5. REVENUE

- The 2017-18 Budget introduces a range of tax cuts to ease housing affordability pressures for first home buyers and reduce insurance costs for small businesses and farmers to support business growth.
- Total revenue in 2016-17 is estimated at $78.0 billion. This is $830.6 million more than anticipated in the 2016-17 Budget, largely due to transfer duty received as part of the State's asset recycling program.
- Prolonged strength in the property market increased transfer duty in 2016-17, although this increase is expected to moderate across the forward estimates. Capital restructuring underway to improve government businesses efficiency will result in higher dividends across the budget and forward estimates.
- The outlook for revenue is challenging. Total revenue growth over the four years to 2020-21 averages 1.8 per cent per annum – which is softer relative to previous years due to a flattening of GST revenues and declining National Partnership payments from the Commonwealth Government. National Partnership Payments are expected to fall to around a quarter of their 2016-17 value by 2020-21.
- Under the current distribution model for the GST, New South Wales receives a falling share of national GST revenue. The State's share of the GST is projected to fall to record lows by 2019-20, representing a decrease in real dollars over the four years to 2020-21.

5.1 General government revenue

The revenue raised by government funds the construction of critical infrastructure and delivery of essential government services to communities across New South Wales.

In 2016-17, general government revenues are estimated to be $78.0 billion (see Table 5.3). This is 1.1 per cent higher than projected in the 2016-17 Budget, primarily reflecting one-off transfer duty payments associated with the partial leases of Ausgrid and Endeavour Energy, as well as higher than expected distributions from SiCorp.

In 2017-18, revenues are expected to grow to $79.9 billion. Revenue is forecast to be higher over the forward estimates compared with the 2016-17 Budget. This is mainly due to higher revenue from transfer duty, including an increase to the Foreign Investor Surcharge, and dividends received from government-owned businesses reflecting more efficient capital structures.

The strong economic performance of the State in recent years is expected to reduce the New South Wales share of national GST revenues over the forward estimates to new lows. Softer GST revenue has a significant dampening effect on total revenue growth over the budget and forward estimates, which is expected to be 1.8 per cent. This is slightly lower than the 2.3 per cent forecast at the time of 2016-17 Budget. Table 5.1 provides a reconciliation of revenue estimates between the 2016-17 Budget and 2017-18 Budget.

Table 5.1: Revenue reconciliation

	2016-17 Revised $m	2017-18 Budget $m	2018-19 Forward Estimates $m	2019-20 $m
Revenues - 2016-17 Budget	**77,178**	**77,309**	**77,859**	**81,018**
Policy Measures	15	1,161	443	319
Parameter and other budget variations	479	(209)	(267)	(655)
Other	129	(142)	(232)	(261)
Total movement	623	**810**	**(56)**	**(597)**
Revenues - 2016-17 Half - Yearly Review	**77,800**	**78,118**	**77,804**	**80,421**
Policy measures				
Total policy meaures (a)	...	**274**	**(128)**	**(213)**
Parameter and other budget variations				
Transfer Duty	484	277	478	676
Payroll Tax	(61)	(74)	(132)	(197)
Other Taxes	(146)	(22)	72	122
Royalties	193	277	151	12
GST	(227)	(52)	(10)	(283)
National Partnerships payments	(520)	(97)	936	223
National Agreement payments	(67)	215	230	285
Other Commonwealth payments and other grants	103	17	(33)	250
Interest income	99	(120)	(143)	(138)
Sales of goods and services	236	456	252	(138)
Dividends and income tax equivalents from other sectors	40	819	497	579
Other dividends and distribtuions	442	56	219	212
Fines, regulatory fees and other revenues	(365)	(340)	(161)	360
Other	(3)	81	193	301
Total parameter and other budget variations	**208**	**1,492**	**2,548**	**2,263**
Total new policy and parameter and other budget variations	**208**	**1,766**	**2,420**	**2,050**
Revenues - 2017-18 Budget	**78,008**	**79,885**	**80,224**	**82,471**

(a) See Table 5.2 for details

5.2 Revenue measures

The revenue measures announced in the 2017-18 Budget will help ease the burden of taxation for first home buyers and businesses across New South Wales (see Table 5.2). The total impact of these measures is $277 million over the four years.

Table 5.2: Revenue Measures Announced in the 2017-18 Budget

	2016-17 $m	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m
Measures reducing taxation revenue					
Abolish Insurance Duty on commercial vehicle insurance for small business	...	(11)	(22)	(23)	(24)
Abolish Insurance Duty on professional indemnity insurance for small business	...	(11)	(23)	(24)	(25)
Abolish Insurance Duty on product and public liability insurance for small business	...	(20)	(43)	(45)	(47)
First Home Buyers Transfer Duty Exemption	...	(187)	(310)	(312)	(314)
Abolish Insurance Duty on lenders mortgage insurance	...	(28)	(30)	(31)	(33)
Abolish Insurance Duty on crop and livestock insurance	...	(2)	(3)	(3)	(4)
Foreign developer surcharge rebates	...	(6)	(8)	(10)	(10)
Deferral of Fire and Emergency Services Levy (FESL)	...	(894)	(897)	(883)	(884)
Measures increasing taxation revenue					
Increase rate of Foreign Investor Surcharge on Transfer Duty	...	111	151	156	164
Increase rate of Foreign Investor Surcharge on Land Tax	...	69	75	81	86
Target off-the-plan deferral of Transfer Duty to owner occupiers	...	380	110	20	20
Reintroduction of Emergency Services Levy	...	794	793	783	783
Increase in Insurance Duty due to reintroduction of Emergency Services Levy	...	79	79	78	78
Total New Measures	**...**	**274**	**(128)**	**(213)**	**(210)**

Measures to reduce the cost of insurance

Insurance duty exemptions for small business

From 1 January 2018, small businesses with aggregate turnover less than $2 million will be exempt from insurance duty on their premiums for commercial vehicle insurance, professional indemnity insurance, and product and public liability insurance (See Box 5.1).

Combined, these measures are forecast to reduce revenue by $318.0 million over the four years to 2020-21. These tax cuts will encourage small businesses to take up more appropriate levels of insurance by removing the disincentive caused by higher insurance premiums. They will complement other Government measures designed to support the small business sector, which plays a key role in the growth of the New South Wales economy, and job creation.

Abolition of insurance duty on crop and livestock insurance for farmers

Insurance duty on crop and livestock insurance will be abolished from 1 January 2018. This measure will help farmers with everyday expenses by reducing their insurance costs. This is forecast to reduce revenue by $12.0 million over the four years to 2020-21.

Measures to improve housing affordability

First home buyer assistance

To help first home buyers enter the property market, first home buyers grants and concessions will be restructured to reduce the burden of transfer duty. From 1 July 2017, first home buyers will be exempt from transfer duty for both new and existing properties valued up to $650,000, with discounts up to $800,000. The First Home Owner Grant will be retained for buyers of new homes worth up to $600,000, and for those building their first home worth up to $750,000.

First home buyer assistance measures will also be available to purchasers under shared equity arrangements with Community Housing Providers. Changes to transfer duty concessions for first home buyers are forecast to save first home buyers $1.1 billion over the four years to 2020-21.

Abolition of insurance duty on lenders mortgage insurance

From 1 July 2017, insurance duty on lenders mortgage insurance will be abolished. Lenders mortgage insurance is applied by banks, generally when homebuyers have less than 20 per cent deposit. This tax cut is designed to help home buyers saving for their deposits. Abolition of insurance duty applied to lenders mortgage insurance is forecast to save home buyers $122.0 million over the four years to 2020-21.

Increase foreign investor transfer duty and land tax surcharge

From 1 July 2017 the foreign investor transfer duty surcharge will increase from 4.0 per cent to 8.0 per cent. Similarly, the land tax surcharge of 0.75 per cent will increase to 2.0 per cent per annum from the 2018 land tax year. Combined, these measures are forecast to generate additional revenue of $893.0 million over the four years to 2020-21 and assist NSW residents buying their first home. Minor amendments to surcharge liabilities are also being introduced for returning permanent residents, and for commercial residential property including purpose built student accommodation.

Foreign developer surcharge rebates

The application of surcharges to foreign-owned residential property developers places these developers at a competitive disadvantage relative to Australian-owned developers. To avoid any adverse impact this may have on the supply of new dwellings, Australian-based foreign-owned developers will be granted a refund of surcharges paid, provided they sell developed properties within 5 years. The new arrangements will be backdated to apply from the commencement of the surcharges.

Target off-the-plan deferral of transfer duty to owner occupiers

First home buyers often face strong competition for off-the-plan properties from investors. To help counter this and assist families in purchasing their first home off the plan the current concession for residential off-the-plan purchases (which allows for a delay of up to 12 months in the payment of duty) will be targeted to owner occupiers only.

Deferral of Fire and Emergency Services Levy

In May 2017, the Government announce its decision to defer the introduction of the Fire and Emergency Services Levy (FESL), with effect from 2017-18, and to reinstate the insurance based Emergency Services Levy (ESL). This decision has avoided administration and implementation costs associated with the FESL which were to have been recovered through FESL revenues. As a result, a lower amount of revenue will be generated by the ESL and consequential insurance duty than would have been generated by the FESL, offset by lower costs.

5.3 General government sector revenue

Table 5.3 provides a summary of general government sector revenue.

Table 5.3: General government sector summary of revenue

	2015-16 Actual $m	2016-17 Revised $m	2017-18 Budget $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	% Average Growth p.a. 2016-17 to 2020-21
Revenue from transactions							
Taxation	29,088	30,430	31,560	32,646	34,250	35,617	4.0
Grant revenue (including GST)	30,080	31,749	31,860	30,973	31,028	31,562	(0.1)
Sales of goods and services	8,390	8,475	8,976	9,181	9,009	8,570	0.3
Interest income	784	830	413	328	335	334	(20.3)
Dividends and income tax equivalents from other sectors	1,280	1,106	1,620	1,388	1,594	1,405	6.2
Other dividends and distributions	673	1,062	1,016	1,252	1,283	1,399	7.1
Royalties	1,189	1,558	1,665	1,574	1,520	1,530	(0.5)
Fines, regulatory fees and other revenues	3,049	2,798	2,774	2,882	3,451	3,353	4.6
Total revenue	**74,532**	**78,008**	**79,885**	**80,224**	**82,471**	**83,770**	**1.8**
Annual change		*4.7%*	*2.4%*	*0.4%*	*2.8%*	*1.6%*	
Revenue without National Partnerships	**71,910**	**73,825**	**76,414**	**77,731**	**80,725**	**82,604**	**2.8**
Annual change		*2.7%*	*3.5%*	*1.7%*	*3.9%*	*2.3%*	

In 2016-17, transfer duty will exceed expectations in the 2016-17 Budget, reflecting the ongoing strength in the property market as well as one-off transfer duty payments from the partial leases of Ausgrid and Endeavour Energy, which by convention are not recorded until transactions are complete. Commonwealth GST and other grants are expected to be lower than 2016-17 forecasts, offset by an increase in royalties as a result of higher than anticipated coal export prices (see Chart 5.1).

Chart 5.1: Influences on 2016-17 total revenue budget forecast versus 2016-17 revised estimate

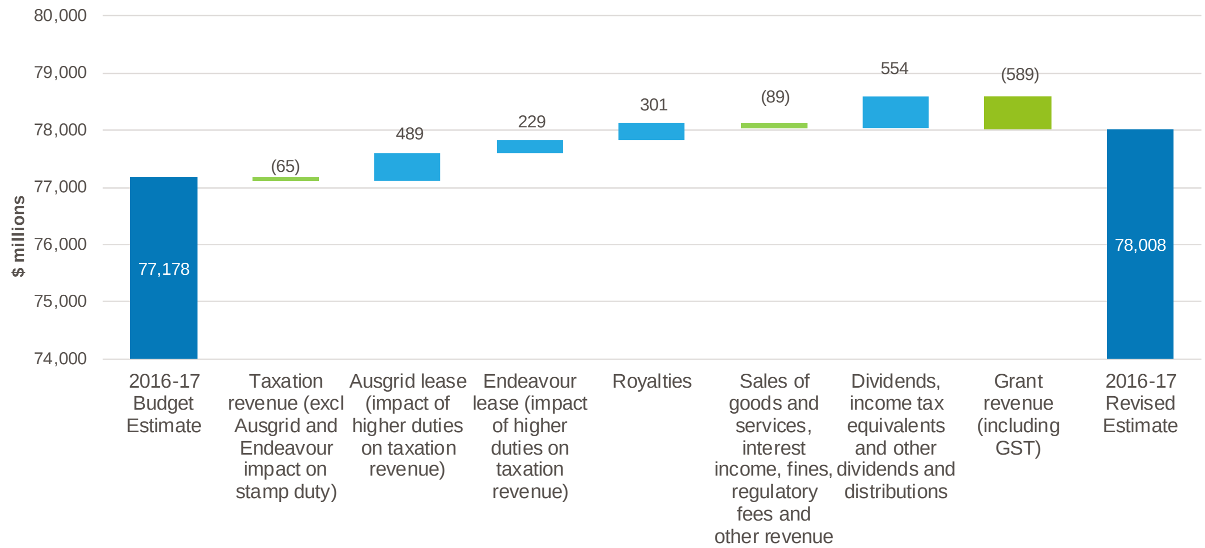
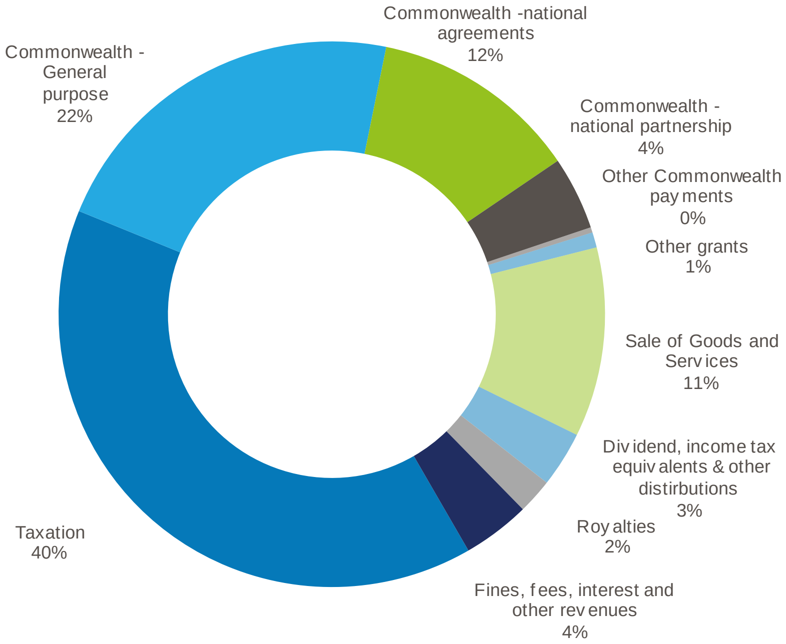


Chart 5.2 shows the composition of total revenue in 2017-18. Taxation revenue accounts for around 39.5 per cent of the total, while Commonwealth Government funding accounts for 39.0 per cent.

Chart 5.2: Composition of total revenue, 2017-18



5.4 Taxation revenue

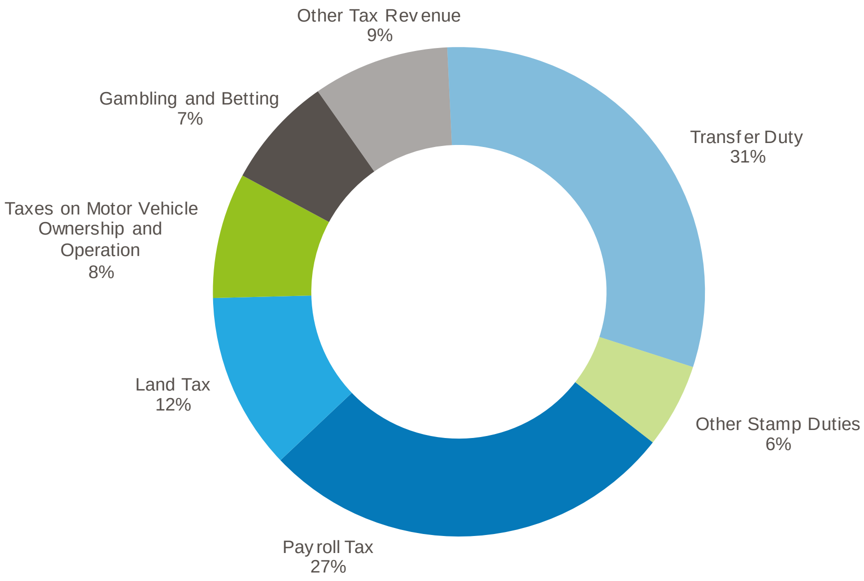
State taxation revenue is forecast to be $31.6 billion in 2017-18, with growth over the four years to 2020-21 expected to average 4.0 per cent a year. The pace of growth is expected to remain solid with strong growth in motor vehicle taxes and land tax offset by weaker revenue growth from stamp duties and gambling taxes (see Table 5.4).

Table 5.4: General government sector summary of taxation revenue

	2015-16 Actual $m	2016-17 Revised $m	2017-18 Budget $m	2018-19 Forward Estimates $m	2019-20 $m	2020-21 $m	% Average Growth p.a. 2016-17 to 2020-21
Stamp duties							
Transfer duty	8,805	9,634	9,699	9,866	10,319	10,757	2.8
Insurance	939	956	927	918	962	1,007	1.3
Mortgages	256	15	...	...	...	...	(100.0)
Marketable securities	52	14	...	...	...	...	(100.0)
Motor vehicles	786	817	834	864	896	928	3.2
Other	0	0	0	0	0	0	...
	10,836	**11,436**	**11,460**	**11,648**	**12,177**	**12,692**	**2.6**
Payroll tax	**7,931**	**8,225**	**8,635**	**8,992**	**9,448**	**9,926**	**4.8**
Land tax	**2,747**	**3,235**	**3,685**	**3,952**	**4,162**	**4,334**	**7.6**
Taxes on motor vehicle ownership and operation							
Weight tax	1,989	2,052	2,144	2,277	2,405	2,543	5.5
Vehicle registration and transfer fees	407	415	430	448	473	492	4.3
Other motor vehicle taxes	39	41	42	44	46	48	4.0
	2,434	**2,508**	**2,616**	**2,769**	**2,924**	**3,083**	**5.3**
Gambling and betting taxes							
Racing	134	112	111	99	87	65	(12.8)
Club gaming devices	775	775	800	826	855	884	3.3
Hotel gaming devices	680	731	766	806	848	893	5.1
Lotteries and lotto	362	346	363	373	381	389	3.0
Casino	285	278	278	286	390	303	2.2
Other gambling & betting	15	16	17	17	18	18	3.6
	2,251	**2,258**	**2,334**	**2,407**	**2,578**	**2,552**	**3.1**
Other revenues							
Health insurance levy	193	199	207	216	227	238	4.6
Parking space levy	104	104	106	108	110	113	2.1
Emergency services levy contributions	769	785	794	793	783	783	(0.1)
Waste and environment levy	704	641	565	516	522	527	(4.8)
Government guarantee fee	469	395	319	374	418	437	2.5
Private transport operators levy	22	36	68	68	68	68	16.9
Pollution control licences	28	28	29	30	31	31	2.4
Other taxes	598	579	742	774	802	832	9.5
	2,889	**2,768**	**2,829**	**2,878**	**2,961**	**3,030**	**2.3**
Total taxation revenue	**29,088**	**30,430**	**31,560**	**32,646**	**34,250**	**35,617**	**4.0**
Annual change		*4.6%*	*3.7%*	*3.4%*	*4.9%*	*4.0%*	

Chart 5.3 shows the composition of taxation revenue in 2017-18. Transfer Duty accounts for 30.7 per cent of the total, while Payroll Tax accounts for 27.4 per cent.

Chart 5.3: Composition of taxation revenue, 2017-18



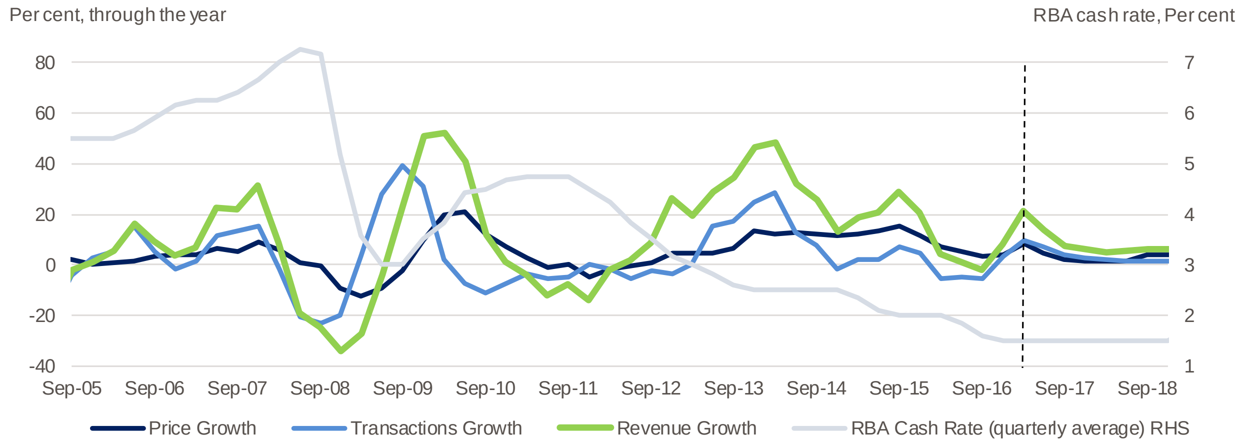
Transfer duty

Since the 2016-17 Budget, transfer duty revenue in 2016-17 has been revised up by $856.9 million, reflecting one-off transfer duty payments from the partial lease of Ausgrid and Endeavour Energy as well as stronger than expected price and volume growth in the residential property sector. Excluding revenue from large one-off transactions, over the budget and forward estimates transfer duty revenues are forecast to grow strongly, but to ease relative to recent growth at an average rate of 4.8 per cent per annum.

In the 2016-17 Budget, duty on residential property transfers was expected to increase by 5.5 per cent in 2016-17. Revenue from residential property transfers is now estimated to have increased by 9.6 per cent in 2016-17.

Looking forward, historically low interest rates, record housing completions and new revenue measures relating to foreign investors are expected to support transfer duty growth in 2017-18 and over the forward estimates, albeit at lower rates than in recent years (see chart 5.4). However, macro-prudential regulations along with new Commonwealth measures are expected to moderate activity in the housing market in 2017-18. Accordingly, residential transfer duty revenue is expected to grow by 5.9 per cent in 2017-18 and then moderate to an average growth rate of 5.4 per cent over the forward estimates.

Chart 5.4: Residential transfer duty, housing transactions and interest rates



Other stamp duties

Other stamp duties include duties on general and life insurance and the transfer of new and used motor vehicles. Stamp duty on insurance is expected to grow at an average annual rate of only 1.3 per cent over the four years to 2020-21, due to the abolition of duty on small business policies, crop and livestock insurance, and lenders mortgage insurance.

Duty on motor vehicle transfers is expected to grow by 3.2 per cent per annum over the four years to 2020-21. This reflects growth in the number of motor vehicle sales and expected vehicle price growth in line with inflation.

Box 5.1: Helping small business by lowering insurance costs

This Budget introduces a range of measures to reduce the insurance costs of approximately 677,000 small businesses with a turnover of less than $2 million in New South Wales. Duty on three types of insurance products will be abolished for small business from 1 January 2018; commercial vehicle insurance, professional indemnity insurance, and product and public liability insurance.

Reductions in these duties can be expected to be passed on to small business through reductions in premiums, given that the insurance market is competitive and that many small businesses are vigilant in managing their insurance costs.

Eligibility will be based on the Commonwealth definition of a small business that applies to their Capital Gains Tax (CGT) concession.

The abolition of insurance duty on commercial vehicle insurance for small businesses, which includes aviation insurance, will save small businesses $80.0 million over four years to 2020-21. The current duty payable on this insurance is 5.0 per cent of the premium which encourages under insurance for commercial vehicles.

The abolition of insurance duty on professional indemnity insurance for small businesses (not including medical indemnity insurance) will save small businesses $83.0 million over four years to 2020-21. Professional indemnity insurance helps protect individuals and companies from bearing the full cost of any negligence claims made by clients. The current duty payable on this insurance is 5 per cent of the premium.

The abolition of insurance duty on product and public liability insurance for small businesses will save small businesses $155 million over four years to 2020-21. Product and public liability insurance protects businesses from claims relating to injury from products or from activities affecting third parties. The current duty payable on this insurance is 9 per cent of the premium.

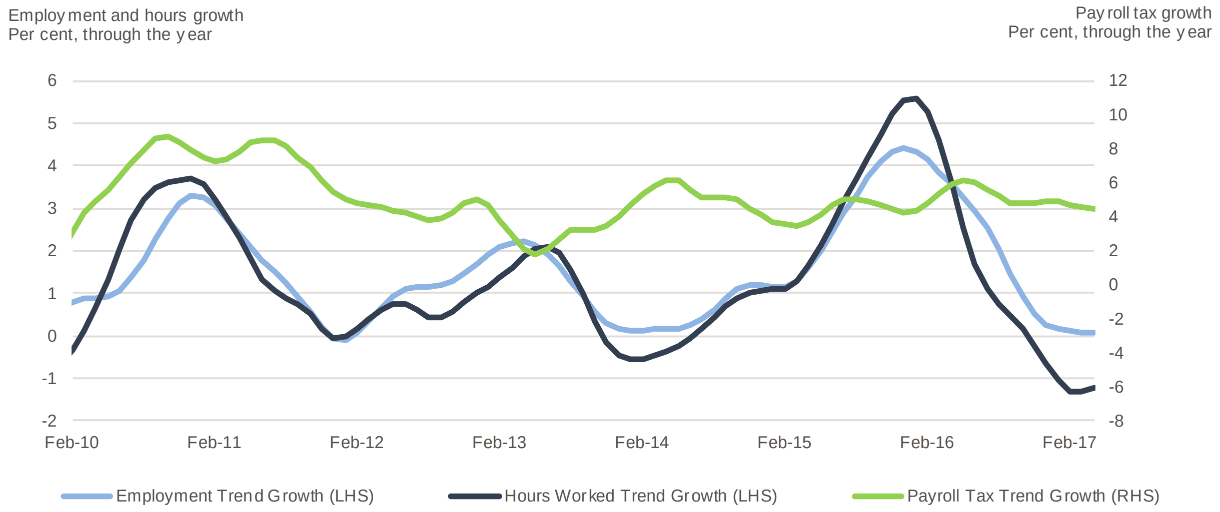
Payroll tax

Payroll tax is forecast to grow at an annual average rate of 4.8 per cent over the four years to 2020-21.

Payroll tax revenue for 2016-17 has been revised down by $22.9 million from the 2016-17 Budget, reflecting softer than expected wages growth and employment growth over the past year. Payroll tax receipts have remained higher than the pattern of employment and wages growth would suggest, as a result of strong compliance activity (see Chart 5.5).

While the slowdown in employment is expected to be temporary, payroll tax revenue has been revised down from the 2016-17 Budget by $512.7 million over the four years to 2019-20. This reflects a softer wages outlook as spare capacity in the national labour market puts downward pressure on wage growth.

Chart 5.5: Growth of payroll tax, employment and hours worked



Land tax

Land tax is payable on a landowners' total land holdings, excluding the value of a landowner's principal place of residence and farming land. The primary threshold for the 2017 land tax year is $549,000, with the premium threshold set at $3,357,000. Land tax assessments are issued for a calendar year and are based on the average of land values in the previous three calendar years. Averaging has the effect of smoothing annual variations in land values, increasing near-term predictability for taxpayers and the Government.

Land tax revenue is forecast to grow at an annual average rate of 7.6 per cent in the four years to 2020-21, reflecting strong growth in land values and an increase in the foreign investor land tax surcharge from 0.75 per cent to 2.0 per cent from the 2018 land tax year.

Taxes on motor vehicle ownership and operation

Motor vehicles are subject to an annual weight tax and a fee for vehicle registration. Forecast growth in revenue reflects estimates of vehicle fleet growth and CPI indexation of the tax rates. Revenue is expected to grow at 5.3 per cent per annum on average over the four years to 2020-21.

Gambling taxes

Gambling tax revenue is forecast to grow on average by 3.1 per cent per annum over the four years to 2020-21. Revenue from racing is expected to decrease by 12.8 per cent per annum over the four years to 2020-21 following the Government's decision in 2015-16 to bring wagering tax rates in line with those in Victoria. The changes commenced on 1 July 2015 and the reductions will be phased-in over five years with parity to be reached in 2020-21.

At the last meeting of the Council on Federal Financial Relations, the States and Commonwealth agreed to consider a common national approach to a point of consumption tax on wagering. To support that work, the New South Wales Government is assessing the impact of changing taxation on gambling from location of supplier to the point of consumption for New South Wales.

Revenue risks

Appendix B of this Budget Statement sets out general budget risks, including the sensitivity of total revenue to changes in economic conditions.

5.5 Grant revenue

In 2017-18, New South Wales is expected to receive $31.1 billion in Commonwealth Government untied payments for general purposes (primarily GST), tied grants for National Agreements and National Partnerships and other Commonwealth payments.

Total Commonwealth Government grant revenue is expected to decrease by 0.2 per cent on an annual average basis over the four years to 2020-21 (see Table 5.5).

Table 5.5: Grant revenue

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	% Average growth p.a. 2016-17 to 2020-21
	Actual	Revised	Budget	Forward Estimates			
	$m	$m	$m	$m	$m	$m	
Commonwealth - general purpose	17,637	17,208	17,592	17,637	17,593	18,286	1.5
Commonwealth - national agreements	8,623	9,117	9,824	9,749	10,276	10,818	4.4
Commonwealth - national partnership	2,622	4,183	3,470	2,493	1,746	1,166	(27.3)
Other commonwealth payments	290	243	251	245	256	269	2.6
Total Commonwealth grants	**29,172**	**30,751**	**31,137**	**30,124**	**29,871**	**30,538**	**(0.2)**
Annual change in Commonwealth grants		*5.4%*	*1.3%*	*-3.3%*	*-0.8%*	*2.2%*	
Other grants	907	998	723	849	1,157	1,023	0.6
Total grant revenue	**30,080**	**31,749**	**31,860**	**30,973**	**31,028**	**31,562**	**(0.1)**

General purpose grants - GST

In 2016-17, GST revenue is expected to be $448.6 million lower than 2016-17 Budget as a result of overpayments in 2015-16 and GST collections being below forecasts.

Over the four years to 2019-20 revenue has been revised down by $1.4 billion compared with the 2016-17 Budget (see Table 5.6). This is due to forecast national GST receipts shrinking by $7.5 billion (2.9 per cent) over the four years to 2019-20 from forecasts in the 2016-17 Commonwealth Budget. The reduction has been partly offset by an increase in forecast relativities and population share for New South Wales relative to the 2016-17 Budget.

GST revenue is forecast to experience record low growth of 1.5 per cent on average per annum over the four years to 2020-21, representing a decline in GST revenue in real terms. This is due to New South Wales' share of GST per capita (or relativity) falling to 0.79 - the lowest since the GST was introduced (see Chart 5.6) – as well as slower growth in the GST pool. These trends in GST revenue contribute to softer growth in total revenue of 1.8 per cent compared to this time last year.

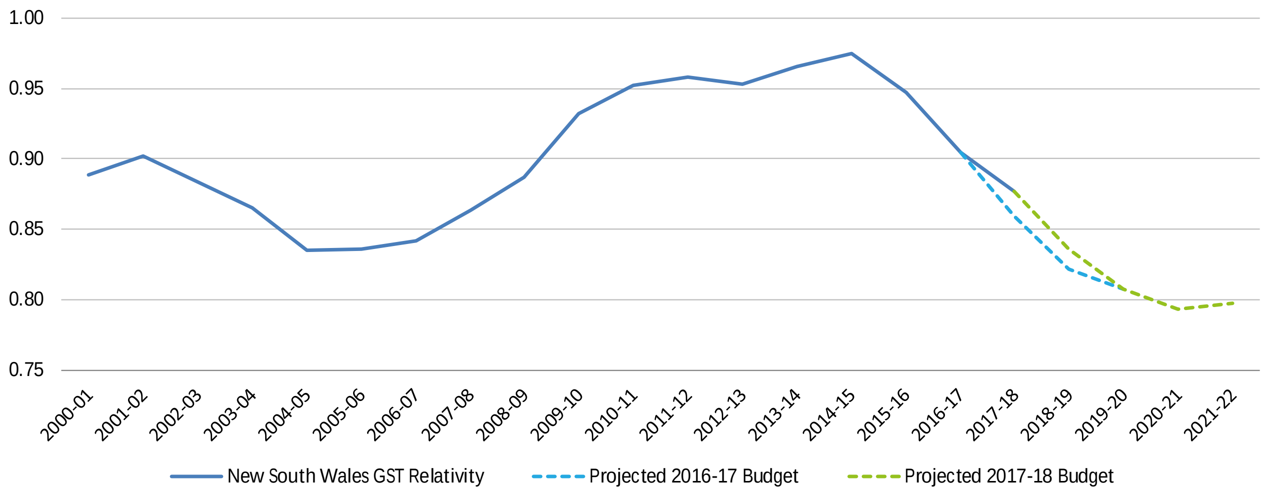
The New South Wales Government welcomes the Productivity Commission Inquiry into Horizontal Fiscal Equalisation (HFE). New South Wales has long called for HFE to be reformed, arguing for a move towards distribution closer to an equal per capita basis. The current system penalises New South Wales for having the nation's strongest performing economy and discourages states from undertaking productivity boosting reforms.

Box 5.2 further discusses GST revenues and the long overdue and necessary reform of the system that determines how it is distributed amongst states and territories.

Table 5.6: GST revenues to New South Wales – reconciliation statement

	2016-17 $m	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m	Total 4 years to 2019-20
2016-17 Budget	**17,634**	**17,644**	**17,768**	**18,243**		**71,289**
Change due to:						
2015-16 adjustment	(36)	...	...	...	...	(36)
Change in population	...	...	...	...	...	...
Change in pool	(186)	(36)	(36)	(36)	...	(294)
Change in relativities	0	(2)	(115)	(369)	...	(486)
2016-17 Half- Yearly Review	**17,413**	**17,607**	**17,617**	**17,839**	**18,327**	**70,475**
Change due to:						
Change in population	...	7	7	29	35	43
Change in pool	(228)	(324)	(167)	(654)	(404)	(1,373)
Change in relativities	...	264	150	342	292	757
2017-18 Budget	**17,186**	**17,554**	**17,607**	**17,555**	**18,250**	**69,902**
Change since 2016-17 Budget	**(449)**	**(90)**	**(161)**	**(688)**	**na**	**(1,387)**

Chart 5.6: New South Wales per capita relativity



Box 5.2: The distribution of GST revenue is broken and needs reform

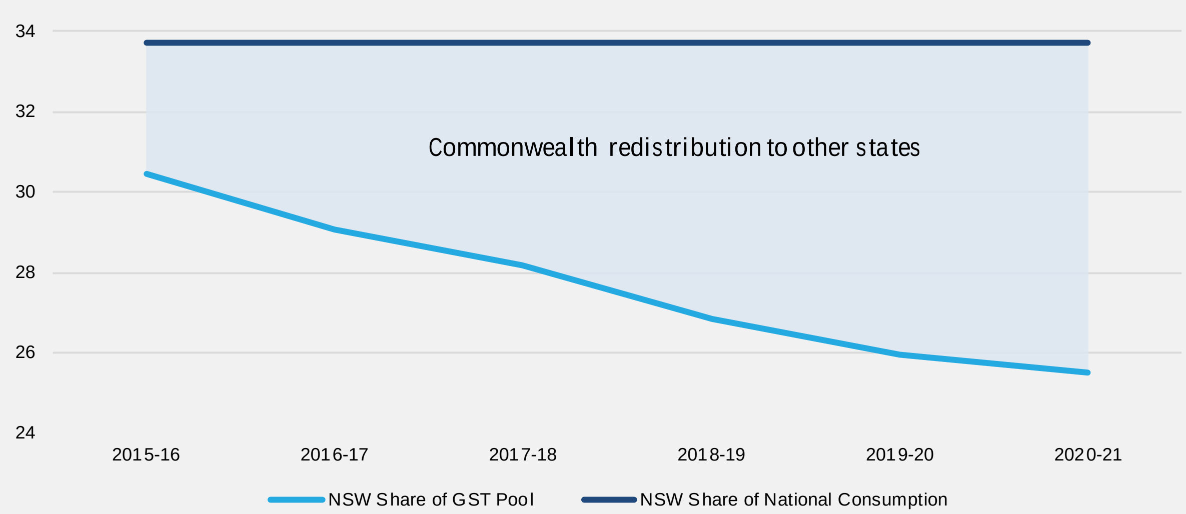
GST revenues are unequally distributed amongst the states and territories according to the principle of Horizontal Fiscal Equalisation (HFE), calculated by the Commonwealth Grants Commission (CGC).

By 2020-21, New South Wales' GST revenue share relative to its population share is expected to decline to a historic low of 0.79 – largely reflecting NSWs' strong economic performance.

A fairer and more efficient distribution would return a significant amount of GST revenue back to New South Wales. For example, if GST was distributed according to an equal per capita (EPC) system (that is, our population share of 32.0 per cent), New South Wales would receive an extra $14.7 billion in revenue over the four years to 2020-21.

Even under this model, New South Wales taxpayers would still contribute more to GST revenue than the NSW government would receive. Chart 5.7 shows that our share of national consumption is approximately 33.7 per cent. Under the current system we expect to receive 28.2 per cent of the GST pool in 2017-18. This falls to 25.5 per cent by 2020-21. Under a model where GST is distributed according to share of national consumption, New South Wales would receive an extra $19.1 billion over the four years to 2020-21.

Chart 5.7: New South Wales share of GST pool



New South Wales has long argued that the current GST distribution model is broken and should be reformed. While New South Wales broadly supports Horizontal Fiscal Equalisation (HFE), the Government believes that that the distribution model should not impede national reform and economic growth. The Government, therefore, welcomes the Productivity Commission's *Inquiry into the Horizontal Fiscal Equalisation System.*

The current distribution model is complex, lacks transparency, adds to budget uncertainty, relies too heavily on the CGC's judgement and discourages initiative and reform by the states.

National Agreements

Table 5.7 summarises the National Agreement payments by key service delivery area. Revenue from National Agreements is forecast to total $9.8 billion in 2017-18, an increase of 7.8 per cent on 2016-17, and is expected to increase at an annual average rate of 4.4 per cent over the four years to 2020-21.

Compared to the Commonwealth Government 2016-17 MYEFO New South Wales will receive an additional $822.2 million over the four years from 2017-18 to 2020-21 for all New South Wales schools (see Box 5.3).

New South Wales will no longer receive grants under the National Disability Agreement from 2018-19, as payments will be made directly to clients and service providers under the National Disability Insurance Scheme.

Under changes to the National Health Reform funding from the Commonwealth, New South Wales will receive less public hospital funding compared to the Commonwealth Government 2016-17 MYEFO. See Box 5.4 for further information on public hospitals funding.

Table 5.7: National Agreement and other payments to New South Wales (a)

	2015-16 Actual $m	2016-17 Revised $m	2017-18 Budget $m	2018-19 Forward Estimates $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	% Average growth p.a. 2016-17 to 2020-21
Health	5,510	5,699	6,046	6,350	6,707	7,083	5.6
Education	1,758	2,036	2,261	2,403	2,557	2,716	7.5
Skills and workforce development	467	473	480	487	495	495	1.2
Affordable housing	425	430	436	473	480	488	3.2
Disability	462	478	495	...	...	...	(100.0)
Other	2	0	105	36	36	36	208.0
Total National Agreement and other payments	**8,623**	**9,117**	**9,824**	**9,749**	**10,276**	**10,818**	**4.4**

(a) Excludes payments 'through the state' such as non-government school funding

Box 5.3: Schools funding

The 2017-18 Commonwealth Budget announced an additional $822.2 million for all New South Wales schools (over four years from 2017-18 to 2020-21), compared to the previous Commonwealth 2016-17 MYEFO. The government sector will receive $711.5 million and the non-government sector will receive $110.7 million.

However, this is still a loss of at least $1.8 billion in funding over the same period compared to the signed National Education Reform Agreement.

As part of its 2017-18 Budget, the Commonwealth Government announced a Review to Achieve Educational Excellence in Australian Schools to provide advice on how the additional Commonwealth Government funding should be used to improve school performance and student achievement.

The review will make recommendations on the most effective teaching and learning strategies to reverse declining results and seeks to raise the performance of schools and students. The final report will be provided to the Government no later than December 2017, ahead of the negotiation of new school reform agreements with states and territories in the first half of 2018.

With teacher quality being a key determinant of student outcomes, New South Wales advocates that the Review makes recommendations on initiatives that support improving teacher quality. New South Wales's view is that the review, and the Commonwealth Government, should also build on existing jurisdictional reform efforts.

New South Wales already has a rich education evidence base through the Department of Education's Centre for Education Statistics and Evaluation. The Centre undertakes in-depth analysis of education practices and their effectiveness with New South Wales being well placed to understand and evaluate what works well in its schools.

Box 5.4: Funding for public hospitals

In New South Wales, as in other states and territories, public hospitals are funded by a mix of State and Commonwealth contributions. These funding arrangements are set out in the National Health Reform Agreement (NHRA).

In April 2016, COAG agreed to extend the NHRA to June 2020 but to introduce changes to hospital funding arrangements alongside a number of national reform initiatives. These changes will take effect from 1 July 2017.

Under the new arrangements the Commonwealth will fund 45 per cent of growth in public hospital activity at the national efficient price. This funding growth will be capped at 6.5 per cent each year for every State and Territory.

New South Wales is expected to receive $6.0 billion under the NHRA in 2017-18 which will finance almost 30 per cent of New South Wales's recurrent health expenditure. Alongside this, reforms will be introduced to improve the coordination of care for patients with complex chronic diseases and to improve the quality and safety of patient care.

COAG has agreed to settle new funding arrangements beyond June 2020 by the end of next year. This new agreement will be critical in ensuring the continued provision of world class health services in New South Wales and must provide certain, fair and sustainable funding to States.

The new agreement has the potential to significantly improve the value of the health system including by more effectively linking the primary and hospital care sectors and doing more to keep people well and healthy. New South Wales will also be advocating reforms to the national framework to strengthen the link between spending and the health outcomes achieved for patients.

National Partnerships

The Commonwealth Government provides National Partnership payments to the states to support the delivery of specified projects, to facilitate reforms or to reward those jurisdictions that deliver on national reforms or achieve service delivery improvements.

Table 5.8 summarises the payments for National Partnerships by key service delivery area. New South Wales will receive $8.9 billion in National Partnership payments over the four years to 2020-21. Revenue from National Partnership payments over the four years to 2020-21 is forecast to decline by an average of 27.3 per cent per annum.

Table 5.8: National Partnership payments to New South Wales

	2015-16 Actual $m	2016-17 Revised $m	2017-18 Budget $m	2018-19 Forward Estimates $m	2019-20 $m	2020-21 $m	% Average growth p.a. 2016-17 to 2020-
Roads and Rail including ARI	1,699	3,385	2,857	2,149	1,552	982	(26.6)
Education and skills	247	308	135	60	6	6	(62.1)
Nation building plan for the future	...	16	...	...	...	...	(100.0)
Health	160	136	125	124	91	90	(9.8)
Housing	78	30	30	...	...	...	(100.0)
Environment	56	74	82	71	9	...	(100.0)
Other	382	235	241	87	88	88	(21.8)
Total National Partnership Payments	**2,622**	**4,183**	**3,470**	**2,493**	**1,746**	**1,166**	**(27)**

National Partnership payments for roads and rail decline over the forward estimates due to the up-front funding profile for major infrastructure projects such as the Western Sydney Infrastructure Plan and the Pacific Highway. The fall over the forward estimates is also due to significant payments under the Assets Recycling Initiative being received in 2016-17 ($1.0 billion) and 2017-18 ($847.7 million).

Since the 2016-17 Budget, funding for roads and rail has increased significantly in 2018-19 and 2019-20 due to re-profiling of Commonwealth funding in the 2017-18 Commonwealth Budget. These increases also reflect the recognition of Asset Recycling Initiative following the completion of the electricity networks and Land and Property Information (LPI) transactions.

National Partnership payments in the education sector are expected to decline over the forward estimates mainly due to the expiry of agreements on early childhood education. New funding agreements covering these sectors are expected to be developed in the second half of 2018.

Housing-related National Partnership payments fall to zero over the forward estimates due to the expiry of the transitional agreement on homelessness in June 2018. A new intergovernmental agreement covering housing and homelessness is currently being developed, which is expected to replace this funding from 2018-19.

National Partnership payments for environment decline over the forward estimates due to the expiry of the agreement on Murray-Darling Basin reform and the National Partnership Agreement on Water for the Future.

The decline in other National Partnership payments is driven by the expiry of a transitional agreement related to aged care and disability services. This and most other disability-related payments that previously were provided by the Commonwealth Government to New South Wales will end after 2017-18 as part of the National Disability Insurance Scheme arrangements.

Federal Financial Relations

In 2017-18, the NSW Government will pursue the following objectives in its relations with the Commonwealth Government and other states and territories:

- work toward a more dynamic form of federalism that as a minimum, removes disincentives for states to pursue fiscal and economic reform, while securing a sustainable and flexible revenue base for New South Wales over the medium term
- pursue opportunities to reform the current system of GST distribution, so that it encourages efficient service delivery and provides incentives for reforms that drive national productivity and growth (see Box 5.2)
- improve economic and fiscal outcomes for the state in the negotiation of National Agreements and National Partnerships, to ensure that government services meet the expectations and needs of the people of New South Wales
- New South Wales requires certain and stable Commonwealth Government funding, with the autonomy and flexibility necessary to continue delivering high quality services and infrastructure for the people of New South Wales.

Other grants and subsidies

Other grants and subsidies are expected to fall from $998.4 million in 2016-17 to $722.6 million in 2017-18, primarily due to an increase in projected Government Property NSW and Place Management NSW asset sales deposited into Restart NSW which is not treated as revenue. Other grants and subsidies revenue are forecast to increase by 0.6 per cent on an annual average basis over the four years to 2020-21.

Sale of goods and services

Revenue from the sales of goods and services is forecast to increase by 0.3 per cent on an average annual basis over the four years to 2020-21 (See Table 5.9).

In 2016-17, revenue from sales of goods and services is forecast to be $280.8 million higher than at the 2016-17 Budget. This primarily reflects increased Commonwealth funding provided under the Highly Specialised Drugs arrangements due to the new Hepatitis C treatments being higher than expected. This is partially offset by lower revenue from Transport for NSW, reflecting the delay in *More Trains, More Services* from 2016-17 to 2017-18. Further increases in 2017-18 and 2018-19 are primarily due to bringing forward the New Intercity Fleet and the commencement of Central Walk.

Table 5.9: Sales of goods and services

	2015-16 Actual	2016-17 Revised	2017-18 Budget	2018-19	2019-20 Forward Estimates	2020-21
	$m	$m	$m	$m	$m	$m
Rents and leases	170	171	182	181	187	204
Fees for service	2,129	2,051	2,480	2,299	2,044	1,352
Entry fees	51	61	52	52	53	53
Patient fees and hospital charges	983	1,040	1,135	1,199	1,264	1,332
Department of Veterans' Affairs	334	337	325	375	395	416
Court fees	121	121	125	126	129	133
Road tolls	153	152	156	160	164	168
Other sales of goods and services	4,451	4,543	4,521	4,789	4,773	4,911
Sales of goods and services	**8,390**	**8,475**	**8,976**	**9,181**	**9,009**	**8,570**

Royalties

Royalties over the four years to 2019-20 are expected to be $839.0 million higher than forecast in the 2016-17 Budget, reflecting an increase in coal prices, which has been partially offset by a higher Australian-US dollar exchange rate and lower coal exports.

The forecasts draw on current market expectations for the thermal coal price, which are for some reduction over the forward estimates, though at a higher level than for the 2016-17 Budget. Changes in the Chinese Government's domestic coal production limits contributed to substantial coal price rises in the first half of 2016-17, and may be a significant influence on future prices.

Dividends and income tax equivalents

Dividends and tax equivalent payments for 2016-17 are forecast to be $1.1 billion and total $6.0 billion over the period from 2017-18 to 2020-21. For further detail refer to Chapter 8 of this Budget Statement.

Other dividends and distributions

In 2016-17, other dividends and distributions are expected to be $621.2 million higher than expected in the 2016-17 Budget. This is due primarily to improved returns on SiCorp investments by TCorp. Over the four years to 2020-21, revenue is expected to increase by 7.1 per cent on average per annum. This is driven primarily by the transition of Restart NSW and Social and Affordable Housing Fund (SAHF) monies into TCorp managed unit trusts.

Interest income

Interest income in 2017-18 is forecast to be $416.7 million lower than in 2016-17. This is due to the transition of Restart NSW and Social and Affordable Housing Fund (SAHF) monies into higher yielding TCorp managed unit trusts. For these reasons, interest income is expected to decrease over the four years to 2020-21as investments are moved into higher return term assets, represented in the increase in Other dividends and distributions.

Fines, regulatory fees, licences and other revenue

Total revenue in this category is expected to grow by 4.6 per cent over the four years to 2020-21 (See Table 5.10). Special Infrastructure Contributions (SICs) are expected to increase significantly due to the SIC system being expanded to new regions.

Table 5.10: Fines, regulatory fees and other revenues

	2015-16 Actual	2016-17 Revised	2017-18 Budget	2018-19	2019-20 Forward Estimates	2020-21
	$m	$m	$m	$m	$m	$m
Fines	587	581	605	639	665	700
Regulatory fees	166	141	139	145	149	154
Licences	353	204	170	187	203	201
Other revenues	1,942	1,873	1,861	1,911	2,434	2,300
Total fines, regulatory fees and other revenues	**3,049**	**2,798**	**2,774**	**2,882**	**3,451**	**3,353**