

8. BALANCE SHEET

- The Government is committed to stabilising the State's gross debt trajectory, strengthening the balance sheet to protect against future economic shocks and keeping the State's interest expenses at a manageable level.
- Net debt is projected to be \$130.7 billion by June 2028 which is \$6.5 billion lower compared to the 2024-25 Half-Yearly Review projection. This is mainly driven by a stronger cash operating position over the forward estimates.
- The Government is undertaking several reforms, to help strengthen the State's balance sheet, including:
 - continuing the implementation of OneFund, with \$79.1 billion now projected to be under management by June 2029 (see Box 8.2)
 - improving the management of the Crown debt portfolio to better manage interest rate and refinancing risk
 - further diversifying the State's sources of debt funding with green and sustainability bonds, with \$11.2 billion in net proceeds raised across the bonds on issue and a further \$10.5 billion currently available for ongoing issuance
 - implementing a Liquidity Framework that supports more effective and efficient allocation of liquid assets across Government to manage risks, opportunities, and ensure the State's debtors are paid on time
 - enhancing guidance on asset revaluation and depreciation for government agencies, simplifying current practices and providing more responsibility to Value NSW to generate efficiencies and drive consistency in approaches across agencies.
- Key balance sheet movements are:
 - total assets are projected to be \$651.0 billion at June 2025 and to grow to \$708.7 billion by June 2029 as the State continues to invest in essential infrastructure
 - gross debt is projected to be \$178.8 billion by June 2026, which is \$9.4 billion below the 2023 Pre-election Budget Update projection of \$188.2 billion (see Box 8.1)
 - gross debt to gross state product is projected to be 19.5 per cent by June 2025 (0.3 per cent lower than projected at Half-Yearly Review) and remain relatively stable at around 20 per cent of gross state product over the four years to June 2029
 - net worth is projected to be \$362.7 billion at June 2025 and increasing to \$376.8 billion by June 2029, supported by growth in financial assets and asset revaluations.

8.1 Stabilising the State's gross debt trajectory

One of the key fiscal principles adopted in the 2023-24 Budget was to stabilise the State's debt position.

This Budget continues to move the State's finances to a more sustainable footing while investing in essential services.

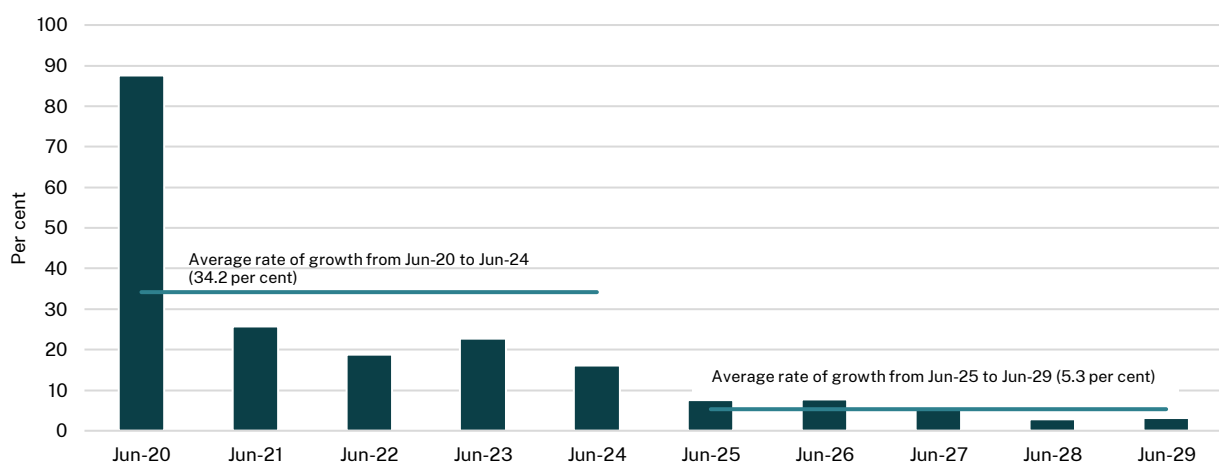
Gross debt is projected to be \$9.4 billion lower by June 2026 than projected in the 2023 Pre-election Budget Update (equivalent to around \$1,000 per person in New South Wales or around 1 per cent of gross state product (GSP)).

In this Budget, the State's gross debt levels are projected to be \$166.0 billion by June 2025, which is \$1.5 billion lower than the 2024-25 Half-Yearly Review projection.

Over the four years to June 2029, gross debt as a percentage of GSP is projected to remain relatively stable. This is the first time since the 2015-16 Budget that the State's gross debt as a percentage of GSP has been projected to remain stable across the forward estimates.

The main driver of the State's gross debt levels is the State's infrastructure program, which is investing in essential public transport, schools and health projects (see Budget Paper No.3 *Infrastructure Statement* for further information).

Chart 8.1: Annual change in the State's gross debt



Box 8.1: Managing the State's debt portfolio to manage interest expenses and refinancing risk

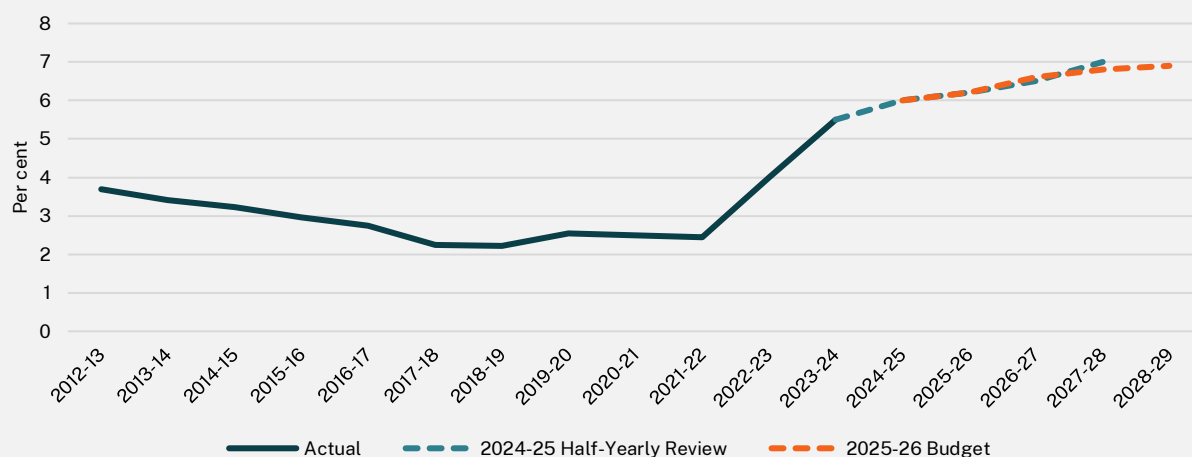
The Government places a strong emphasis on managing the affordability of the State's interest expenses and its refinancing risk. Between 2022-23 and 2024-25 interest expenses grew from \$4.2 billion to \$7.1 billion and are projected to grow further to \$9.5 billion by June 2029.

Since January 2020, TCorp 10-year bond yields have ranged from a low of around 1.0 per cent (in November 2020) to approximately 4.9 per cent on 31 May 2025, primarily driven by the Reserve Bank of Australia adjusting the cash rate to respond to prevailing and expected economic conditions. The average interest rate payable on new Crown borrowings was around 5.2 per cent during 2024-25 and is forecast to decline over the forward estimates as economic conditions are forecast to stabilise.

Increased debt is driving greater interest rate and refinancing risk. As debt grows, the State's fiscal position is more vulnerable to small movements in bond yields and higher interest rates. Reducing gross debt by \$9.4 billion below the 2023 Pre-election Budget Update projection is expected to avoid approximately \$0.4 billion in interest expense in 2026-27.

The Government's interest expense as a percentage of revenue is estimated to be 6.8 per cent in 2027-28, broadly in line with the 2024-25 Half-Yearly Review (see Chart 8.2). See Appendix E Fiscal reporting and sensitivities for more information on interest rate risk. The Government has been actively managing the debt portfolio maturity profile to mitigate future funding and refinancing risk through extending the tenor of new debt and strategically refinancing upcoming maturities.

Chart 8.2: Interest expense to revenue



8.2 The State's net worth remains strong

General government sector net worth is projected to be \$362.7 billion at June 2025, \$6.9 billion lower than the projection in the 2024-25 Half-Yearly Review. This is primarily driven by the decrease in the State's equity investments in other public sector entities including revaluations of Transport Asset Manager's property, plant and equipment and a decrease in net assets within the Public Financial Corporation (PFC) sector as lower forecast interest rates since the 2024-25 Half-Yearly Review impact the market value of government bonds on issue.

Over the four years to June 2029, net worth is projected to grow from \$362.7 billion at June 2025 to \$376.8 billion by June 2029 supported by growth in financial assets and asset revaluations.

All key balance sheet metrics, including gross debt and net debt, are shown in Table 8.1.

Table 8.1: Key balance sheet aggregates of the general government sector

	June 2024 Actual	June 2025 Revised	June 2026 Budget	June 2027	June 2028 Forward Estimates	June 2029
Total Assets (\$m)	639,128	651,028	665,195	679,488	693,985	708,690
Financial Assets (\$m)	245,034	236,129	236,297	239,004	243,666	249,605
Non-Financial Assets (\$m)	394,094	414,899	428,898	440,484	450,318	459,085
Total Liabilities (\$m)	271,973	288,372	307,712	319,288	325,679	331,874
Net Worth (\$m)	367,156	362,657	357,482	360,200	368,306	376,816
Net Worth as a per cent of GSP ^(a)	44.7	42.6	40.6	39.1	38.1	37.0
Net Debt (\$m)	93,365	109,238	120,275	127,766	130,700	133,816
Net Debt as a per cent of GSP	11.4	12.8	13.7	13.9	13.5	13.1
Gross Debt (\$m)	154,276	166,012	178,755	188,340	193,609	199,680
Gross Debt as a per cent of GSP	18.8	19.5	20.3	20.4	20.0	19.6

(a) Nominal GSP for New South Wales for 2024-25 to 2028-29 is forecast by NSW Treasury.

As seen in Table 8.1, the State's total assets are projected to grow by \$43.5 billion to \$708.7 billion between June 2026 and June 2029, driven by a \$13.3 billion increase in financial assets (supported by OneFund – see Box 8.2) and a \$30.2 billion increase in non-financial assets (supported by the Government's infrastructure program – see Budget Paper No.3 *Infrastructure Statement*).

Box 8.2: Managing the balance sheet better - OneFund and other reforms

In the 2024-25 Budget, the Government announced the OneFund initiative, whereby the State's investment funds would be pooled together through a 'master fund' structure, with all funds sharing a common risk appetite statement and investment strategy. OneFund aims for more efficient investment arrangements and enables greater investment opportunities by removing liquidity constraints of individual portfolios. The Government has now implemented Phase Two of OneFund, which includes pooling the Lifetime Care and Support Authority Fund, Workers' Compensation (Dust Diseases) Fund and Motor Accident Injuries Treatment and Care Benefits into the master fund structure.

Despite recent volatility in global financial markets, OneFund has demonstrated resilience generating a net return of 4.0 per cent per annum in the eight months since its inception (31 August 2024) and outperforming several global equity markets. OneFund is diversified across various markets asset classes and defensive levers to help ensure it is designed to withstand stressed market conditions.

Chart 8.3: Total annual OneFund investment returns



The Government will continue reforms to improve the overall efficiency and resilience of the balance sheet.

Total liabilities are projected to increase by \$24.2 billion between June 2026 and June 2029. Borrowings are the largest liability category on the general government sector balance sheet and are projected to increase from \$178.2 billion at June 2026 to \$199.3 billion by June 2029 as the State uses its balance sheet to help fund its essential infrastructure program.

TCorp is the State's central borrowing authority and seeks to mitigate financing risk through diversification of funding sources and funding types. This includes the issuance of green and sustainability bonds through the NSW Sustainability Bond Programme (see Box 8.3), lengthening the maturity profile and issuing different types of debt instruments to appeal to a broader set of investors.

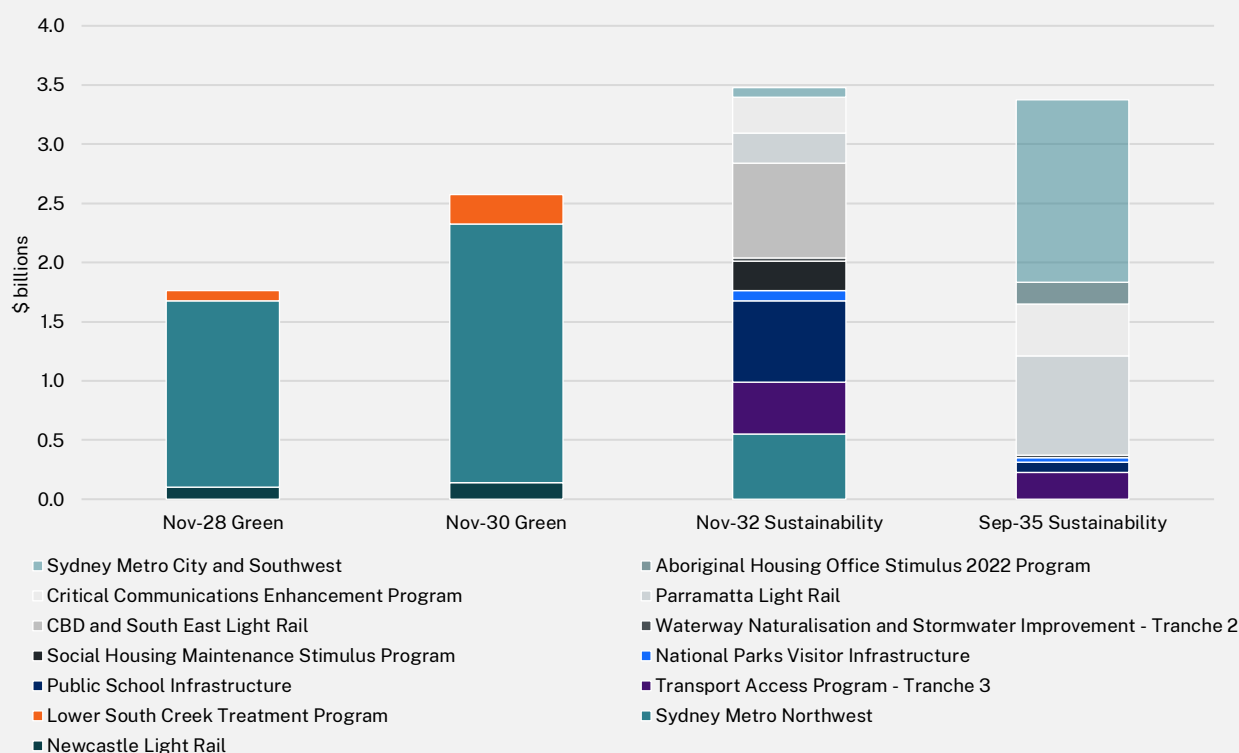
The second largest liability for the Government is its defined benefit superannuation liability¹. The liability is projected to be \$39.6 billion at June 2026 and is expected to decline over the forward estimates to \$36.3 billion as the Government continues progressing towards fully funding this liability by 2040.

Box 8.3: NSW Sustainability Bond Programme

The NSW Sustainability Bond Programme enables the NSW Government to diversify the State's investor base and facilitate capital flows towards its environmental and social commitments that are aligned with the United Nations Sustainable Development Goals.

To date, \$11.2 billion in total net proceeds has been raised across the green and sustainability bonds on issue with a further \$10.5 billion currently available for ongoing issuance. Proceeds are earmarked to finance or refinance eligible projects with positive environmental and / or social outcomes, including low carbon transport, sustainable water and wastewater management, access to essential services, affordable basic infrastructure and affordable housing.

Chart 8.4: The State's net proceeds allocated by project



¹ The superannuation liability can be measured using two Australian Accounting Standards Board (AASB) standards: AASB119 *Employee Benefits* and AASB1056 *Superannuation Entities*. The superannuation liability reported on the State's balance sheet is the unfunded component and is reported according to AASB119. It should be noted that this Accounting Standard creates a larger and more volatile liability than under AASB1056 due to the use of a more conservative and variable valuation discount rate. AASB1056 is the standard used when assessing the Government's funding position. The expected defined benefit superannuation liability for 30 June 2025 is unchanged since last year at a projected net \$37.8 billion.