

2023 Pre-election Budget Update

Released by Dr Paul Grimes PSM, Secretary
NSW Treasury

8 March 2023



Acknowledgement of Country

This Pre-election Budget update 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

FOREWORD

The NSW State election will be held on Saturday, 25 March 2023. The caretaker period commenced on Friday, 3 March 2023 with the expiration of the Legislative Assembly.

The *Parliamentary Budget Officer Act 2010* requires the Secretary of the Treasury to release a Pre-election Budget Update as soon as reasonably practicable after the commencement of the caretaker period.

The purpose of this Pre-election Budget Update is to update the information set out in the 2022-23 Half-Yearly Review, which was released on Tuesday, 7 February 2023 and can be found at www.budget.nsw.gov.au. The scope of the Pre-election Budget Update is limited to the general government sector.

Consistent with the requirements of section 24(2) of the *Parliamentary Budget Officer Act 2010*, this Pre-election Budget Update includes:

- the revised projections for the current financial year (refer to Appendix B – *Uniform Financial Reporting* for further detail)
- the revised forward estimates, for major aggregates, over 3 years (refer to Appendix B – *Uniform Financial Reporting* for further detail)
- the latest economic projections for the current financial year and the 3 years for which the revised forward estimates are provided (refer to Chapter 2 – *Economic Outlook* for further detail)
- an explanation of any significant variation in the revised projections, forward estimates or economic projections that were contained in the previous Half-Yearly Review or Budget (refer to Chapter 2 – *Economic Outlook* and Chapter 3 – *Fiscal Position and Outlook* for further detail)
- revised financial statements for the general government sector for the current financial year and the 3 years for which the revised forward estimates are provided (refer to Appendix B – *Uniform Financial Reporting* for further detail)
- an update of any matter required to be included in the budget papers by section 8(b) of the *Fiscal Responsibility Act 2012* (refer to section 3.6 for further detail).

I confirm this Pre-election Budget Update takes into account all NSW Government decisions Treasury is aware of up until the commencement of the caretaker period. It is based on economic and financial data available to Treasury and estimates of Government policy decisions and parameter and technical adjustments prior to 3 March 2023.

Dr Paul Grimes PSM
Secretary, NSW Treasury
8 March 2023

TABLE OF CONTENTS

	Page
1. Overview	1
2. Economic Outlook	3
2.1 The economic outlook is broadly unchanged but price pressures are stronger	3
2.2 The NSW economy remains resilient	3
2.3 Risks to the economic outlook.....	4
3. Fiscal Position and Outlook	5
3.1 Fiscal and budget overview.....	5
3.2 Revenue outlook.....	5
3.3 Expenses outlook	7
3.4 Capital expenditure outlook.....	10
3.5 Assets and liabilities.....	10
3.6 Update of matters relevant to reporting under the <i>Fiscal Responsibility Act 2012</i>	11
A. Basis of the 2023 Pre-election Budget Update	13
A.1 Risks to the revised budget and forward estimates	13
A.2 Accounting policies	14
B. Uniform Financial Reporting	15
B.1 Uniform Presentation Framework tables	15

TABLE LIST

Page

1. Overview

Table 1.1: General government sector budget result (\$ million).....	1
--	---

2. Economic Outlook

Table 2.1: Economic performance and outlook	3
---	---

3. Fiscal Position and Outlook

Table 3.1: General government sector operating position and outlook reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update	5
--	---

Table 3.2: Revenue reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update	6
---	---

Table 3.3: Revenue related to expense and capital measures	6
--	---

Table 3.4: Revenue parameter and other variations since the 2022-23 Half-Yearly Review	6
--	---

Table 3.5: Expense reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update	8
---	---

Table 3.6: Policy measures – 2023 Pre-election Budget Update	9
--	---

Table 3.7: Parameter changes and other variations – 2023 Pre-election Budget Update.....	10
--	----

Table 3.8: General government capital reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update.....	10
---	----

Table 3.9: Net debt – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update.....	11
--	----

A. Basis of the 2023 Pre-election Budget Update

Table A.1: Revenue sensitivities – Coal royalties.....	14
--	----

B. Uniform Financial Reporting

Table B.1: General government sector operating statement.....	16
---	----

Table B.2: General government sector balance sheet	18
--	----

Table B.3: General government sector cash flow statement.....	20
---	----

1. OVERVIEW

The outlook for the NSW economy has changed only marginally from the assessment presented in the 2022-23 Half-Yearly Review, released on Tuesday, 7 February 2023. Forecast inflation has been revised upwards for 2023-24 and 2025-26, although recent data continues to indicate that inflation is likely to have peaked in the December quarter 2022. The National Accounts, released on 1 March 2023, pointed to slower real state final demand growth in the December quarter than previously anticipated, reducing forecast growth in 2022-23. Notwithstanding this, forecast growth from 2023-24 remains broadly unchanged.

Notably, near-term expectations for thermal coal prices have been revised downwards relative to the Half-Yearly Review, following a decline in the global spot price of approximately 50 per cent since late January.

The estimated budget deficits for 2022-23 and 2023-24 have been revised downwards since the Half-Yearly Review, chiefly as a result of the downward revisions to anticipated coal royalty revenue in those years. Surpluses are projected in 2024-25 and 2025-26. Projections for capital expenditure remain close to those presented in the Half-Yearly Review. Consistent with lower forecast revenue in 2022-23 and 2023-24, projected net debt has been revised upwards since the Half-Yearly Review.

Table 1.1: General government sector budget result (\$ million)

	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
2022-23 Half-Yearly Review	(11,363)	(6,492)	333	1,166
2023 Pre-election Budget Update	(12,031)	(7,107)	328	824

The budget forward estimates face significant pressures and risks, including future pressures associated with programs and functions that are presently funded on a time limited basis, and a range of cost and service delivery pressures.

The estimates presented in the Pre-election Budget Update incorporate the impact of all Government policy decisions up to the commencement of the caretaker period on 3 March 2023. Consistent with established practice, no provision has been made for new policy decisions by a future government.

Information on the risks and uncertainties surrounding the economic forecasts and the budget forward estimates was presented in the 2022-23 Half-Yearly Review. The Pre-election Budget Update revises this information for developments since then.

This page is intentionally left blank

2. ECONOMIC OUTLOOK

2.1 The economic outlook is broadly unchanged but price pressures are stronger

Growth in state final demand (SFD) was weaker than expected in the December quarter, although this was largely offset by a stronger than expected contribution to the economy from the international trade sector. Leading indicators, accumulated savings buffers and data on the backlog of construction projects suggests a rebound in SFD in the near term. As a result, the forecasts for overall economic growth, as measured by Gross State Product, have not changed materially across the forecast horizon relative to the Half-Yearly Review.

Recent data suggests that underlying price pressures in the economy are higher than previously expected and may take longer to unwind. Consequently, inflation in the Sydney Consumer Price Index (CPI) has been revised up in 2023-24 and 2025-26.

Consistent with higher inflation, and with comments from the Reserve Bank of Australia (RBA) in February, financial markets and market economists have increased expectations for the future cash rate, and the 10-year bond yield.

Table 2.1: Economic performance and outlook^{(a)(b)}

	2021-22	2022-23	2023-24	2024-25	2025-26
	Outcomes	Forecast	Forecast	Forecast	Forecast
Real state final demand	3.2	4¾ (5¼)	1	2½	2¾
Real gross state product	1.8	3¾	1½	2¼	2½
Employment	0.9	5½	¾	1¼	1
Unemployment rate ^(c)	3.6	3½	4½	4	4
Sydney consumer price index	3.9	7	4¼ (3½)	2¾	2¾ (2½)
Wage price index	2.4	3¾	4	3½	3¼
Nominal gross state product	7.4	9¼ (10¼)	2¾ (2¼)	3¼	4½ (4)
Population ^(d)	0.7	1.2 (1.0)	1.2	1.2	1.2

(a) Forecasts are rounded to the nearest quarter point and are annual average per cent change, unless otherwise indicated. Where forecasts have been revised, the corresponding 2022-23 Half-Yearly Review forecasts are shown in parenthesis.

(b) Commodity prices are informed by 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.

(c) June quarter, per cent.

(d) Per cent change through the year to 30 June. Forecasts rounded to nearest 0.1 percentage point.

Source: ABS and NSW Treasury

2.2 The NSW economy remains resilient

The Sydney CPI rose 7.6 per cent through the year to the December quarter 2022 – the fastest annual rate since the June quarter 1990. The annual pace of goods inflation eased slightly in the December quarter, consistent with expectations that inflation has now peaked following improvements in global supply chains. However, services inflation has accelerated, led by a sharp increase in the cost of holiday travel and accommodation.

Overall, underlying inflation pressures have risen, even as growth in some key goods components of the CPI basket has started to moderate. National trimmed mean inflation reached 6.9 per cent over the year to the December quarter 2022, a little stronger than expected by the RBA. Reflecting these broader price pressures, Sydney's CPI forecasts for 2023-24 and 2025-26 have been revised upwards in the Pre-election Budget Update.

Since the Half-Yearly Review, the RBA has raised the cash rate by 50 basis points to 3.60 per cent, the highest level since 2012. At the same time, the RBA has strengthened its forward guidance on the potential need for future interest rate increases. This shifted market expectations for the level at which the cash rate will peak – from 3.8 per cent to 4.2 per cent as at 3 March 2023.

Higher interest rates and inflation (relative to the Half-Yearly Review) have had a moderate negative impact on the outlook for housing and consumption. However, that is partly offset by projections for higher population growth and the impact of low rental vacancy rates on dwelling prices. Forecast population growth in 2022-23 has been revised upwards in light of recent arrivals and departures data showing a quicker than previously anticipated return of net permanent and long-term overseas arrivals through the second half of 2022.

Economic growth across Australia's major trading partners is now expected to be stronger in 2022-23, with greater demand (especially from China) forecast to lift exports growth in 2023-24. Relative to the Half-Yearly Review, public demand growth is expected to be marginally lower over the forward estimates after incorporating the latest fiscal aggregates. Given the largely offsetting revisions above, the forecasts for overall economic growth have not changed materially since the Half-Yearly Review.

2.3 Risks to the economic outlook

In broad terms, the key risks to the economic outlook have not shifted materially since the Half-Yearly Review.

Notwithstanding this, China's economic recovery appears to be progressing more quickly than anticipated following its abandonment of zero-COVID policies. This is expected to ease supply chain pressures while improving global growth prospects. Domestically, this could support trade flows and accelerate the return of Chinese travellers.

State final demand is expected to rebound in coming quarters from the softer than forecast December quarter. However, there is still great uncertainty around the outlook and particularly how households will respond to cost of living pressures, including a significant increase in mortgage costs for a large number of fixed-rate mortgage holders. As a result, there is a risk that household consumption and dwelling investment may not recover over the forecast period as strongly as expected.

Domestic wages growth in the December quarter 2022, as measured by the Wage Price Index, was marginally weaker than expected at the Half-Yearly Review. However, the forecast for wages growth across the whole of 2022-23 has not changed materially given the tight labour market. There is a risk that wages continue to surprise on the downside which, combined with elevated cost of living growth, could weigh on household demand in the near term. Conversely, sustained tightness in the labour market could lead to a higher than anticipated acceleration in wages, with inflation remaining higher and monetary policy remaining restrictive for longer than currently forecast.

3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

The general government sector operating result is projected to be in significant deficit in both 2022-23 and 2023-24, before returning to a relatively small surplus from 2024-25. While the profile for the return to surplus has changed moderately from the Half-Yearly Review, the estimated budget deficits in 2022-23 and 2023-24 have increased, principally as a result of downward revisions to forecast revenue.

The revisions to revenue since the Half-Yearly Review are dominated by two factors. Firstly, estimated mineral royalties revenue has been revised downwards in 2022-23 and 2023-24 in light of a sharp decline in the global spot price for thermal coal since late January. Secondly, estimated GST revenue has been revised to take account of changed inflation and consumption forecasts (boosting the estimated national GST pool). GST revenue has also been revised for updated assessments of the factors driving the distribution of GST (including population, commodity prices and commodity production volume movements across the states and territories).

In aggregate, total estimated expenses have not changed greatly relative to the Half-Yearly Review. Policy measures decided prior to the commencement of the caretaker period have resulted in net savings, partially offsetting the impacts of higher forecast inflation and bond rates on general government sector expenses.

Table 3.1 below provides a high-level reconciliation of the revised budget result estimates from the estimates published at the Half-Yearly Review.

Table 3.1: *General government sector operating position and outlook reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update*

	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
Budget result: 2022-23 Half-Yearly Review	(11,363)	(6,492)	333	1,166
<i>Policy measures</i>				
Revenue (\$m)	...	4	11	17
Expenses (\$m)	26	(418)	(397)	(88)
<i>Parameter changes and other variations</i>				
Revenue (\$m)	(492)	(639)	(70)	(28)
Expenses (\$m)	150	397	344	419
Total changes since 2022-23 Half-Yearly Review	(668)	(615)	(5)	(342)
Budget result: 2023 Pre-election Budget Update	(12,031)	(7,107)	328	824

3.2 Revenue outlook

General government sector revenue in 2022-23 is projected to be \$492.2 million lower than forecast at the Half-Yearly Review. Over the four years to 2025-26, general government sector revenue is projected to be \$1.2 billion (0.3 per cent) lower than previously estimated. Table 3.2 provides a reconciliation of the total revenue estimates from the corresponding estimates presented in the 2022-23 Half-Yearly Review.

Table 3.2: Revenue reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update

	2022-23	2023-24	2024-25	2025-26
			Forward Estimates	
	\$m	\$m	\$m	\$m
Revenue – 2022-23 Half-Yearly Review	105,736	109,212	113,842	115,704
Total policy measures since Half-Yearly Review	...	4	11	17
Total parameter changes and other variations	(492)	(639)	(70)	(28)
Revenue – 2023 Pre-election Budget Update	105,244	108,577	113,783	115,693

Policy measures

There has been one policy measure that has had an impact on estimated revenue since the Half-Yearly Review.

Table 3.3: Revenue related to expense and capital measures

	2022-23	2023-24	2024-25	2025-26
			Forward Estimates	
	\$m	\$m	\$m	\$m
Cashless Gaming Community and Industry Support Package	...	4	11	17

The single measure relates to the implementation of the Government's package to support the transition to cashless gaming machines. In particular, interest income has been revised up by \$31.9 million over the four years to 2025-26 as a consequence of the Government's decision to provide no-interest loans for small and medium sized clubs and hotels to upgrade technology to support cashless gaming. In providing concessional loans, a non-cash grant expense must be recognised. As the loans are repaid, interest revenue is recognised as the grant expense unwinds.

Parameter and other variations

The largest variations in forecast revenue over the forward estimates period relate to estimated grant revenue (mostly GST payments to New South Wales) and estimated royalties revenue.

Table 3.4: Revenue parameter and other variations since the 2022-23 Half-Yearly Review

	2022-23	2023-24	2024-25	2025-26
			Forward Estimates	
	\$m	\$m	\$m	\$m
Taxation	(2)	...	...	...
Grant revenue (including GST)	67	(333)	3	(26)
Sale of goods and services	(19)	31	47	32
Interest income	...	...	...	...
Dividends and income tax equivalents from other sectors	...	...	...	...
Other dividends and distributions	...	(12)	(27)	(33)
Royalties	(568)	(329)	(99)	(9)
Fines, regulatory fees and other revenues	29	4	6	7
Total parameter changes and other variations	(492)	(639)	(70)	(28)

Grant revenue

The revisions to estimated grant revenue since the Half-Yearly Review reflect two key elements:

- Revised assessments of anticipated GST revenue. This revised assessment takes into account updated economic forecasts for national inflation and consumption growth (suggesting slightly stronger than previously anticipated growth in the national GST pool), and a range of factors that influence the proportion of GST payments to be directed to New South Wales (including updated forecasts for minerals prices and production, and population growth, which influence the relative distribution of GST across the states and territories). The various factors determining the revised estimates are broadly offsetting from 2024-25, which explains the relatively small variations reported for 2024-25 and 2025-26.
- National Agreement payments have been revised up by \$38.2 million in 2022-23 as a result of variations to payments under the National Health Agreement. This reflects changes in activity estimates included in the March 2023 payment advice from the National Health Funding Pool Administrator.

Non-taxation revenue

The more significant variations in estimated non-tax revenue since the Half-Yearly Review include:

- Mineral royalties have been revised downwards by \$568.2 million (9.4 per cent) in 2022-23 and by \$329.5 million in 2023-24. These revisions reflect a reduction in expected thermal coal prices in the near term, following a recent sharp decline in global spot prices (of approximately 50 per cent since late January). Notwithstanding this movement, consensus forecasts for coal prices from 2024 remain broadly unchanged (at lower levels than current spot prices). Consequently, the forward projections for royalties revenue in 2024-25 and 2025-26 have been revised only marginally since the Half-Yearly Review.
- Sales of goods and services have been revised up by \$92.4 million over the four years to 2025-26 reflecting the estimated impact of higher indexation on agency revenues as a result of upwards revisions to forecast inflation.
- Other dividends and distributions have been revised downwards by \$71.9 million over the three years to 2025-26 due to a projected reduction in NSW Generations Fund (NGF) returns. This reduction in estimated earnings stems from fewer mining royalties being available to invest in the NGF, particularly in 2022-23 and 2023-24.

3.3 Expenses outlook

Total estimated expenses have remained broadly stable since the Half-Yearly Review, with upwards parameter and other variations partially offset by the impact of policy measures determined prior to the caretaker period. The upwards parameter variations stem from marginally higher forecast inflation relative to expectations at the Half-Yearly Review, and an increase in forecast bond rates, resulting in higher estimated interest expenses.

Table 3.5 provides a reconciliation of total estimated expenses at the Half-Yearly Review and Pre-election Budget Update.

Table 3.5: Expense reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update

	2022-23 Revised	2023-24	2024-25 Forward Estimates	2025-26
	\$m	\$m	\$m	\$m
Expenses – 2022-23 Half-Yearly Review	117,099	115,704	113,509	114,538
Policy measures	26	(418)	(397)	(88)
Parameter and other variations	150	397	344	419
Expenses – 2023 Pre-election Budget Update	117,275	115,684	113,456	114,869

Consistent with the 2022-23 Budget (Chapter 5 of Budget Paper 1), total estimated expenses include an annual allowance for the established tendency for parameter and technical adjustments to increase expenses over time, along with an allowance for the established tendency of expenditure to slip and be carried forward to future years. No adjustments to these allowances have been made since the Half-Yearly Review.

Policy measures

New policy measures determined prior to the caretaker period have reduced estimated expenses across the revised budget and forward estimates period. This reflects the impact of savings and other measures more than offsetting new spending measures.

There were four new spending measures determined prior to 3 March 2023:

- \$266.7 million over four years from 2023-24 to support communities, organisations, pubs and clubs with the transition to cashless electronic gaming machines
- \$114.5 million over four years for WestInvest Program projects to be delivered by NSW Government agencies, offset by an adjustment to the existing program allowance to reflect delivery of these projects including reclassification of recurrent and capital expenditure
- \$7.0 million in 2023-24 for competitive grant programs to replace and re-home animals in medical research
- \$3.6 million in 2022-23 for the NSW Electoral Commission to fund costs arising from legislative amendments which shorten the pre-polling period ahead of the March 2023 State Election, funded from the existing integrity agency contingency established under the *Appropriation Act 2012*.

Savings and other measures include:

- converting \$390.0 million of recurrent expenditure for schools planned maintenance over two years from 2023-24 to capital expenditure
- an \$80.0 million per year reduction from abolishing the provision for State contingencies from 2023-24. This allowance is provided in the annual Appropriation Act and has only been used occasionally in recent years
- \$153.8 million over five years from removing unallocated funds from programs funded through the Future Economy Fund
- \$127.3 million of savings from the Department of Enterprise, Investment and Trade by reducing its funding levels from 2023-24 to 2025-26 to align more closely with a longer-term baseline. These savings are to be secured from existing programs and functions, with the allocation of savings to individual programs to be finalised in the 2023-24 Budget
- a \$39.0 million per year reduction in the central allowance held for commercial transactions from 2023-24

- reprofiling of energy related program expenditure to better align with revised service and project delivery schedules from within the period between 2022-23 to 2024-25 to between 2025-26 and 2029-30.

Table 3.6 provides a summary of all policy measures since the Half-Yearly Review.

Table 3.6: Policy measures – 2023 Pre-election Budget Update

	2022-23 Revised	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m
New policy measures				
Cashless Gaming Community and Industry Support Package	...	36	74	95
WestInvest – Government Tranche Part 2	109	5	...	1
<i>Offset by existing WestInvest allowance</i>	(73)	(69)	(4)	(19)
Replacing and Rehoming Animals in Medical Research	...	7	...	...
Supplementary funding to the NSW Electoral Commission	4	...	...	...
<i>Integrity agency contingency offset</i>	(4)	...	...	...
Total new policy measures	36	(21)	70	76
Savings and other measures				
School planned maintenance funding conversion to capital expenditure	...	(150)	(240)	...
Abolishing the annual allocation for State contingencies	...	(80)	(80)	(80)
Removing unallocated funds from the Future Economy Fund	...	(41)	(31)	(67)
Department of Enterprise, Investment and Trade – savings from programs and functions	...	(26)	(44)	(58)
Reducing the allowance for commercial transactions	...	(39)	(39)	(39)
Reprofiling – Electric Vehicles Strategy	(7)	(58)	...	43
Reprofiling – Adapt for Tomorrow	(3)	...	...	...
Reprofiling – New Low Carbon Industry Foundations	...	...	(10)	10
Reprofiling – Clean Technology Program	...	(3)	(14)	17
Reprofiling – Emission Intensity Reduction	...	...	(10)	10
Total savings and other measures	(10)	(396)	(467)	(164)
Total measures since Half-Yearly Review	26	(418)	(397)	(88)

Parameter changes and other variations

The upwards revisions to expenses arising from parameter and other variations largely relate to increases in forecast inflation and projected interest rates relative to the Half-Yearly Review.

Table 3.7 details the major parameter and other variations at the Pre-election Budget Update. The major variations include:

- a \$559.3 million increase in interest expenses over four years, reflecting higher projected borrowing costs and the impact of new policies and variations
- a \$517.3 million increase in overall government expenses over four years, driven by an allowance for revised consumer price index forecasts (see Chapter 2)
- a \$160.5 million upward revision in defined benefit superannuation expenses over four years, reflecting an updated discount rate consistent with revised macroeconomic and financial forecasts (see Chapter 2)
- a \$90.1 million increase in projected health expenditure in 2022-23, mainly due to increased use of high cost drugs including COVID-19 anti-viral medication.

Table 3.7: Parameter changes and other variations – 2023 Pre-election Budget Update

	2022-23	2023-24	2024-25	2025-26
	Revised	Forward Estimates		
	\$m	\$m	\$m	\$m
Interest expenses	52	170	147	191
Revision to allowance for indexation of government expenditure	...	167	150	200
Superannuation interest expenses	...	63	55	42
Health costs update	90	...	...	...
Other changes and variations	9	(3)	(9)	(14)
Total parameter changes and other variations	150	397	344	419

3.4 Capital expenditure outlook

Total estimated capital expenditure has remained broadly stable since the Half-Yearly Review, with general government sector capital expenditure expected to increase \$38.0 million in 2022-23 to be \$22.8 billion. This increase is mainly due to additional capitalised project expenditure within the Health Cluster.

New policy measures since the 2022-23 Half-Yearly Review include:

- converting \$390.0 million of recurrent maintenance expenses to capital for schools planned maintenance over three years from 2023-24
- a \$96.5 million decrease over four years for capital expenditure funded through the WestInvest program as a result of the reclassification between recurrent and capital expenditure, and reprofiling of expenditure to the planning years to reflect the expected profile of projects to be delivered by NSW Government agencies
- a \$20.0 million per year reduction from abolishing the provision for State contingencies from 2023-24. This allowance is provided in the annual Appropriation Act and has only been used occasionally in recent years.

Table 3.8 provides a reconciliation of capital expenditure estimates between the Half-Yearly Review and the Pre-election Budget Update.

Table 3.8: General government capital reconciliation – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update

	2022-23	2023-24	2024-25	2025-26
	Revised	Forward Estimates		
	\$m	\$m	\$m	\$m
Capital – 2022-23 Half-Yearly Review	22,768	22,515	22,315	21,118
Policy measures	(8)	(304)	258	288
Parameter and other variations	46	0	0	0
Capital – 2023 Pre-election Budget Update	22,806	22,211	22,573	21,406

Total estimated capital expenditure includes an allowance for the established tendency for capital expenditure to slip each year due to a variety of factors including market capacity constraints and supply chain disruptions.

The 2022-23 Budget included an allowance for capital slippage and cost escalation (net capital slippage), which was projected at \$8 billion in 2022-23 reducing to \$50 million in 2025-26. As net capital slippage actually occurs and is recorded during the year, the allowance for anticipated future net slippage is progressively reduced. Capital projections to date are largely in line with expectations. Since the Budget, approximately 60 per cent of anticipated net slippage in 2022-23 has been realised.

3.5 Assets and liabilities

General government sector net debt is projected to be \$79.2 billion by June 2023 (10.4 per cent of GSP), \$798 million higher than estimated at the 2022-23 Half-Yearly Review (see Table 3.9).

Table 3.9: Net debt – 2022-23 Half-Yearly Review to 2023 Pre-election Budget Update

	June 2023 Revised \$m	June 2024 \$m	June 2025 Forward Estimates \$m	June 2026 \$m
Net Debt – 2022-23 Half-Yearly Review	78,403	96,201	107,444	116,505
Total variations in net debt	798	1,049	1,258	1,847
Net Debt – 2023 Pre-election Budget Update	79,201	97,250	108,702	118,352

The increase in estimated net debt is primarily driven by a reduction in cash and cash equivalents of \$825 million by June 2023 and \$1.3 billion over the four years to June 2026. This reflects lower forecast cash receipts from mineral royalties and higher projected cash payments for interest expenses and other operating expenses arising from inflationary pressures. Financial assets at fair value are projected to grow to \$65.8 billion by June 2026, supported by growth in the State's investment funds.

The increase in net debt over the four years to June 2026 is primarily driven by borrowings to fund infrastructure investment.

Net worth is estimated to be \$278.6 billion by June 2023, \$1.2 billion higher than projected at the Half-Yearly Review. This reflects a \$825 million reduction in the State's estimated cash balances offset by a \$1.9 billion reduction in the estimated value of superannuation liabilities, primarily due to an increase in the discount rate (10-year Government bond yields) since the Half-Yearly Review. By June 2026, net worth is projected to grow to \$286.4 billion, supported by higher asset and equity valuations and a fall in the value of superannuation liabilities.

Over the two years to 2023-24, assets acquired using service concession arrangements have been revised down by \$3.6 billion, impacting net lending in those years. This correction has no material impact to capital expenditure, net debt nor net worth and has been primarily driven by technical non-cash adjustments to budget projections for Transport Service Concession assets to bring them in line with AASB 1059 *Service Concession Arrangements: Grantors*.

3.6 Update of matters relevant to reporting under the *Fiscal Responsibility Act 2012*

The *Fiscal Responsibility Act 2012* (FRA) requires the Treasurer to include a statement of the Government's fiscal strategy in the annual budget papers having regard to the object of the FRA, its fiscal targets and principles, and performance against these.

In turn, the *Parliamentary Budget Officer Act 2010* requires that the Pre-election Budget Update includes an update of matters relevant to the Treasurer's statement of the Government's performance against the object, targets, and fiscal principles of the FRA (as required by section 8(b) of the FRA).

Since the publication of the 2022-23 Budget, the Government has maintained its overall policy approach to meeting the object, targets and principles of the FRA.

The following developments since the publication of the 2022-23 Budget are relevant to the reporting of progress against the specific targets established under the FRA, and the object of the FRA, for the State to maintain the AAA credit rating:

- All three credit rating agencies have updated their credit opinions for the State. Moody's reaffirmed the State's Aaa rating in September 2022 and Fitch reaffirmed the State's AAA in November 2022. S&P Global reaffirmed its AA+ credit rating for the State in October 2022.
- Expenses growth is now projected to be -1.3 per cent in 2022-23, compared with the projection of -4.5 per cent at the time of the 2022-23 Budget, but still below the long-term revenue growth rate prescribed in regulation (5.6 per cent).
- The State is projected to fully fund its unfunded superannuation liabilities by 2040, which is unchanged since the 2022-23 Budget, but 10 years later than required by the FRA. Since the 2022-23 Budget, the State's net unfunded superannuation liability has increased by \$1.8 billion to \$18.0 billion in 2022-23 (as per *AASB1056 Superannuation Entities*).

A. BASIS OF THE 2023 PRE-ELECTION BUDGET UPDATE

The general government sector estimated financial statements in the 2023 Pre-election Budget Update take account of all relevant Government policy decisions prior to 3 March 2023.

The Pre-election Budget Update estimates are based on Government policy decisions, including the quantum and duration of funding the Government has determined for programs and services. Any potential future extensions or changes to such programs and services are considered policy matters for Government and therefore are not considered in this Appendix.

The 2023 Pre-election Budget Update estimates incorporate:

- financial projections provided by general government sector agencies for the 2022-23 Half-Yearly Review and any material variations advised to Treasury since the Half-Yearly Review
- updated economic and revenue forecasts prepared by Treasury, informed by data prior to 3 March 2023.

Consistent with the 2022-23 Budget and Half-Yearly Review, the Pre-election Budget Update takes account of existing financial agreements with the Australian Government. It does not incorporate an allowance for the negotiation of future agreements or amendments to existing agreements.

Revised budget and forward estimates also incorporate 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 future budget implications.

The estimates are prepared using the best professional judgement of Treasury officers.

A.1 Risks to the revised budget and forward estimates

The 2022-23 Half-Yearly Review provides information on a range of identified risks to the revised budget and forward estimates. This information remains applicable to the estimates presented in the Pre-election Budget Update (Appendix E of the 2022-23 Half-Yearly Review).

In addition, recent sharp movements in global thermal coal prices warrant the inclusion of further information around the impact of the changed thermal prices on the revised budget and forward estimates.

Mining royalties

New South Wales' mining royalties can be volatile and are expected to contribute 5.2 per cent of general government revenues in 2022-23. A large share of royalties revenue is generated from thermal coal exports, with the amount of royalties collected sensitive to changes in coal production volumes, coal prices and the Australian-US exchange rate.

Global thermal coal prices have fallen significantly since late January 2023 following weaker demand in Europe partly stemming from a warmer-than-expected winter. The outlook for thermal coal prices is subject to greater uncertainty than usual and international market conditions continue to be volatile.

Table A.1 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 A.1: Revenue sensitivities – Coal royalties

Factors affecting royalties revenue	2023-24	2024-25	2025-26	Sensitivity
	\$m	Forward estimates \$m	\$m	
Coal prices	38	34	27	Single percentage point increase in factor
Coal volumes	43	33	26	
Exchange rate (\$A vs \$US)	(41)	(32)	(25)	

A.2 Accounting policies

Accounting policies applied to the preparation of the revised budget and forward estimates are provided in Attachment A *Statement of Significant Accounting Policies and Forecast Assumptions* in the 2022-23 Half-Yearly Review. The following sections have changed for the preparation of the Pre-election Budget Update as indicated:

- Basis of Preparation (page 51):
 - The applicable dates for economic and financial data; estimates of government policy decisions; and parameter and technical adjustments (refer above)
- Material economic and other assumptions and summary of other key assumptions (page 54): Changes in these assumptions are described in Sections 2 and 3 above.

B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Framework tables

The objective of the Uniform Presentation Framework (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. This UPF chapter includes the operating statement, balance sheet and cash flow statement for the NSW general government sector (GGS).

The UPF tables have been prepared on a consistent basis 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-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages B1-1 to B1-7 of 2022-23 Budget Paper No.1 *Budget Statement*.

Table B.1: General government sector operating statement

	2022-23 HYR \$m	2022-23 PEBU \$m	2023-24 \$m	2024-25 Forward Estimates \$m	2025-26 \$m
Revenue from Transactions					
Taxation	38,815	38,813	39,326	42,474	44,155
Grants and Subsidies					
- Commonwealth General Purpose	26,225	26,225	26,289	27,216	28,289
- Commonwealth Specific Purpose Payments	12,335	12,374	12,702	13,380	14,098
- Commonwealth National Partnership Payments	3,755	3,755	5,460	6,390	5,070
- Other Commonwealth Payments	495	495	545	591	630
- Other Grants and Subsidies	847	876	752	637	695
Sale of Goods and Services	10,591	10,572	10,830	10,246	9,915
Interest	526	526	515	458	470
Dividend and Income Tax Equivalents from Other Sectors	684	684	1,165	1,304	1,636
Other Dividends and Distributions	2,229	2,229	3,509	4,089	4,448
Fines, Regulatory Fees and Other	9,234	8,696	7,484	6,999	6,287
Total Revenue from Transactions	105,736	105,244	108,577	113,783	115,693
Expenses from Transactions					
Employee	41,910	41,844	43,178	44,830	45,905
Superannuation					
- Superannuation Interest Cost	1,582	1,582	1,624	1,578	1,538
- Other Superannuation	3,940	3,940	4,093	4,267	4,368
Depreciation and Amortisation	7,883	7,883	8,245	8,566	9,107
Interest	4,400	4,452	5,717	6,387	7,017
Other Operating Expense	30,508	30,679	29,116	26,041	26,178
Grants, Subsidies and Other Transfers	26,876	26,894	23,711	21,788	20,755
Total Expenses from Transactions	117,099	117,275	115,684	113,456	114,869
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	(11,363)	(12,031)	(7,107)	328	824

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

	2022-23 HYR \$m	2022-23 PEBU \$m	2023-24 \$m	2024-25 Forward Estimates \$m	2025-26 \$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(259)	(259)	(70)	8	89
Other Net Gains/(Losses)	981	973	1,013	686	213
Share of Earnings/Losses from Equity Investments (excluding Dividends)	177	177	(263)	(201)	(124)
Dividends from Asset Sale Proceeds	35	35	42	345	83
Allowance for Impairment of Receivables	(18)	(43)	(17)	(17)	(18)
Deferred Income Tax from Other Sectors	(33)	(33)	3	33	41
Other Economic Flows - included in Operating Result	882	849	708	854	286
Operating Result	(10,481)	(11,181)	(6,399)	1,182	1,110
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result					
Revaluations	4,593	4,593	4,449	1,460	1,521
Actuarial Gain/(Loss) from Superannuation	(928)	1,019	(732)	231	1,637
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(3,147)	(3,147)	(1,342)	893	3,463
Deferred Tax Direct to Equity	107	107	64	68	69
Other	530	530	20	20	19
Items that may be Reclassified Subsequently to Operating Result					
	(0)	(0)	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	(0)	(0)	...	...	...
Other Economic Flows - Other Comprehensive Income	1,155	3,102	2,459	2,673	6,709
Comprehensive Result - Total Change in Net Worth	(9,326)	(8,080)	(3,940)	3,854	7,819
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	(9,326)	(8,080)	(3,940)	3,854	7,819
Less: Net Other Economic Flows	(2,037)	(3,951)	(3,167)	(3,527)	(6,995)
Equals: Budget Result - Net Operating Balance	(11,363)	(12,031)	(7,107)	328	824
Less: Net Acquisition of Non-Financial Assets					
Purchases of Non-Financial Assets ^(a)	21,344	21,383	20,223	21,342	20,852
Sales of Non-Financial Assets	(558)	(558)	(2,236)	(1,792)	(573)
Less: Depreciation	(7,883)	(7,883)	(8,245)	(8,566)	(9,107)
Plus: Change in Inventories	(631)	(574)	(257)	(44)	(66)
Plus: Other Movements in Non-Financial Assets					
- Assets Acquired Using Leases ^(a)	705	705	781	815	498
- Assets Acquired Using Service Concession Arrangements ^(a) (Financial Liability model)	718	718	1,207	416	56
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	1,963	238	444	623	232
- Other	(790)	(790)	(877)	(1,047)	(945)
Equals: Total Net Acquisition of Non-Financial Assets	14,869	13,240	11,040	11,747	10,947
Equals: Net Lending/(Borrowing) [Fiscal Balance]	(26,231)	(25,271)	(18,147)	(11,419)	(10,123)
OTHER FISCAL AGGREGATES					
Capital Expenditure ^(a)	22,768	22,806	22,211	22,573	21,406

(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 HYR	June 2023 PEBU	June 2024	June 2025 Forward Estimates	June 2026
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,070	245	404	452	95
Receivables	10,229	10,204	9,657	10,036	10,105
Investments, Loans and Placements					
Financial Assets at Fair Value	46,346	46,339	52,875	58,092	65,792
Other Financial Assets	2,667	2,667	2,859	2,936	2,682
Advances Paid	1,056	1,056	1,260	1,403	1,276
Tax Equivalents Receivable	100	100	242	302	341
Deferred Tax Equivalents	3,072	3,072	3,073	3,175	3,295
Equity					
Investments in Other Public Sector Entities	115,858	115,858	116,005	117,255	121,153
Investments in Associates	9,033	9,033	8,770	8,570	8,446
Other	6	6	6	6	6
Total Financial Assets	189,438	188,581	195,151	202,227	213,190
Non-Financial Assets					
Contract Assets	18	18	19	20	20
Inventories	943	1,028	768	777	767
Forestry Stock and Other Biological Assets	23	23	23	23	23
Assets Classified as Held for Sale	58	58	58	58	58
Property, Plant and Equipment					
Land and Buildings	121,560	121,537	125,472	130,509	133,490
Plant and Equipment	13,971	13,995	14,539	14,650	14,423
Infrastructure Systems	185,401	185,432	197,221	206,526	216,843
Right of Use Assets	6,836	6,836	6,759	6,666	6,278
Intangibles	5,145	5,152	5,255	5,129	4,838
Other	1,122	1,122	1,164	1,121	1,080
Total Non-Financial Assets	335,078	335,201	351,277	365,479	377,821
Total Assets	524,516	523,782	546,429	567,706	591,011
Liabilities					
Deposits Held	353	353	353	353	353
Payables	9,688	9,688	9,743	9,944	10,276
Contract Liabilities	774	774	766	767	769
Borrowings and Derivatives at Fair Value	9	9	9	8	8
Borrowings at Amortised Cost	128,690	128,656	153,845	170,832	187,482
Advances Received	490	490	442	393	354
Employee Provisions	24,704	24,704	25,680	26,631	27,500
Superannuation Provision ^(a)	45,003	43,056	44,266	44,387	42,966
Tax Equivalents Payable	86	86	16	23	16
Deferred Tax Equivalent Provision	48	48	48	48	56
Other Provisions	14,995	14,995	14,727	14,761	14,911
Other	22,280	22,280	21,832	21,003	19,945
Total Liabilities	247,120	245,139	271,727	289,149	304,636
NET ASSETS	277,396	278,642	274,702	278,556	286,376

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

	June 2023 HYR \$m	June 2023 PEBU \$m	June 2024 \$m	June 2025 Forward Estimates \$m	June 2026 \$m
NET WORTH					
Accumulated Funds	65,572	66,818	59,674	61,073	63,806
Reserves	211,824	211,824	215,028	217,483	222,570
TOTAL NET WORTH	277,396	278,642	274,702	278,556	286,376
OTHER FISCAL AGGREGATES					
Net Debt^(b)	78,403	79,201	97,250	108,702	118,352
Net Financial Liabilities^(c)	173,541	172,417	192,581	204,178	212,598
Net Financial Worth^(d)	(57,683)	(56,559)	(76,575)	(86,922)	(91,446)

- (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 HYR \$m	2022-23 PEBU \$m	2023-24 \$m	2024-25 Forward Estimates \$m	2025-26 \$m
Cash Receipts from Operating Activities					
Taxation	40,725	40,724	39,379	42,440	44,131
Sales of Goods and Services	11,387	11,368	11,023	10,388	10,108
Grant and Subsidies Received	43,906	43,973	45,503	47,486	48,112
Interest	428	428	425	369	374
Dividends and Income Tax Equivalents from Other Sectors	512	512	615	773	1,525
Other	10,767	10,201	8,778	8,365	7,419
Total Cash Receipts from Operating Activities	107,725	107,206	105,722	109,822	111,668
Cash Payments from Operating Activities					
Employee Related	(41,018)	(40,952)	(42,506)	(44,142)	(45,249)
Superannuation	(5,003)	(5,003)	(5,250)	(5,503)	(5,700)
Payments for Goods and Services	(29,762)	(29,990)	(28,293)	(25,193)	(25,521)
Grants and Subsidies	(25,810)	(25,828)	(22,573)	(20,458)	(19,546)
Interest	(3,309)	(3,361)	(4,144)	(4,479)	(5,146)
Other	(4,002)	(4,002)	(2,713)	(2,648)	(2,640)
Total Cash Payments from Operating Activities	(108,904)	(109,137)	(105,480)	(102,423)	(103,802)
Net Cash Flows from Operating Activities	(1,179)	(1,931)	242	7,398	7,866
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	558	558	3,084	1,871	573
Purchases of Non-Financial Assets	(21,090)	(21,129)	(18,718)	(21,013)	(20,695)
Net Cash Flows from Investments in Non-Financial Assets	(20,533)	(20,571)	(15,633)	(19,142)	(20,122)
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	345	345	182	529	315
Payments	(2,576)	(2,576)	(2,459)	(1,516)	(432)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	(2,230)	(2,230)	(2,277)	(987)	(117)
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	4,669	4,669	4,322	4,186	2,300
Purchase of Investments	(1,777)	(1,777)	(7,249)	(5,773)	(5,419)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	2,892	2,892	(2,927)	(1,587)	(3,118)
Net Cash Flows from Investing Activities	(19,870)	(19,909)	(20,838)	(21,717)	(23,357)
Cash Flows from Financing Activities					
Advances (Net)	(110)	(110)	(104)	(92)	(60)
Proceeds from Borrowings	23,654	23,620	23,903	15,640	16,988
Repayment of Borrowings	(4,746)	(4,747)	(3,110)	(1,249)	(1,863)
Deposits Received (Net)	(0)	(0)	...	...	...
Other (Net)	107	107	64	68	70
Net Cash Flows from Financing Activities	18,904	18,869	20,754	14,367	15,134
Net Increase/(Decrease) in Cash Held	(2,146)	(2,971)	158	48	(357)
Derivation of Cash Result					
Net Cash Flows From Operating Activities	(1,179)	(1,931)	242	7,398	7,866
Net Cash Flows from Investments in Non-Financial Assets	(20,533)	(20,571)	(15,633)	(19,142)	(20,122)
Cash Surplus/(Deficit)	(21,712)	(22,503)	(15,391)	(11,744)	(12,256)