

B. FISCAL RISKS AND BUDGET SENSITIVITIES

The preparation of the 2024-25 Budget is informed by a range of forecasts and assumptions that are inherently uncertain. This Appendix provides insight into potential fiscal risks and budget sensitivities that cannot be determined with sufficient certainty to be incorporated into the Budget.

The Appendix does not consider the policy risks associated with future extensions or changes to financial decisions made by the NSW Government or the Australian Government.

B.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 drivers – from property sales volumes and prices to employment levels and wage growth – can lead to major changes in the level of tax collected, increasing or decreasing government revenues accordingly.

NSW Treasury’s own forecast assumptions for key macroeconomic variables across the budget and forward estimates (as set out in Table B.1 below) are used to inform the revenue forecasts.

The forecasts prepared for the Budget are based on the latest available information. These forecasts are predictions about the future and the actual results may change as unknown events unfold. The extent of the variation will depend on the weighting accorded to each macroeconomic variable when forecasting the tax in question. Table B.1 summarises these weightings.

Table B.1: Forecasting revenue – What weighting is given to different variables^{(a)(b)}

	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

(a) High, medium and low provide only a broad indication of the model weighting for illustration.

(b) N/A 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 the tax.

The main driver of payroll tax is total employee compensation, which in turn is a function of both wage and employment levels. A resilient labour market has continued to support payroll tax revenue throughout 2023-24. Employment and wage growth have been supported by strong population growth from international migration.

Payroll tax revenues are forecast by applying growth rates, anticipated in Treasury’s forecasts for NSW average compensation of employees and NSW employment, to underlying payroll tax levels.

Table B.2 denotes the sensitivity of forecast payroll tax to a one percentage point increase in each of these variables respectively.

Table B.2: Revenue sensitivities – Payroll tax

Factors affecting payroll tax	2024-25	2025-26	2026-27	2027-28	Sensitivity
	Budget \$m	\$m	Forward estimates \$m	\$m	
Average compensation of employees	152	158	166	175	Single percentage point increase in factor
Employment	154	160	169	177	

Transfer duty revenue forecasts rely on the performance of the housing market, including both the volume of residential property sales and the average transacted price. Transfer duty is expected to pick up strongly in 2024-25, supported by an uplift in both residential property prices and transaction volumes. Table B.3 denotes the sensitivity of forecast transfer duty to a one percentage point increase in residential transacted prices and volumes respectively.

Table B.3: Revenue sensitivities – Transfer duty

Factors affecting transfer duty	2024-25	2025-26	2026-27	2027-28	Sensitivity
	Budget \$m	\$m	Forward estimates \$m	\$m	
Residential prices (average transacted price)	123	134	129	131	Single percentage point increase in factor
Residential transaction volumes	108	115	112	113	

Other state taxes are typically less volatile than those mentioned above and generally correlate to changes in the broader economy. For example, revenue from motor vehicle taxes, gambling taxes and other stamp duties typically rise and fall with consumption patterns.

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)
- the proportion of the pool that is allocated to New South Wales (called the relativity).

None of these components are fixed.

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

Table B.4: Revenue sensitivities – GST

Factors affecting GST	2024-25	2025-26	2026-27	2027-28	Sensitivity
	Budget \$m	\$m	Forward estimates \$m	\$m	
Taxable consumption	60	60	65	71	Single percentage point increase in factor
Dwelling investment	17	17	19	21	
Population share	848	859	881	920	

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 events can lead to a changed share to New South Wales:

- a change in the CGC's assessment of how much revenue New South Wales could generate, relative to other states, if it followed average revenue policies
- a change in the CGC's assessment of how much expenditure New South Wales needs, compared to other states, to deliver an average standard of service and associated infrastructure
- a change to National Agreement and Federation Funding Agreement 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 New South Wales relativities are subject to a high degree of uncertainty. The forecasts in this Budget take into account expected National Agreement and Federation Funding Agreement 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.

In addition to GST, the Australian Government provides funding to all states and territories through National Agreements and Federation Funding Agreements to assist in the delivery of key public services. Several significant National Agreements, including agreements on education, health, and a new Foundational Support System are currently under negotiation. Depending on the outcomes of these negotiations, additional NSW Government funding or capital expenditure may be required to maintain service delivery standards, impacting the State's fiscal position over the forward estimates.

Royalties

A large share of revenue from royalties is generated from thermal and coking coal exports, which means that the amount of royalties collected are 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 United States (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.

Table B.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 B.5: Revenue sensitivities – Coal royalties

Factors affecting royalties revenue	2024-25	2025-26	2026-27	2027-28	Sensitivity
	Budget \$m	Forward estimates \$m	Forward estimates \$m	Forward estimates \$m	
Coal prices	34	30	28	22	Single percentage point increase in factor
Coal volumes	33	29	27	26	
Exchange rate (\$A vs \$US)	(35)	(30)	(28)	(28)	

General expense risks¹

Some expense risks are largely within the NSW Government's control and can be actively managed, whereas other risks are primarily outside of its control. For example, impacts associated with existing government policy, employee expenses or the reprofiling of expenses can be more actively managed. Expenses linked to Australian Government payments, inflation, interest rate changes or natural disasters are largely exogenous risks.

The State's largest operating expense is employee-related expenses², which includes salaries, wages, worker's compensation and employment on-cost expenses. Employee-related expenses are impacted by factors including new industrial instruments, public sector wages policy and the workforce size and composition. Changes in these parameters can impact the budget result.

The Budget contains the impact of the NSW Government's updated wages offer to employees. As the Government shifts to a more consultative mutual-based bargaining approach for industrial relations matters, it is possible that final industrial agreement outcomes may vary from employee expense forecasts in the Budget. It is possible additional enhancements to wages and conditions above the Government's wages offer could be made in exchange for productivity-enhancing reforms and/or cost savings. There could be additional costs where enhanced wages and conditions are exchanged for significant improvements to service delivery, or where productivity enhancing reforms come with upfront costs.

In addition, following recent amendments to the *Industrial Relations Act 1996*, the Industrial Relations Commission (Commission) and the Industrial Court (Court) are now empowered to arbitrate wage claims without the restriction of a wages cap. When considering wage claims, the Commission and Court will need to also have regard to the fiscal position and outlook of the Government. As the scope of any decision by the Commission or the Court is unknown, the impact on the Budget is also unknown.

Budget forecasts may need to be updated to reflect variations to employee expenses that arise from negotiation of final industrial agreements and/or decisions by the Commission or the Court.

Health and education services represent a significant proportion of public sector expenses in New South Wales. Any increase in demand for or cost pressures on these services can worsen the budget result.

Agency budgets are prepared with consideration of the Government's forecast of inflation at the time of Budget. Once agency budgets are finalised for the budget year (Budget Paper No.2 *Agency Financial Statements*), the Government does not subsequently adjust them if inflation comes in higher than forecast. This is consistent with the principle that once Parliament passes the Appropriation Bills, that forms a legal upper limit on how much the Consolidated Fund can be drawn down in that financial year. There are very limited circumstances in which exigencies of Government can be approved by the Treasurer and Governor for urgent and unforeseen expenses.

Should events unfold in the coming months which lead to a further upward revision of inflation at the next budget, there would be a higher projection for expenses across the forward estimates. Conversely, if events unfold over the next 12 months and the Government believes it would be appropriate to revise down its inflation forecasts relative to what is in this Budget, there would be a reduction in projected expenses across the forward estimates.

¹ The Budget includes allowances for Parameter and Technical Adjustments and anticipated timing changes. See Chapter 5 Expenditure for more information.

² Superannuation expenses are reflected in the Superannuation Interest Cost and Other Superannuation expenses lines on the operating statement.

Table B.6: Expense sensitivities

Factors affecting expenses	2024-25 Budget \$m	2025-26 \$m	2026-27 Forward estimates \$m	2027-28 \$m	Sensitivity
Expenses					
Employee Expenses (excl super) ^(a)	(477.8)	(489.2)	(507.2)	(523.7)	Single percentage point increase in factor
Government services demand growth					
Health and education expenses ^(b)	(531.0)	(549.6)	(558.5)	(578.9)	

(a) Sensitivities are modelled using a 1 per cent increase in general government employee expenses (excluding super).

(b) Sensitivities are modelled using a 1 per cent increase in the combined expenses for health and education.

Other expense 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)
- higher than budgeted depreciation expenses as a result of unforeseen impacts of future years' revaluations of property, plant and equipment
- a spike in energy and fuel prices driven by geopolitical risks may hold up inflation
- 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
- changes to parameters that influence the liabilities and associated expenses 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 increased energy costs.

Investment Revenue

Financial markets have generally been positive during 2023-24. This positive performance in turn drove solid investment return outcomes for State funds.

Financial markets remain somewhat volatile however, as the ongoing uncertainty about the global economic outlook, including for inflation and monetary policy, impacts asset values. NSW Treasury works closely with TCorp to manage risk and navigate through the current volatile interest rate environment.

Investment returns may be above or below estimates which may impact investment revenue. Adopting the Attribution Managed Investment Trust regime for most government investment funds can help reduce 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 may materially impact the Government's budget result (see Table B.7).

Borrowing Costs

The Government's interest expenses are partially a function of the interest rates it must pay on its new and refinanced borrowings. While the vast majority of the Government's existing debt portfolio is fixed-rate debt (and hence, not affected by movements in interest rates), it will be adversely affected by rising interest rates.

Movements in interest rates, debt levels or cash balances would change interest and interest revenue, impacting on the budget result.

Table B.7: Financial markets and interest sensitivities

Financial markets and interest rate sensitivities	2024-25	2025-26	2026-27	2027-28	Sensitivity
	Budget \$m	Forward estimates \$m	Forward estimates \$m	Forward estimates \$m	
Investment revenue ^(a)	235	251	271	300	Single percentage point increase in factor
Interest revenue ^(b)	11.9	10.8	10.4	10.4	
Interest expenses ^(c)	(154)	(247)	(431)	(655)	

(a) Potential investment revenue impact of a single percentage point increase in the expected investment rate of return (NIFF, SAHF, NGF and SHLF only).

(b) Sensitivities are modelled using a 1 per cent increase in general government cash balance.

(c) Sensitivities are modelled using 100 bps increase in the State's bond yields.

B.2 Commercial and balance sheet sensitivities

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

- to the value of existing assets and liabilities. Comprehensive revaluations, which are required to be conducted only once every three years for land and buildings and once every five years for all other classes of assets, may result in significant, unanticipated changes to asset values. This can impact depreciation expenses, the operating position and net worth.
- from the potential realisation of contingent assets and liabilities (those not shown on the balance sheet as the accounting recognition criteria are not yet met).
- to the timing and quantum of cash payments from the Australian Government which may temporarily impact the State's borrowing requirements.

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 provided limited general warranties to purchasers and lessees under several energy transactions and retained responsibility for remediation costs associated with preexisting contamination at several power station sites. For more information, see Appendix C Contingent Assets and Liabilities.

Periodic revaluation of the State's physical assets can have both positive and negative impacts on various financial aggregates. Whereas an upward revaluation will, all else equal, improve net worth, the higher asset value could also result in increased depreciation expense, depending on whether or not there are also changes to an asset's useful life. Higher depreciation expense negatively impacts the net operating balance (budget result). A downward revaluation would have the opposite impact on net worth and the net operating balance.

Investments

The State has several investment funds 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 current 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 most of its portfolio in liquid investments such as cash and bonds, which are defensive assets, so it can meet the State's short to medium-term infrastructure expenditure. On the other hand, the NGF has a high allocation of growth assets because of its long-term investment horizon, with about 40 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.

The Government recently announced it is changing the way in which its investment funds are managed, with a view to doing so more efficiently. This will be achieved through the establishment of OneFund. OneFund will bring together several of the State's investment funds, to manage these as if they are one. This initiative is expected to achieve higher risk-adjusted investment returns, as well as operational and risk management efficiencies.

Under the *NSW Generations Funds Act 2018*, funds in the NGF can only be directed towards the repayment of State debt. Fitch and Moody's recognise the balance of the NGF as an offset to the State's debt metrics, while S&P Global reduce the offset amount in line with 50 per cent of the NGF equity holdings. Accordingly, market volatility that impacts the balance of the NGF carries additional risks to the State's debt metrics. NSW Treasury manages this risk through the NGF's investment strategy (the mix of assets it is invested in) which remains aligned to a long-term investment horizon. The NGF is invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure.

During this period of ongoing 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 B.8: Superannuation liabilities sensitivities^(a)

Factors affecting superannuation liabilities ^(b)	2024-25	2025-26	2026-27	2027-28	Sensitivity
	Budget \$m	Forward estimates \$m	Forward estimates \$m	Forward estimates \$m	
Change in public sector wages and salaries	50	80	120	160	Single percentage point increase in factor
Change in Sydney CPI	570	1,160	1,720	2,410	
Change in investment return	(290)	(620)	(980)	(1,350)	
Change in discount rate	(5,900)				
Change in public sector wages and salaries	(50)	(80)	(110)	(150)	Single percentage point decrease in factor
Change in Sydney CPI	(570)	(1,150)	(1,700)	(2,370)	
Change in investment return	290	610	960	1,300	
Change in discount rate	6,600				

(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. A decrease in consumer price index (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. For further information on the unfunded superannuation liability, refer to Chapter 6 Managing the State's Assets and Liabilities.

Insurance risks

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

Infrastructure related risks

The State's infrastructure plan is estimated to be \$119.4 billion over the four years to 2027-28, after including an allowance for the observed tendency for capital expenditure to slip each year. Total capital expenditure varies as individual projects progress through their delivery lifecycle and encounter unanticipated delays. Uncertainty around international supply chains, geopolitical instability, the availability of expert labour and specialised capital equipment, as well as the increasing complexity of the projects can all impact the cost and delivery timeframes for infrastructure projects.

The Government actively manages the cost and delivery timeframe of projects to minimise any potential disruptions (see Budget Paper No.3 *Infrastructure Statement* for more information).

The construction market is facing constraints including supply chain pressures. The construction sector has been under considerable stress over the last two years as elevated demand came up against severe supply shortages and constraints. The construction industry is facing a shortage of workers and complex projects are inhibiting the ability of the sector to deliver projects on time and on budget leading to capital slippage.

In December 2023, Infrastructure Australia released its *2023 Infrastructure Market Capacity* report. The report highlights the following market capacity constraints:

- the supply of labour remains heavily constrained, with labour shortages estimated at 229,000 full time workers (October 2023)
- while Sydney will face the deepest labour shortage until 2026, NSW regional areas are also expected to experience labour shortages (i.e., Murray, Mid North Coast and Riverina)
- long wait times remain for materials, plant, and equipment inputs that are in high demand such as trucks and site equipment
- construction cost escalation remains elevated around 7–10 per cent, with individual inputs such as sand, glass, reinforcing steel, aluminium products, insulation, and tiles reaching around 20–30 per cent (additional cost escalation pressures may arise from changes to the Australian Governments industrial relations legislative framework)
- energy investments that will increase four-fold in the next five years.

B.3 Specific fiscal risks

Uncertainty over the path of inflation back to central bank targets

While the prospects of a soft landing for the global economy have risen, the path of inflation back to target remains uncertain. Services inflation has been slow to ease in some countries, including Australia. Factors such as volatility in commodity prices and recent increases in container shipping costs suggests ongoing risk around the inflation outlook that could prompt central banks to maintain tighter monetary policy for longer.

Persistently elevated inflation weakens confidence, particularly for consumers. This has flow on effects on the outlook for economic growth. Additionally, elevated inflation places a further direct strain on household budgets, especially for those with a mortgage if central banks maintain higher rates. This would lead to a weaker fiscal position than expected in the form of a lower GST pool and revenues, via weaker household consumption.

An escalation of geopolitical tensions

Geopolitical tensions have generally deteriorated, particularly in the Middle East, with the outlook increasingly uncertain. A further escalation of these tensions has the potential to significantly disrupt global energy markets, as the region accounts for a large share of global oil production. This could prolong the current period of elevated inflation, and further undermine business and consumer confidence.

Additionally, the region's proximity to major shipping routes, including the Suez Canal, has the potential to generate additional supply shocks. The effect that this could have on global supply chains include extending shipping times and raising freight costs. As was seen through the COVID-19 pandemic, compromised global supply chains can have a severe impact on inflation and international trade. Higher inflation, and hence interest rates, would slow economic activity, and impact consumption and investment leading to lower GST revenues.

Appendix F Economic Scenario Analysis considers a scenario where geopolitical tensions escalate, disrupting global trade.

The support of migration

The NSW population has recently grown at an elevated rate, with much of this attributed to the large increase in net overseas migration following the reopening of international borders. These migration flows are expected to normalise over the coming years, however there are risks if flows are substantially different to expectations.

If the recent strength in net migration growth continued, this could create further cost-of-living pressures through increased demand-pull on inflation. Further, upward pressure on dwelling prices would negatively affect housing affordability. Increased dwelling prices and greater transaction volumes, however, would lead to higher transfer duty revenue.

If migration was to slow more than expected, aggregate economic activity would be weaker. The current level of migration is supporting aggregate demand in a period where, per person, the economy has been contracting. Weaker economic activity will likely result in lower household consumption and GST revenues.

Other risks

The outlook for China remains important to the NSW economy. The weakness in the real estate sector, should it persist or intensify, has the potential to drag investment and subdue foreign demand. Uncertainty over the outlook for Chinese growth could unsettle commodity markets and impact prices or the demand for key NSW exports (including coal).

The outcome of the US election is also a key consideration for the outlook of the global economy. Talks of adding large tariffs to all US imports, as well as escalating trade tensions with China and other major trading partners, could have serious impacts on supply chains and inflation. Proposed policies to extend existing tax cuts and cut interest rates prematurely would add fuel to already resilient demand. If these measures are enacted, it could have wide-reaching impacts for prices and global supply chains and see the domestic economy exposed to higher inflation.

Domestically, some of the most notable risks, both to the upside and downside, relate to the housing market. On the downside, while the housing market has so far proven somewhat resilient to higher interest rates, a sharper deterioration cannot be ruled out given the corrosion in housing affordability. This would decrease transfer duty revenue. Conversely, it is similarly possible that the recent resilience will manifest into stronger-than-expected dwelling prices, once interest rates start to fall, with positive spillovers to household consumption and dwelling investment. Stronger net overseas migration, if it were to persist, would produce a similar outcome.

Another domestic risk is the potential for a spike in energy and fuel prices holding up inflation. This could be driven by the geopolitical risks mentioned above. Energy and fuel are key inputs for production and so higher prices can also flow through to other categories of inflation. They are also typical drivers of inflation expectations.

Extreme weather events and impacts of climate change

Over the last few years, New South Wales has faced a significant number of natural disasters ranging from drought, bushfires, and floods. Climate-driven natural hazards are expected to become more frequent and intense. New South Wales' *2021 Intergenerational Report* has estimated that the total expected economic costs associated with natural disasters are projected to increase to between \$15.8 billion and \$17.2 billion (real 2019-20 dollars) per year by 2061, up from \$5.1 billion in 2020-21. More broadly, the Reserve Bank of Australia has noted the heightened uncertainty around how the climate will change and how this will impact the economy and financial system.³

Governments are also exposed to the increasing risk of climate change litigation in Australia and globally. In October 2023, the Australian Government made a statement in settlement of the *Kathleen O'Donnell v. Commonwealth of Australia* (filed in July 2020). In this statement, the Australian Government acknowledged climate change as a systemic risk which presents significant risks and opportunities for Australia's economy, regions, industries, and communities. It also noted there is uncertainty about whether the fiscal impacts of climate change may affect the value of government securities.⁴

In late 2023, the *Climate Change (Net Zero Future) Act 2023* was passed through Parliament with multi-party support. This Act sets out a path to net zero by 2050, including interim emission reduction targets and an adaptation objective for New South Wales. It also enshrines whole-of-government climate action to deliver net zero by 2050, providing greater certainty to the community, businesses and other market participants.

Cybersecurity risks

NSW Government agencies must adhere to the mandatory requirements set out in the NSW Cyber Security Policy to ensure cyber security risks to their information and systems are appropriately managed. However, the volume and sophistication of cyber-attacks are increasing. In March 2020, Service NSW was the victim of a criminal cyber-attack which resulted in personal information being compromised. The timing and financial impact of a cyber-attack is uncertain, and can be significant.

³ Climate Change and Central Banks, 29 August 2023, Reserve Bank of Australia.

⁴ Statement on O'Donnell v Commonwealth, 16 October 2023, The Treasury.