive effect on aggregate economic activity. Consequently, overall, gross state product (GSP) is only 0.1 per cent higher in both 2023-24 and 2024-25, than under the baseline (see Table D.1).

The rise in economic activity, especially household consumption, has a positive impact on the labour market, with employment above the baseline over the shock years. Inflation also rises as household consumption drives up demand. With the unemployment rate falling and inflation higher, there is a positive flow on effect on nominal wages, lasting beyond the temporary shock.

Chart D.1: Impact on NSW real GSP and its components



Source: CoPS, Victoria University and NSW Treasury

Table D.1: The effect of a lower than expected household savings rate on macroeconomic parameters[(a)]

Financial year estimate	2022-23 Deviation	2023-24 Deviation	2024-25 Deviation	2025-26 Deviation
State final demand	0.0	1.6	1.6	0.1
Gross state product	0.0	0.1	0.1	0.0
Employment	0.0	0.3	0.3	(0.1)
Unemployment rate	0.0	(0.5)	(0.4)	0.1
Consumer price index	0.0	2.3	2.2	0.2
Nominal wages	0.0	1.4	1.5	0.4
Working age population	0.0	0.0	0.0	0.0

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline. Unemployment rate is in percentage points deviation.

Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

Under this scenario, overall tax revenues would be significantly higher than baseline forecasts over the shock years of 2023-24 and 2024-25 (see Table D.2). Higher national household consumption increases the national GST pool, increasing NSW GST revenue. Higher employment and wages over the forecast horizon also lead to higher payroll tax collections in these years. Transfer duty lifts significantly as dwelling prices and transactions increase in-line with elevated dwelling investment activity. Coal royalties contract slightly, due to the real appreciation of the exchange rate and the fall in export volumes.

Table D.2: The effect of a lower than expected household savings rate on revenue parameters[(a)]

Financial year estimate	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Payroll tax	0	143	158	32
Transfer duty	0	539	558	55
Land tax	0	256	251	17
Coal royalties	0	(72)	(65)	(5)
Other tax revenues	0	170	174	9
GST revenue	0	597	631	80
Total revenue	0	1633	1707	188

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Scenario 2: A more severe slowing in global growth than expected

There are several risk factors that could see global economic growth fall below baseline forecasts. This includes further tightening of monetary policy by central banks around the world in response to higher-than-expected inflation. Other risks include the emergence of new COVID-19 strains, and the possibility of a downturn in China caused by issues in its property sector.

A series of negative shocks to global supply chains and the supply of key commodities have driven up global inflation. While some of these shocks have eased, they may re-emerge in various forms, particularly if geopolitical tensions, including those emanating from Russia's invasion of Ukraine, further escalate. With global inflation already elevated, albeit easing, these shocks could exacerbate inflation pressures further and/or lead to elevated inflation persisting longer than anticipated.

This scenario assumes a more severe slowing in global growth than expected, whereby the demand for exports is assumed to be 2.0 per cent lower for all goods. In this scenario, Australian commodity export prices are assumed to decline by 20 per cent relative to baseline, with the exception of thermal coal and natural gas prices, which are held unchanged reflecting the current state of energy markets.

Macroeconomic impact over the Budget and forward estimates

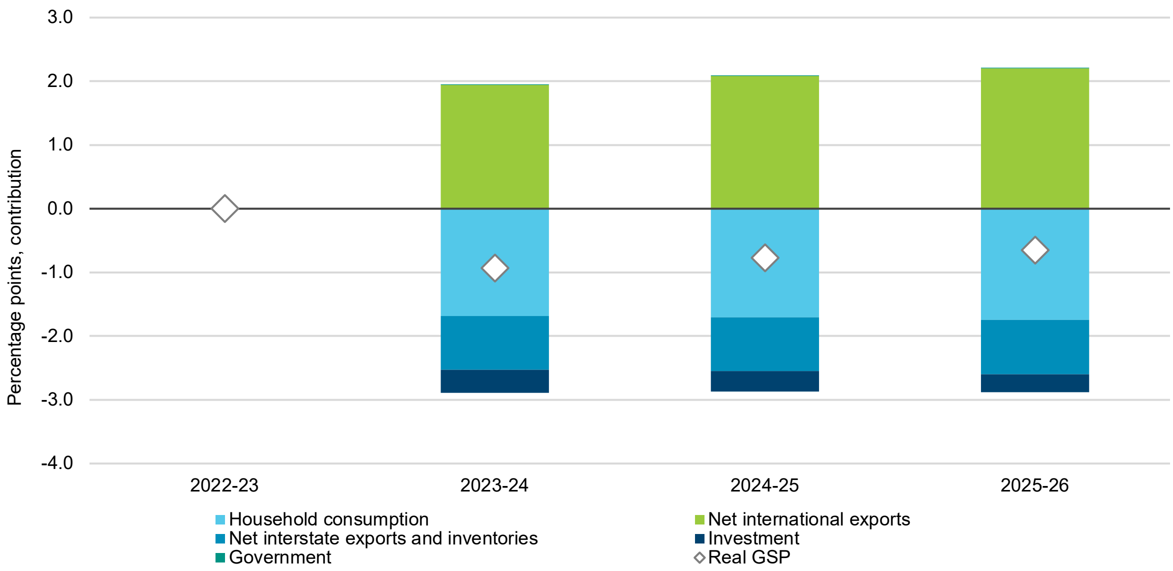
In this scenario, the global downturn leads to a reduction in NSW GSP of around 0.9 per cent relative to baseline in 2023-24, the first year of the modelled downturn (see Table D.3).

The fall in commodity export prices leads to a deterioration in the terms of trade. In turn, this leads to a deterioration in income, and household consumption falls by a material amount. As businesses adjust to the slowdown in economic activity, investment activity falls below baseline. As a result, GSP falls below baseline over the forecast horizon.

The decline in GSP from private consumption and investment is partially moderated by improvements in the external sector. Exports increase over the forecast horizon. The reason for the increase in exports is that the State’s key exports (such as coal, education and tourism) rise due to the improved international competitiveness of these sectors following the real depreciation of the exchange rate. Imports also decrease substantially relative to baseline due to weaker domestic demand. This results in net international exports increasing relative to the baseline in 2023-24 and then increasing slightly further over time (see Chart D.2). Consequently, the negative impact on NSW GSP moderates over time even though the global downturn lasts throughout the forecast period.

The decline in demand puts downward pressure on inflation and causes employment to decline below baseline, and the unemployment rate to rise above baseline. Together, these effects cause nominal wages to fall below baseline.

Chart D.2: Impact on NSW real GSP and its components



Source: CoPS, Victoria University and NSW Treasury

Table D.3: The effect of a more severe slowing in global growth than expected on macroeconomic parameters(a)

Financial year estimate	2022-23 Deviation	2023-24 Deviation	2024-25 Deviation	2025-26 Deviation
State final demand	0.0	(2.1)	(2.1)	(2.1)
Gross state product	0.0	(0.9)	(0.8)	(0.7)
Employment	0.0	(2.0)	(1.7)	(1.4)
Unemployment rate	0.0	2.1	1.7	1.4
Consumer price index	0.0	(1.5)	(1.5)	(1.5)
Nominal wages	0.0	(1.2)	(1.8)	(2.3)
Working age population	0.0	0.0	0.0	0.0

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline. Unemployment rate is in percentage points deviation.

Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

Under this scenario, overall tax revenues would be $1.6 billion below baseline in 2025-26. Lower national household consumption decreases the national GST pool, decreasing NSW GST revenue. The combination of lower employment and nominal wages over the forecast horizon lead to a fall in payroll tax collections. Transfer duty falls significantly as dwelling prices and transactions decrease due to dwelling investment activity falling below baseline. Coal royalties rise due to NSW's improved international competitiveness, resulting from the depreciation of the exchange rate, and an unchanged coal price relative to baseline.

Table D.4: The effect of a more severe slowing in global growth than expected on revenue parameters(a)

Financial year estimate	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Payroll tax	0	(306)	(357)	(403)
Transfer duty	0	(529)	(550)	(589)
Land tax	0	(314)	(285)	(248)
Coal royalties	0	277	271	288
Other tax revenue	0	(180)	(193)	(206)
GST revenue	0	(343)	(383)	(426)
Total revenue	0	(1395)	(1496)	(1583)

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

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E. FISCAL RISKS

The preparation of the 2022-23 Half-Yearly Review relies on a range of forecasts and assumptions that are inherently uncertain. In addition, there are a variety of fiscal risks that cannot be determined with sufficient certainty to be incorporated into the budget forward estimates at this time. The purpose of this Appendix is to identify the key risks to the budget aggregates and to provide a sensitivity analysis of the budget result to changes in key economic parameters.

The Half-Yearly Review estimates are based on Government policy decisions, including the quantum and duration of funding the Government has determined for programs and services. Any potential budget pressures associated with future extensions or changes to Government funding decisions are policy matters and are not considered in this Appendix.

Similarly, this Appendix does not consider policy risks associated with the negotiation of future agreements, or the implementation of current agreements, with the Australian Government.

The forward estimates take account of Government policy measures that have been announced, but not yet legislated. Any amendments to the associated legislation, or a failure of the legislation to secure parliamentary approval, could have budget implications.

E.1 Operating statement risks and sensitivities

State taxation revenue

The state of the economy affects the level of tax collected. Changes in a range of macroeconomic variables – from property sale volumes and prices to employment levels and wage growth – can lead to major changes in the level of tax collected, increasing or decreasing forecast government revenues.

The government's own forecast assumptions for key macroeconomic variables across the Budget and forward estimates (as set out in Table E.1 below) are used to inform the revenue forecasts.

The forecasts prepared for the Half-Yearly Review are based on economic and financial data available to Treasury as at 24 January 2023 and estimates of Government policy decisions and parameter and technical adjustments up to 3 February 2023. These forecasts are predictions about the future and are accordingly subject to uncertainty. Table E.1 summarises the weightings given to key macroeconomic variables in determining the revenue forecasts.

Table E.1: Forecasting revenue – What weighting is given to different variables

	Forecast weightings						
	GST	Payroll tax	Transfer duty	Mineral royalties	Land tax	Gambling taxes	Motor vehicle taxes
Employment	Medium	High	N/A	N/A	N/A	Medium	High
Wages	Medium	High	N/A	N/A	N/A	Medium	Medium
Consumption	High	N/A	N/A	N/A	N/A	High	Medium
Dwelling investment	High	N/A	Medium	N/A	N/A	N/A	N/A
Dwelling prices	Low	N/A	High	N/A	High	N/A	Medium
Population growth	High	Low	Medium	N/A	Low	Low	Low
AUD exchange rate	N/A	N/A	N/A	High	N/A	N/A	N/A
Energy demand	N/A	N/A	N/A	Low	N/A	N/A	N/A

Notes:
(a) High, medium and low provide only a broad indication of the model weighting for illustration.
(b) N/A here indicates only that the factor is not directly included as a variable in the relevant forecasting model, and does not signify that there is no relationship between the respective variable and tax head.

The main driver of payroll tax is total employee compensation, which in turn is a function of both wage and employment levels.

Payroll tax revenues are forecast by applying growth rates, anticipated in NSW Treasury's forecasts for NSW Average Compensation of Employees and NSW Employment, to underlying payroll tax levels. Table E.2 denotes the sensitivity of forecast payroll tax to a one percentage point increase in each of these variables respectively.

Table E.2: Revenue sensitivities – Payroll tax

Factors affecting payroll tax	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	
Average compensation of employees	143	149	156	Single percentage point increase in factor
Employment	148	154	161	

Transfer duty is forecast to contribute about 8.7 per cent of total general government revenue in 2022-23 and this is expected to increase to 9.3 per cent by 2025-26. The actual result will heavily rely on the performance of the housing market, including both the volume of residential property sales and the average transacted price. Mortgage interest rates offered by banks and non-bank financial institutions have increased by more than expected since the 2022-23 Budget, contributing to weaker property market activity. A stronger-than-expected tightening of monetary policy could result in larger falls in transfer duty revenue than expected in the 2022-23 Half-Yearly Review.

Table E.3 denotes the sensitivity of forecast transfer duty to a one percentage point increase in residential transacted prices and volumes respectively.

Table E.3: Revenue sensitivities – Transfer duty

Factors affecting transfer duty	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	
Residential prices (average transacted price)	68	98	111	Single percentage point increase in factor
Residential transaction volumes	57	86	107	

Other state taxes are typically less volatile than those mentioned above, and they generally correlate to changes in the broader NSW economy. For example, revenue from motor vehicle taxes, gambling taxes and other stamp duties typically rise and fall with consumption patterns across the State. As witnessed during the pandemic, consumption patterns can change suddenly and can be influenced by a range of factors, from employment to house price growth.

GST and other Australian Government payments

GST is collected by the Australian Government and then apportioned to the States. Three main factors determine how much GST New South Wales receives over coming years:

- how much is collected in total across the nation (called the pool size)
- New South Wales' population as a proportion of the national population (called the population share)
- what portion of the pool is allocated to New South Wales (called the relativity).

None of these components are fixed.

Table E.4 illustrates the sensitivity of forecast GST distribution to New South Wales to a one percentage point increase in taxable consumption, dwelling investment (the main drivers of the GST pool size), and NSW population share.

Table E.4: Revenue sensitivities – GST

Factors affecting GST	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	
Taxable consumption	138	142	145	Single percentage point increase in factor
Dwelling investment	46	48	48	
Population share	483	737	697	

The Commonwealth Grants Commission (CGC) uses a formula to determine each state's relativity (measure of relative fiscal capacity), which then drives how much GST each state receives. Under this formula, the following key events can lead to a changed share to New South Wales:

- changes to New South Wales' own-source revenue, relative to other states
- a change in the CGC's assessment of how much expenditure New South Wales needs, compared to other states
- a change to National Agreement and National Partnership payments relative to other states.

The CGC assesses states' GST needs based on the average spending and revenue policies of all states. The averages vary over time due to underlying changes in state policies as well as updated or new data. As such, projections of NSW's relativities are subject to a high degree of uncertainty. The forecasts in this Half-Yearly Review take into account expected National Agreement and National Partnership Payments and anticipated infrastructure project delivery. Actual results can vary from forecasts if there are new, renegotiated or ceased programs and infrastructure projects over the forward estimates period.

Royalties

New South Wales' mining royalties can be volatile and are expected to contribute 5.7 per cent of general government revenues in 2022-23. A large share of royalties revenue is generated from thermal and coking coal exports, with the amount of royalties collected sensitive to changes in:

- coal production volumes – an increase in coal volumes increases the quantity of coal that royalties are charged on, hence increasing royalties revenue
- coal prices – an increase in US dollar coal prices increases the value of coal sold to domestic and international customers, also increasing royalties revenue
- exchange rates – an appreciation of the Australian-US exchange rate reduces the Australian dollar value of coal exports because coal exports are typically transacted in US dollars.

Global coal prices have remained high since the 2022-23 Budget, after rising sharply in early 2022 following Russia's invasion of Ukraine. This created significant and long-lasting energy supply shortages and uncertainty for global commodity markets. The outlook for thermal coal prices is subject to greater uncertainty than usual and international market conditions continue to be volatile.

Table E.5 denotes the sensitivity of forecast royalties revenue to a one percentage point increase in coal prices, coal production volumes and the Australian-US exchange rate.

Table E.5: Revenue sensitivities – Coal royalties

Factors affecting royalties revenue	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	
Coal prices	43.9	32.2	26.0	Single percentage point increase in factor
Coal volumes	46.6	34.1	26.2	
Exchange rate ($A vs $US)	(46.2)	(34.4)	(27.3)	

General operating risks

Other operating statement risks that could impact the budget result include:

- higher than budgeted maintenance, depreciation and operating costs associated with the Government's infrastructure program (see below for infrastructure related risks)
- unforeseen legal expenses or costs associated with litigation, including native title claims
- expenses relating to continuation of programs where funding may cease across the forward estimates and require further government consideration
- potential impacts if new strains and further outbreaks of COVID-19 emerge, which could lead to increases in Government expenditure across the sector
- risk around projections for transport farebox revenue, which are based on estimates of patronage that are sensitive to changing work patterns and future outbreaks of COVID-19

- changes to parameters that influence the liabilities and associated expenditure for superannuation, long service leave, other employee provisions and insurance provisions (see below for further balance sheet risks and sensitivities)
- possible additional risks and pressures present within agency budgets, for example inflation and increased energy costs
- changes in factors such as new enterprise bargaining agreements, public sector wages policy and the workforce size on the State's employee expenses.

Investment revenue and borrowing costs

Financial markets remain volatile as uncertainty about the global economic outlook, and thus impacts on asset values and profitability, continues. The main source of uncertainty relates to the timing and pace of monetary policy tightening as central banks globally act to bring the pace of inflation under control.

The Government's interest expense is partially a function of the interest rates it must pay on its new and refinanced borrowings. While the majority of the Government's existing debt portfolio is fixed-rate debt (and hence, not affected immediately by movements in interest rates), it will be adversely affected by rising interest rates, as new borrowing and refinancing requirements will be priced at higher interest rates, as well as higher interest payments on its outstanding floating-rate debt.

Global financial markets are also sensitive to interest rate changes. The NSW Government's exposure to financial assets means its investment returns are sensitive to variations from current assumptions.

The adoption of the Attribution Managed Investment Trust regime for several government investment funds reduces investment revenue volatility impacts on the budget result by smoothing fund distributions over time.

The large size of the State's investments means that a one percentage point movement in assumed investment return rates has a material impact on the Government's budget result. A one percentage point movement in interest rates would change interest expenses on borrowings and interest revenue on any invested cash, with offsetting impacts on the budget Result.

Table E.6: Financial markets and interest rates sensitivities

Financial markets and interest rate sensitivities	2022-23 Revised	2023-24 Forward estimates	2024-25	2025-26	Sensitivity
	$m	$m	$m	$m	
Investment revenue[(a)]	205.2	287.7	373.9	467.6	Single percentage point increase in factor
Interest revenue[(b)]	10.7	11.2	12.1	13.7	
Interest expenses [(b)]	(114.0)	(359.7)	(590.8)	(807.9)	

(a) A single percentage point increase in the expected investment rate of return (NIFF, SAHF, NGF and SHLF only).
(b) A single percentage point increase in interest rates.

E.2 Balance sheet risks and sensitivities

Risks to the State's balance sheet include unanticipated changes:

- to the value of existing assets and liabilities (those already on the balance sheet)
- from the potential recognition of contingent assets and liabilities (those not shown on the balance sheet as the accounting recognition criteria are not yet met).

The risks and performance of funds are monitored closely, with risk appetites and investment strategies reviewed annually to ensure they remain appropriate.

Liabilities for defined benefit superannuation and long service leave are estimated with reference to a range of factors, including but not limited to assumed rates of investment returns, salary growth, inflation and discount rates.

The State also faces potential obligations that are non-quantifiable, but which can be broadly grouped into commercial transactions and other contingent liabilities. For example, the Government has provided limited general warranties to purchasers and lessees under several energy transactions and has retained responsibility for remediation costs associated with pre-existing contamination at several power station sites.

Investments

The State holds several investment funds which are managed by TCorp, including the NSW Generations Fund (NGF), the NSW Infrastructure Future Fund (NIFF), the Social and Affordable Housing Fund (SAHF), the Snowy Hydro Legacy Fund (SHLF), and the Treasury Managed Fund (TMF). Under the existing governance arrangements, NSW Treasury recommends the risk appetite and/or investment strategy to Treasury's Asset and Liability Committee (ALCO) for endorsement. ALCO then recommends the risk appetite and investment strategy to the Treasury Secretary (as the Treasurer's delegate), or the Treasurer, as required.

These funds have varying levels of exposure to growth assets (assets with higher levels of risk). The NIFF, for instance, has a relatively small allocation to equities (at around 15 per cent) and keeps around half of its portfolio in liquid cash and bonds, which are defensive assets, so it can meet the State's short to medium-term infrastructure expenditure. Conversely, the NGF has a high allocation to growth assets because of its long-term investment horizon, with between 40 to 45 per cent of its portfolio invested in Australian and internationally listed shares. This is in line with its strategic policy objective of helping ease the debt burden on the State's future generations. Beyond equities and bonds, the various funds are also invested in other assets such as property and infrastructure, consistent with their investment horizon and risk appetite.

The outlook for financial markets remains volatile. Market sensitivity to rising interest rates and the potential of market corrections in the future can affect business and investor confidence and therefore asset values.

During this period of increased uncertainty, NSW Treasury continues to work alongside TCorp to closely monitor and manage the risk exposures of the State's investment funds.

Superannuation and long service leave liabilities

Forecast liabilities for superannuation and long service leave are based on a wide range of parameters. These include assumptions around salary growth, inflation, investment returns and discount rates. A change in any of these parameters may affect the valuation of the liabilities for superannuation and long service leave. The long service leave liability is also subject to variations in the rate of employee retention.

Table E.7: Superannuation liabilities sensitivities [(a)]

Factors affecting superannuation liabilities[(b)]	2022-23 Revised	2023-24	2024-25 Forward estimates	2025-26	Sensitivity
	$m	$m	$m	$m	
Change in public sector wages and salaries	70	120	170	230	Single percentage point increase in factor
Change in Sydney CPI	640	1,260	1,840	2,590	
Change in investment return	(300)	(630)	(990)	(1,370)	
Change in discount rate	(7,500)				
Change in public sector wages and salaries	(70)	(120)	(160)	(220)	Single percentage point decrease in factor
Change in Sydney CPI	(640)	(1,250)	(1,810)	(2,550)	
Change in investment return	300	620	970	1,330	
Change in discount rate	8,500				

(a) A positive number in the table indicates an increase in the size of the liabilities, and vice versa. For example, a single percentage increase in public sector wages increases net liabilities, which weakens the financial position.
(b) For producing superannuation liabilities sensitivities, *AASB 119 Employee Benefits*, is used.

Any change in the growth of public sector salaries will affect the superannuation entitlements of those employees in a defined benefit scheme that are still in the workforce, while a decrease in CPI will lower the benefit payments to all members as their pension is indexed by the Sydney CPI. An increase in the investment return on superannuation assets will increase the funding level of the superannuation liability and improve the budget result.

E.3 Specific fiscal risks

Adverse weather events and impacts of climate change

Over the past three years, New South Wales has faced a significant number of large natural disasters ranging from drought, bushfires in 2019-20 and floods. Climate-driven natural hazards are expected to become more frequent and intense. The increased government expenditure that would be necessary in order to support future response and recovery efforts represent a downside risk for the budget.

Global risks

Many major central banks around the globe have responded aggressively to the rapid acceleration of global inflation. The impact this tightening has had on the global economy has started to become apparent, with some leading indicators pointing to a significant risk of global recession in 2023. However, there are signs that global inflation is easing. Many central banks are still expected to pursue near-term interest rate increases, but further changes in monetary policy will depend on the outlook for inflation, which remains uncertain.

Other global risks include the possibility that China's economic growth remains constrained. Additionally, it remains to be seen whether steps taken to improve conditions in the property sector in China are successful. On the upside, China has shifted away from its zero-COVID strategy sooner than many had expected. A successful reopening could help to alleviate global supply chains and lift China's economic growth more than forecast. Additionally, a relaxation of current trade restrictions would benefit Australian exports.

Global supply chain conditions have improved considerably in recent months, but events such as further disruption to global oil supplies or the emergence of a vaccine resistant strain of COVID-19 could see them deteriorate once again. If that occurs, global growth would slow while simultaneously driving prices higher.

Interest rate risk

The RBA's monetary policy measures played an important role in supporting the NSW economy through the COVID-19 pandemic. Lower interest rates and other monetary policy stimulus, including purchases of government bonds and term funding facilities for financial institutions, which further lowered borrowing costs and provided liquidity to the financial sector, supported house price growth and consumer spending.

However, strong inflation has prompted the RBA to tighten monetary policy. The RBA is expected to increase interest rates further in the first half of 2023, before holding, then eventually lowering the rate to a more neutral level. However, with the unemployment rate around multi-decade lows, there is the potential for labour shortages to again drive higher-than-expected wage and price inflation. That could see the RBA respond with an even more restrictive monetary policy setting.

Infrastructure related risks

Infrastructure projects - cost and delivery risks

There are several challenges to the delivery of the Government's infrastructure program in tight market conditions, with associated risks to the timing and cost of construction projects.

Construction sector capacity to deliver large projects remains stretched on the back of significant increases in infrastructure spending by the Australian and State Governments in recent years, and demand pressures in the construction market more broadly. As a result, there is a higher degree of uncertainty around assumed construction costs and timelines.

Transmission Acceleration Fund

There are also funding and timing risks associated with the Transmission Acceleration Fund, which aims to accelerate a range of transmission infrastructure projects necessary to support the transition to renewable generation. Overall expenditure from the fund is subject to cost and timing risks, with implications for the forward estimate of capital expenditure and capital receipts (from the subsequent transfer of those development projects to delivering utilities). The final timing of capital expenditure and revenue related inflows will be dependent on a range of project-related factors, including market capacity.

Insurance risks

Insurance risks are managed through the State's self-insurance schemes (and commercial reinsurance), the largest being the Treasury Managed Fund (TMF). There are increasing pressures on the State's insurance liabilities, driven by rising costs and claims relating to psychological injury, medical discharge, medical malpractice, historic sexual abuse, cyber, flood damage and other emerging risks. There is a significant risk that these pressures will result in higher than currently estimated costs.

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Cover image credit: Lars Roy

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