5. REVENUE

- Total revenue for New South Wales in 2018-19 is estimated at $81.1 billion. This is $326.4 million more than anticipated in the 2017-18 Half-Yearly Review (HYR), driven by stronger grant revenue and investment distributions, partially offset by lower transfer duty.
- The NSW Government's revenue in 2018-19 and over the forward estimates reflects the move to a historic low GST relativity for New South Wales and a softening in residential transfer duty.
- New South Wales has embarked on a significant reform agenda, fuelled by asset recycling and public investment which has driven the State economy's performance. The State's falling GST share is a consequence of its economic success – this means a significant proportion of GST is being redistributed to other states.
- At the same time as a historic low in the NSW GST relativity, transfer duty revenue growth is moderating. This is partly explained by the Government's housing affordability measures, which have seen a significant increase in the number of first-home buyers, who are exempt from transfer duty.
- Transfer duty is forecast to grow at an average annual rate of 1.5 per cent in the four years to 2021-22; compared to 2.8 per cent in the four years to 2020-21 forecast in the 2017-18 Budget.
- Despite these revenue challenges, fiscal discipline enables this Budget to introduce further tax cuts, to ensure that New South Wales is the best place to do business. The payroll tax threshold will be increased from $750,000 to $850,000 from 1 July 2018 and then progressively increased to $1.0 million by 2021-22.
- Ten of the most common level 2 parking fines issued by the NSW Government will be reduced by 25 per cent in the first step of a major overhaul. New legislation will be introduced to allow local governments and other authorities the flexibility to charge lower amounts.

5.1 2018-19 Budget revenue measures

New revenue measures announced in the 2018-19 Budget will help reduce costs for small businesses and continue the Government's record in delivering tax cuts. There are also new measures to align taxes with other jurisdictions and improve the fairness of existing government fines and charges.

Table 5.1: Revenue measures announced in the 2018-19 Budget

	2018-19 $m	2019-20 $m	2020-21 $m	2021-22 $m
A new $1 million payroll tax threshold	(123)	(187)	(252)	(319)
Weight tax concession for caravans	(12)	(12)	(13)	(13)
Reducing top ten level 2 parking fines issued by the NSW Government	(2)	(2)	(2)	(2)
Point of consumption wagering tax	40	95	100	120
Road Safety Plan 2021	40	141	115	101
Total New Measures	**(57)**	**36**	**(51)**	**(113)**

A new $1 million payroll tax threshold

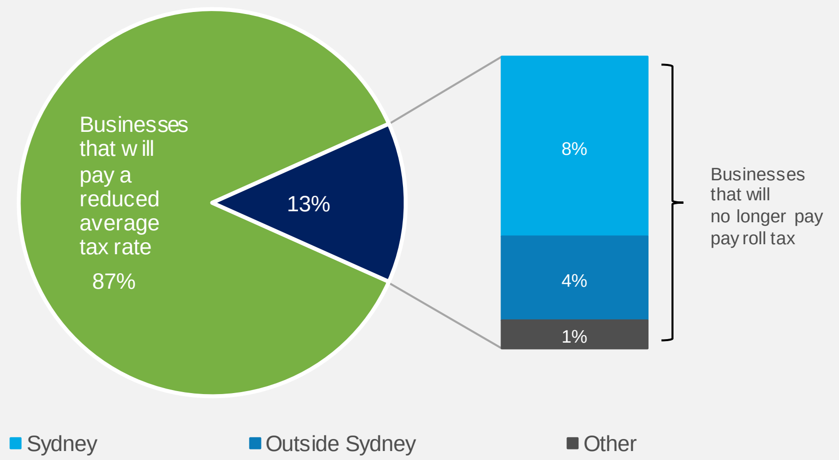
Over the next four years, the payroll tax threshold will be increased progressively from its current level of $750,000 to $1.0 million. The threshold will be $850,000 in 2018-19, $900,000 in 2019-20, $950,000 in 2020-21 and $1.0 million in 2021-22. By 2021-22, approximately 5,000 firms that would have paid payroll tax will be exempt, avoiding both the tax itself and the administrative costs of complying with the payroll tax system. Firms with payroll greater than $1.0 million will also save up to $13,625 annually from 2021-22 (see Box 5.1). This measure will reduce payroll tax revenue by $881.0 million in the four years to 2021-22.

Box 5.1: Higher payroll tax threshold to support small business

From 1 July 2018 the tax-free threshold for payroll tax will increase from $750,000 to $850,000. It will further increase by $50,000 in each subsequent year to reach $1.0 million in 2021-22. Taxable payroll includes salaries, superannuation, bonuses and fringe benefits paid to workers in New South Wales.

The increased thresholds will reduce the number of NSW small businesses subject to payroll tax by around 2,000 in 2018-19. This will grow to around 5,000 in 2021-22, of which around 1,500 are expected to be based outside of Sydney (see Chart 5.1). All industry sectors are expected to benefit from this reform, including more than 1,000 businesses in the manufacturing and construction sectors, as well as more than 800 businesses providing professional, scientific and technical services. These small businesses will be relieved of the cost pressures of payroll tax, as well as the administrative complexity of complying with payroll tax obligations.

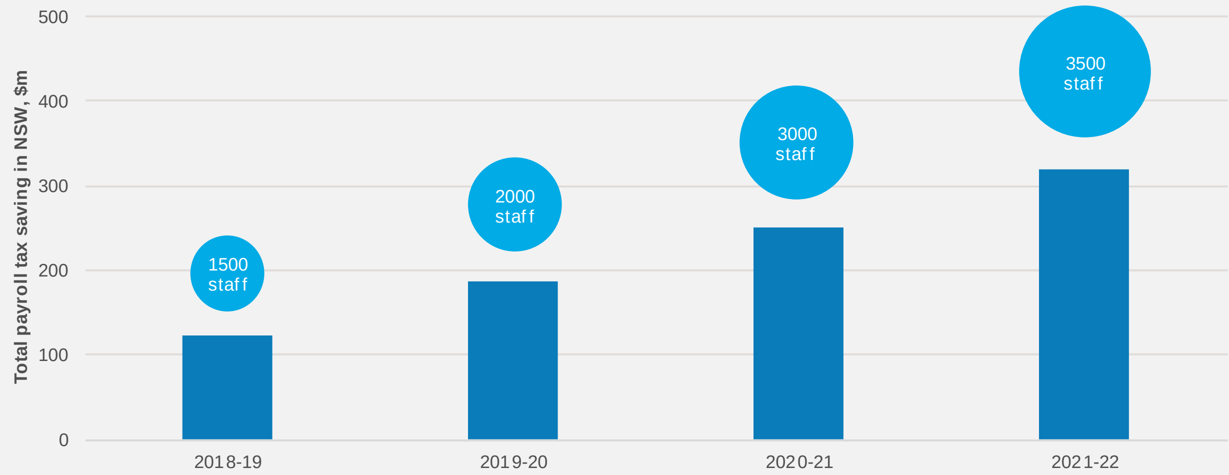
Chart 5.1: Payroll tax paying businesses affected by threshold changes



By 2021-22, firms that continue to be liable for payroll tax will save up to $13,625 each year as a result of the increased threshold. These cost savings could encourage new business investment and support the employment of up to 3,500 more workers by 2021-22 (see Chart 5.2).

Box 5.1: Higher payroll tax threshold to support small business (cont)

Chart 5.2: Payroll tax saving and potential employment impact



Note: Bubbles represent the cumulative number of staff that could potentially be employed based on the estimated total tax savings and the average NSW salary for a full-time equivalent.

The increase in the payroll tax threshold to $1.0 million by 2021-22 will ensure New South Wales has one of the highest thresholds of all states and will reduce the effective tax rate paid by businesses.

The NSW Government has also commenced a review of payroll tax administration, with the aim of improving its effectiveness and reducing compliance costs. The review is part of the NSW Productivity Commission's work agenda. It is open for feedback from all stakeholders until 6 July 2018 (see Box 4.3, Chapter 4 for more information).

Weight tax concession for caravans

From 1 November 2018, caravan motor vehicle weight tax will be reduced by 40 per cent to align registration fees with other states and territories. Customers with private-use caravans and purpose-built camper trailers with a gross vehicle mass between 255kg and 4.5 tonnes, whose registration is due from 1 November 2018, will be eligible for the reduction. As a result, caravan owners will save up to $471 per year. This measure will reduce revenue by $12.0 million in 2018-19, and an additional $37.8 million in the three years to 2021-22.

Reforming fines in New South Wales

Fines must balance fairness and deterrence. However, New South Wales' parking fines are high when compared with some interstate and international jurisdictions. As part of this Budget, the NSW Government has announced a package of reforms to address parking and other fines.

Ten of the most common level 2 parking fines, when issued by the NSW Government, will be reduced by 25 per cent in the first step of a major overhaul. This measure is estimated to reduce fines revenue by $1.6 million in 2018-19, and $4.8 million in the three years to 2021-22.

The Government will also introduce new legislation to set State fine amounts at maximums, providing local governments and other authorities the flexibility to charge lower amounts. A grace period for metered parking will also be investigated as part of this new common-sense approach to parking fines.

Furthermore, the Government will review all fines, excluding those that may impact road safety, and consider options for fixing confusing parking signs.

Point of consumption wagering tax

From 1 January 2019, the NSW Government will introduce a 10 per cent point of consumption (PoC) tax on wagering. A tax-free threshold of $1.0 million per year will apply for all operators. This will be applied to all bets, including those placed online or by telephone with interstate wagering operators by New South Wales residents. Under a PoC tax, revenue is collected according to a customer's location, as opposed to the location of the wagering operator. This measure is expected to raise $40.0 million in 2018-19 and $315.0 million in the three years to 2021-22.

There have been significant changes in the gambling market and the tax system needs to be updated to reflect and properly capture an increasingly digital environment. New South Wales will join Victoria, South Australia, Western Australia, Queensland and the Australian Capital Territory who have either introduced or committed to implementing PoC wagering taxes.

In early 2018, the Government released a discussion paper seeking stakeholders' views on whether wagering taxes should be updated in New South Wales. A number of submissions were received and considered by the Government in designing the PoC tax.

The Government will ensure that the NSW racing industry, including thoroughbreds, harness racing and greyhounds, is not negatively affected by the PoC tax. To this end, additional funding equal to 2 per cent of all wagering operators' taxable net wagering revenue in New South Wales will be directed to the racing industry.

Road Safety Plan 2021 (Towards Zero Program)

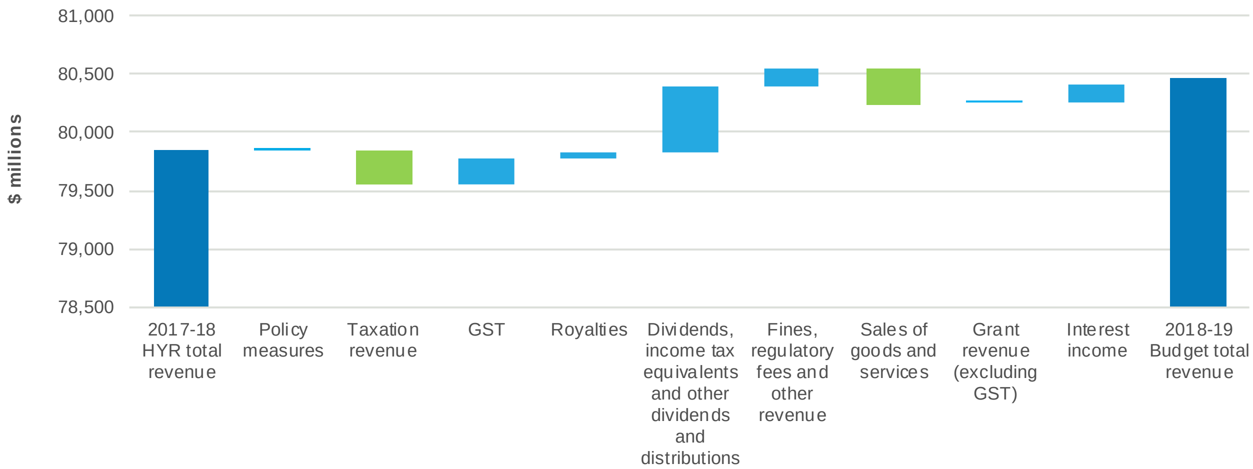
The Government has announced a number of measures to work towards the State Priority Target of a 30 per cent reduction in road fatalities by 2021 (compared to 2008-2010 levels). These measures include additional NSW Police Highway Patrol Officers in regional NSW and roadside alcohol breath testing, expansion of the heavy vehicle average speed camera program, as well as doubling the mobile drug testing program. Road safety initiatives are expected to generate additional revenue of up to $40.1 million in 2018-19. All of the revenue from this measure will be used for the Road Safety Plan 2021. Overall, the Government has committed $1.9 billion over 5 years to improve road infrastructure and deliver safety initiatives.

5.2 General government revenue

The revenue raised by the Government funds essential services and the construction of infrastructure across New South Wales.

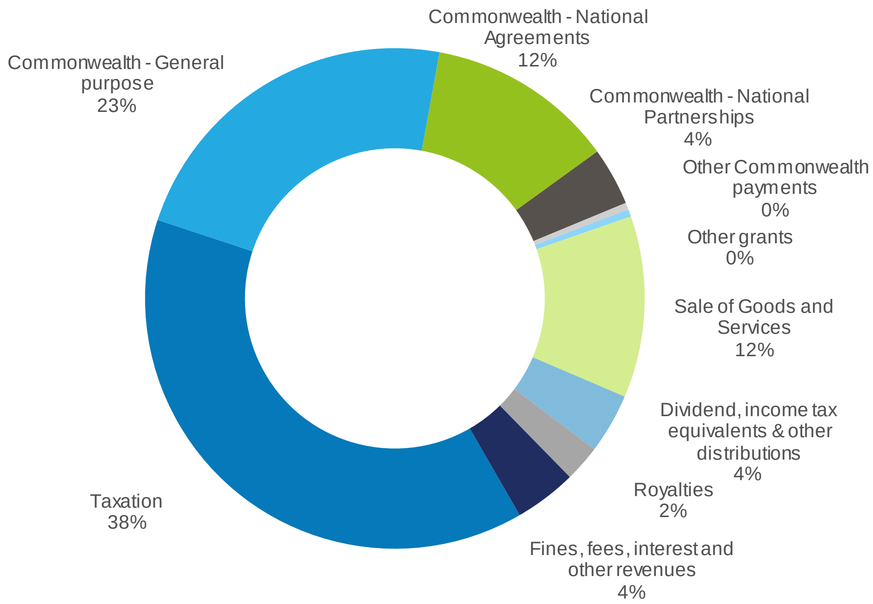
General government revenue is estimated to be $80.5 billion in 2017-18, $576.1 million higher than forecast in the 2017-18 Budget and $619.0 million higher than forecast in the HYR (see Chart 5.3). The most important sources of these changed estimates since the 2017-18 Budget are a $340.7 million upward revision in GST revenue, an $886.8 million upward revision in other dividends and distributions, and a $1.0 billion downward revision in transfer duty.

Chart 5.3: Changes in 2017-18 revenue – Half-Yearly Review to 2018-19 Budget



In 2018-19, revenue is forecast to reach $81.1 billion, $620.3 million higher than revenue in 2017-18. The forecast is $857.2 million higher than forecast in the 2017-18 Budget and $326.4 million higher than at the HYR. Taxation revenue will provide 38.4 per cent of this total, while Commonwealth grants, including GST, will provide 39.1 per cent (see Chart 5.4).

Chart 5.4: Composition of total revenue, 2018-19



Over the four years to 2021-22, general government revenue is expected to grow at an average annual rate of 2.5 per cent (Table 5.2). Excluding National Partnerships, some of which are expiring over the forecast period, the four-year growth rate is 2.9 per cent. Taxation revenue is forecast to grow at an average annual rate of 3.6 per cent over the four years to 2021-22, despite the influence of a slowing property market on transfer duty revenue in the near term. GST revenue is expected to grow at an average annual rate of 3.4 per cent over the four years to 2021-22.

Table 5.2: General government sector summary of revenue

	2016-17 Actual $m	2017-18 Revised $m	2018-19 Budget $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m	% Average growth p.a. 2017-18 to 2021-22
Revenue from transactions							
Taxation	30,789	31,164	31,146	33,048	34,365	35,838	3.6
Grant revenue (including GST)	31,350	31,824	32,110	32,558	33,831	35,124	2.5
Sale of goods and services	8,159	8,711	9,513	9,299	9,381	9,829	3.1
Interest income	769	528	323	292	273	264	(15.9)
Dividends and income tax equivalents from other sectors	1,102	1,514	1,823	1,641	1,271	791	(15.0)
Other dividends and distributions	1,267	1,903	1,322	1,273	1,199	1,180	(11.3)
Royalties	1,580	1,776	1,914	1,861	1,834	1,777	0.0
Fines, regulatory fees and other revenues	3,123	3,041	2,929	3,737	3,573	3,866	6.2
Total revenue	**78,139**	**80,461**	**81,081**	**83,709**	**85,728**	**88,668**	**2.5**
Annual change		*3.0%*	*0.8%*	*3.2%*	*2.4%*	*3.4%*	
Revenue excluding National Partnerships	**74,018**	**77,188**	**78,038**	**81,316**	**83,513**	**86,583**	**2.9**
Annual change		*4.3%*	*1.1%*	*4.2%*	*2.7%*	*3.7%*	

Since the 2017-18 HYR, the increase in revenue in the four years to 2020-21 is $2.6 billion (Table 5.3). Significant sources of these revisions include:

- Reduced transfer duty arising from the slowing property market, responsible for a downward revision totalling $6.0 billion.
- An additional $407.6 million of revenue from land tax over the four years to 2020-21, reflecting stronger forecasts for land values.
- An upward revision to the GST revenue forecast of $3.5 billion, due to upward revisions of the GST pool and the NSW GST relativity.
- Additional revenue from fines, fees and other revenue totalling $547.3 million, including $114.0 million in licences and $99.5 million in non-cash revenue, largely associated with the NorthConnex and WestConnex Stage 1 Public Private Partnership motorways.
- An upward revision in National Partnership payments, including the commencement of the DisabilityCare Australia Fund from 2018-19.

Table 5.3: Revenue reconciliation

	2017-18 Revised $m	2018-19 Budget $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m
Revenues - 2017-18 Budget	**79,885**	**80,224**	**82,471**	**83,770**
Policy Measures	41	(63)	(55)	(56)
Parameter and other budget variations	(84)	593	726	880
Total movement from 2017-18 Budget to 2017-18 HYR	**(43)**	**531**	**671**	**824**
Revenues - 2017-18 Half - Yearly Review	**79,842**	**80,755**	**83,142**	**84,594**
Policy measures				
Revenue measures announced in the 2018-19 Budget	...	(57)	36	(51)
Other revenue measures	4	200	410	428
Total policy measures since 2017-18 HYR	**4**	**144**	**446**	**377**
Parameter and other budget variations				
Transfer duty	(565)	(1,936)	(1,789)	(1,769)
Payroll tax	(39)	(5)	1	2
Land tax	42	117	138	110
Other taxes	315	125	122	97
Royalties	46	189	219	218
GST	221	737	1,199	1,318
National Partnerships payments	(308)	441	533	940
National Agreement payments	28	138	220	329
Other Commonwealth payments and other grants	293	139	(67)	(80)
Interest income	162	31	8	4
Sales of goods and services	(304)	(196)	(451)	79
Dividends and income tax equivalents from other sectors	(189)	445	46	(197)
Other dividends and distributions	761	(11)	(91)	(279)
Fines, regulatory fees and other revenues	151	(4)	239	167
Other	(0)	(27)	(207)	(183)
Total parameter and other budget variations	**615**	**182**	**121**	**757**
Total movement from 2017-18 HYR to 2018-19 Budget	**619**	**326**	**567**	**1,134**
Revenues - 2018-19 Budget	**80,461**	**81,081**	**83,709**	**85,728**

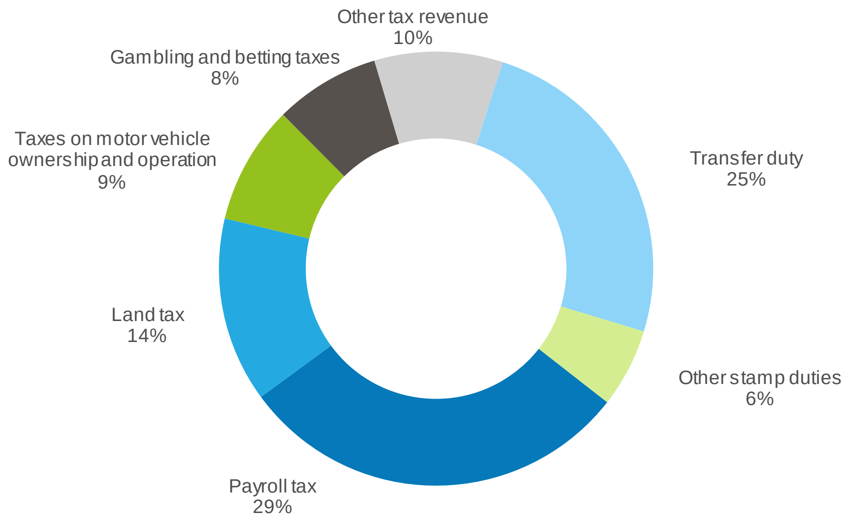
5.3 Taxation revenue

State taxation revenue is forecast to be $31.1 billion in 2018-19 (see Table 5.4). Payroll tax is the largest single source of taxation revenue, providing 29.4 per cent of the total in 2018-19 (see Chart 5.5), overtaking transfer duty, which is forecast to provide 24.7 per cent. The pace of growth is expected to slow to 3.6 per cent over the next four years, compared with 6.4 per cent over the four years to 2017-18. This largely reflects a slow-down in the property market, partially offset by more robust land tax and other taxes.

Table 5.4: General government sector – summary of taxation revenue

	2016-17 Actual $m	2017-18 Revised $m	2018-19 Budget $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	% Average growth p.a. 2017-18 to 2021-22
Stamp duties							
Transfer duty	9,677	8,673	7,693	8,333	8,765	9,220	1.5
Insurance	954	989	980	1,026	1,075	1,133	3.5
Mortgages	15	...	...	...	...	...	-
Marketable securities	13	...	...	...	...	...	-
Motor vehicles	823	837	850	884	917	952	3.3
Other	0	0	0	0	0	0	...
	11,482	**10,499**	**9,523**	**10,243**	**10,757**	**11,305**	**1.9**
Payroll tax	**8,168**	**8,786**	**9,150**	**9,593**	**10,050**	**10,496**	**4.5**
Land tax	**3,171**	**3,833**	**4,293**	**4,612**	**4,775**	**4,858**	**6.1**
Taxes on motor vehicle ownership and operation							
Weight tax	2,079	2,181	2,264	2,385	2,520	2,669	5.2
Vehicle registration and transfer fees	422	435	445	463	488	514	4.3
Other motor vehicle taxes	40	41	44	46	48	50	5.1
	2,541	**2,657**	**2,753**	**2,894**	**3,056**	**3,233**	**5.0**
Gambling and betting taxes							
Racing	111	113	141	184	166	187	13.3
Club gaming devices	772	781	803	827	854	881	3.1
Hotel gaming devices	730	793	833	874	919	966	5.0
Lotteries and lotto	346	351	359	362	373	379	1.9
Casino	294	289	296	394	305	314	2.2
Other gambling & betting	17	15	16	16	17	17	3.3
	2,271	**2,342**	**2,447**	**2,658**	**2,634**	**2,744**	**4.0**
Other taxes and levies							
Health insurance levy	199	205	212	220	230	241	4.1
Parking space levy	105	108	110	113	116	119	2.5
Emergency services levy contributions	785	794	780	824	788	852	1.8
Emergency services council contributions	127	124	131	125	135	142	3.5
Waste and environment levy	726	727	568	539	545	532	(7.5)
Government guarantee fee	397	288	313	344	386	419	9.8
Private transport operators levy	13	24	77	77	77	31	6.8
Pollution control licences	25	27	28	29	29	30	2.5
Other taxes	781	750	761	776	786	836	2.8
	3,156	**3,047**	**2,979**	**3,047**	**3,093**	**3,202**	**1.2**
Total taxation revenue	**30,789**	**31,164**	**31,146**	**33,048**	**34,365**	**35,838**	**3.6**
Annual change		*1.2%*	*-0.1%*	*6.1%*	*4.0%*	*4.3%*	

Chart 5.5: Composition of taxation revenue, 2018-19



Transfer duty

Transfer duty revenue is expected to be $8.7 billion in 2017-18, a downward revision of $565.0 million since the 2017-18 HYR and $1.0 billion since the 2017-18 Budget. These revisions reflect declining property market transaction volumes and prices, a significant shift in the composition of transactions away from investors and toward first-home buyers (Box 5.2), as well as the success of measures to introduce more housing supply.

Transfer duty revenue over the three years to 2020-21 has been revised down by $5.5 billion since the 2017-18 HYR, reflecting lower revenue in 2017-18 and lower forecasts for the growth of property market transactions and prices. While this revision is significant in dollar terms, revenue growth has been strong for an extended period, and the downturn is moderate compared with historic variations in transfer duty. The State's property market continues to be supported by strong income and population growth, a robust residential housing pipeline and favourable interest rates.

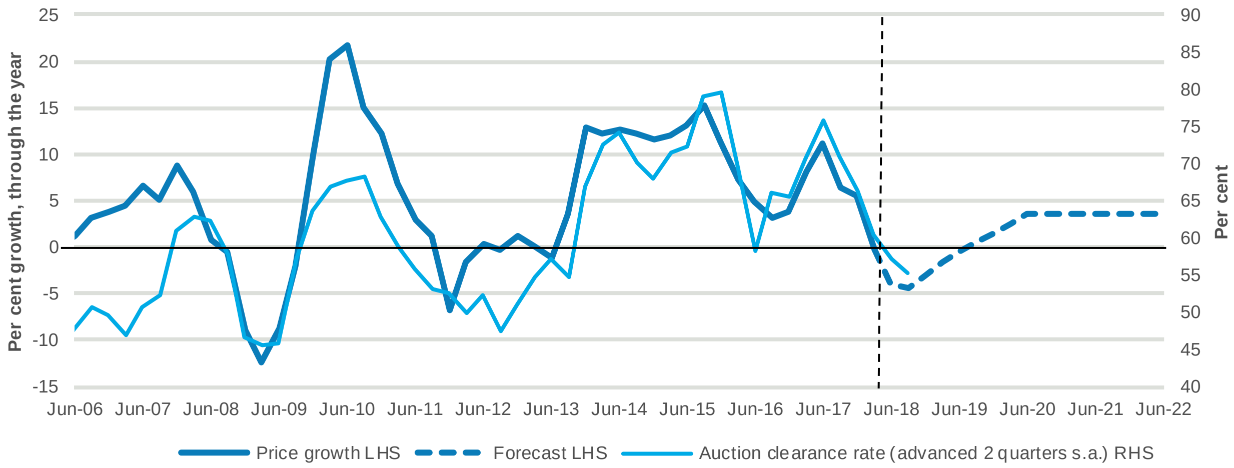
The residential property market provides the vast bulk of transfer duty revenue. Revenue from residential transactions is expected to be $6.3 billion in 2017-18, providing 72.5 per cent of transfer duty revenue. This is $558.0 million, or 8.1 per cent, less than forecast at the HYR. Revenue from residential transactions is expected to reach $5.6 billion in 2018-19, a 10.9 per cent decline from 2017-18. Residential transfer duty is forecast to return to positive growth in 2019-20, averaging 2.4 per cent per annum in the four years to 2021-22.

Volatility in residential transaction volumes, and the timing of turning points in market sentiment, are the key challenges in forecasting transfer duty. Volumes are significantly more volatile than prices, in part because owners tend to resist selling when prices fall in nominal terms.

In recent years the number of residential property transactions has been significantly higher than the long-run trend, increasing the likelihood of a return to more typical levels. Where residential volumes peaked at around 210,000 in 2017, the annual volume is now expected to fall to around 183,000 transactions in 2018-19, before returning to its long-run trend level of about 200,000 in subsequent years. Volume growth will continue to be supported by population growth of around 1.4 per cent across the forecast period.

Residential price growth, as measured by the average consideration of properties transacted, tends to lag movements in residential volumes by several months. In the near term, declining auction clearance rates suggest that price growth will continue to weaken until Spring 2018, with a forecast 7.5 per cent fall in average prices from their peak in 2017. Thereafter, prices are forecast to remain stable through 2018-19. Positive price growth is expected to resume from early in 2019-20, reaching an annual rate of 3.5 per cent by mid 2020, consistent with forecast growth of average compensation of employees (see Chart 5.6).

Chart 5.6: Residential prices and auction clearance rates



(a) Source: Australian Property Monitor, Revenue NSW, NSW Treasury

Revenue from commercial property transactions in 2017-18 is expected to be around $2.2 billion, of which around $200 million is attributable to one-off large transactions that are not expected to be repeated in future years. Removing the influence of these one-off large transactions, revenue from commercial transactions is expected to grow at an average annual rate of around 3.2 per cent in the four years to 2021-22.

Consistent with standard NSW practice, the expected impact of asset sales is not incorporated until transactions are complete. The Government is planning to sell 51 per cent of WestConnex, after which additional transfer duty associated with the sale will be received.

The reduced share of investors and increased number of owner-occupiers in the property market is also expected to reduce foreign investor surcharge transfer duty relative to previous forecasts. Revenue from foreign investor surcharge transfer duty is expected to provide around $210 million in revenue in 2017-18, and around $571.0 million in the four years to 2021-22.

During 2016-17, 5,776 transactions were subject to foreign investor surcharge transfer duty, while around 2,000 transactions are now expected to incur the surcharge each year. The decline in foreign investor volumes has been driven by several factors including increased transfer duty and land tax surcharges applying since July 2017, the general downturn in the Sydney property market, national changes to foreign investor approval rules, Commonwealth taxation of vacant homes owned by foreigners, and macroprudential measures affecting domestic bank lending to foreign investors.

Box 5.2: First-home buyer numbers 3.5 times higher than last year

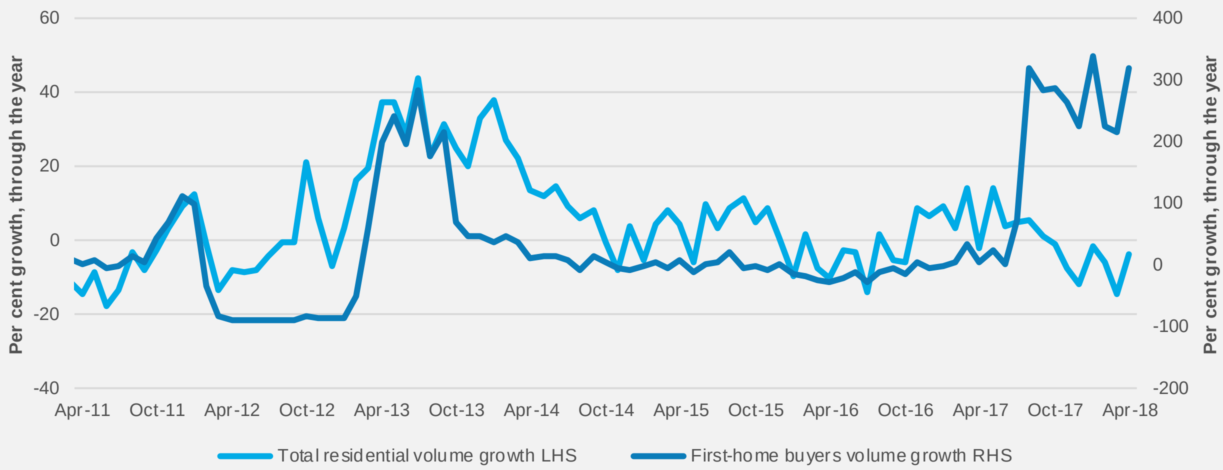
On 1 June 2017, the NSW Government announced a comprehensive housing affordability package aimed at supporting first-home buyers. The package provides stamp duty relief, reforms the planning system to boost housing supply and delivers infrastructure to support growing communities across the State.

To give first-home buyers a better opportunity to own a home, the housing package abolished stamp duty for first-home buyers on new and existing homes of up to $650,000 in value, with stamp duty reductions for properties between $650,000 and $800,000. The package also offered $10,000 grants for first-home buyers purchasing new homes up to $600,000. The maximum benefit available for first-home buyers is $34,361 (Chart 5.7).

Chart 5.7: Savings for first-home buyers

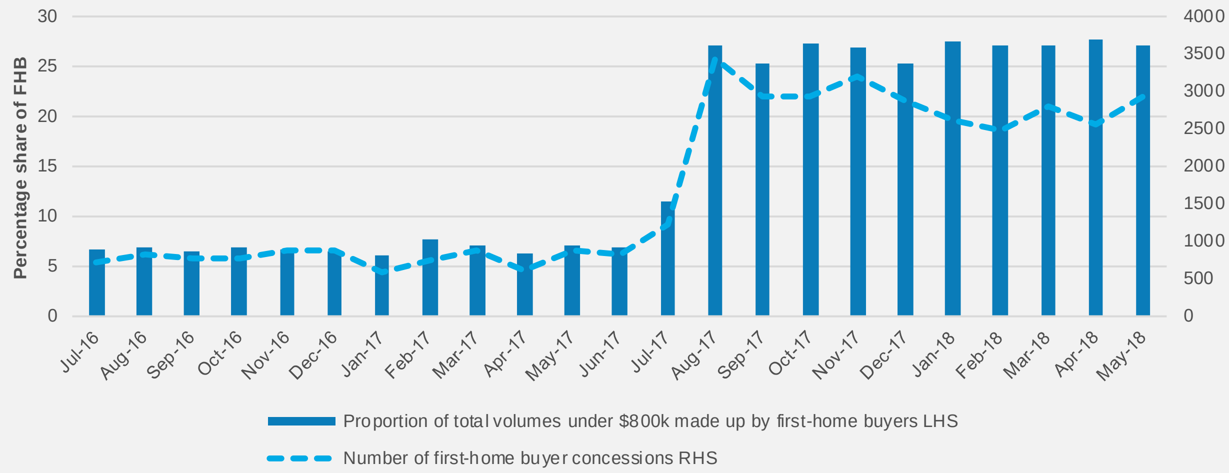
Between July 2017 and May 2018 around 30,000 first-home buyers received stamp duty concessions and exemptions worth around $435.0 million. The number of first-home buyers is now more than 3.5 times higher than in the same period in 2016-17. Where first-home buyer concessions made up around 6.7 per cent of property transactions worth less than $800,000 during 2016-17, their share of the total residential transactions within this price range has now risen to around 25.4 per cent (Chart 5.9).

Chart 5.8: Composition of first-home buyer concessions for dwellings less than $800,000



Box 5.2: First-home buyer numbers 3.5 times higher than last year (cont)

Chart 5.9: Total first-home buyer concessions



Other stamp duties

Other stamp duties include insurance duty and motor vehicle registration duty. In 2017-18, revenue from these duties is expected to reach $1.8 billion, an upward revision of $65.0 million since the 2017-18 HYR. Insurance duty collections are expected to grow by 3.5 per cent over the four years to 2021-22. Motor vehicle registration duty is forecast to grow at an average annual rate of 3.3 per cent over the four years to 2021-22.

Payroll tax

Payroll tax revenue in 2017-18 is expected to be $8.8 billion, an upward revision of $151.9 million since the 2017-18 Budget and a downward revision of $38.6 million since the 2017-18 HYR.

Payroll tax revenue of $9.2 billion is forecast for 2018-19, growing by 4.1 per cent from 2017-18, and providing the largest source of taxation revenue. Payroll tax revenue over the four years to 2021-22 is forecast to grow at an average annual rate of 4.5 per cent.

Payroll tax revenue will be supported by strong employment and wage growth over the four years to 2021-22. Wage growth is forecast to gradually rise over the forward estimates, consistent with declining spare capacity in the national labour market, increased skill shortages, higher advertised salaries and fewer wage freezes. Employment growth is expected to reach 3 per cent in 2017-18, and to moderate over the forecast period as the NSW labour market reaches near full-employment by 2019-20. Strong employment is in turn expected to drive higher wage growth over the forecast period.

Growth of payroll tax revenue as a result of the strength of the economy will be moderated by increases in the tax-free threshold over four years, from the current $750,000 to $1.0 million in 2021-22, to support NSW businesses (see Box 5.1).

Land tax

Land tax revenue in 2017-18 is expected to be $3.8 billion, an increase of $42.0 million since the 2017-18 HYR forecast.

Land tax revenue is expected to grow by 6.1 per cent on average over the four years to 2021-22. Average land values are forecast to grow by 7 per cent in 2017-18 and to grow at an average rate of 1.7 per cent in the four years to 2021-22, reflecting the general property market slowdown. Because of the three-year averaging of land values, growth of land values in recent years will continue to support strong land tax growth over the next two years.

Taxes on motor vehicle ownership and operation

Weight tax remains broadly in line with expectations at the 2017-18 HYR, reaching an estimated $2.2 billion in 2017-18 and growing at an average annual rate of 5.2 per cent over the four years to 2021-22. Growth of the vehicle stock will contribute to growth of weight tax over the forward estimates. Revenue from vehicle registration and transfer fees is broadly in line with expectations in the 2017-18 HYR and is forecast to grow at an average annual rate of 4.3 per cent over the four years to 2021-22.

Gambling and betting taxes

Gambling tax revenue is forecast to grow by 4 per cent over the four years to 2021-22. A change in the accounting treatment of the share of lotteries revenue collected on behalf of the Australian Capital Territory has seen a downward adjustment in overall lotteries revenue. An offsetting adjustment has been made in fines, regulatory fees and other revenue.

Racing revenue is estimated at $141.3 million in 2018-19, and is forecast to grow by 13.3 per cent over the four years to 2021-22. This growth includes revenue from the point of consumption tax, which is estimated to raise $355.0 million in the four years to 2021-22.

Other taxes

Other taxes and levies will provide $3.0 billion in 2018-19, growing at an average annual rate of 1.2 per cent in the four years to 2021-22. Revenue from the government guarantee of debt levy is forecast to grow at an average annual rate of 9.8 per cent, driven by increased debt of State Owned Corporations as they revise their capital structures and increase capital spending during the forecast period.

5.4 Grant revenue

New South Wales is expected to receive $31.7 billion in grants in 2018-19 from the Commonwealth Government. These include GST payments, National Agreements, National Partnerships and other Commonwealth payments (see Table 5.5).

Total grant revenue is expected to increase at an average annual rate of 2.5 per cent over the four years to 2021-22. Revenue growth during this period is affected by the expiry of a number of National Partnerships, such as the Asset Recycling Initiative, Adult Public Dental National Partnership and Universal Access to Early Childhood Education National Partnership. The NSW Government is currently negotiating with the Commonwealth Government to secure its fair share of national funding under new agreements (see Box 5.4).

Table 5.5: Grant revenue

	2016-17 Actual $m	2017-18 Revised $m	2018-19 Budget $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m	% Average growth p.a. 2017-18 to 2021-22
Commonwealth - General purpose	17,202	17,921	18,475	18,849	19,681	20,462	3.4
Commonwealth - National Agreements	9,435	9,747	9,851	10,460	11,111	11,782	4.9
Commonwealth - National Partnerships	4,121	3,273	3,043	2,393	2,215	2,086	(10.7)
Other Commonwealth payments	...	430	362	364	369	376	(3.3)
Total Commonwealth grants	**30,758**	**31,371**	**31,731**	**32,066**	**33,376**	**34,706**	**2.6**
Annual change in Commonwealth grants		*2.0%*	*1.1%*	*1.1%*	*4.1%*	*4.0%*	
Other grants	592	453	379	492	456	417	(2.0)
Total grant revenue	**31,350**	**31,824**	**32,110**	**32,558**	**33,831**	**35,124**	**2.5**

General purpose grants

GST revenue is estimated to be $17.9 billion in 2017-18, an upward revision of $221.3 million since the 2017-18 HYR (see Table 5.6).

In the 2018-19 Commonwealth Budget, the GST pool forecasts were revised up by $5.6 billion over the four years to 2020-21. Stronger than expected GST receipts and the introduction of integrity measures targeting the black economy and tax and superannuation debts are the primary drivers underpinning faster than expected growth in the national GST pool.

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

	2017-18 $m	2018-19 $m	2019-20 $m	2020-21 $m	2021-22 $m	Total 4 years to 2020-21
2017-18 Budget	**17,554**	**17,607**	**17,555**	**18,250**		**70,966**
Change due to:						
2016-17 adjustment	119	...	...	...		119
Change in population	...	...	...	...		...
Change in pool	...	...	...	...		...
Change in relativities	...	61	95	113		268
2017-18 Half- Yearly Review	**17,674**	**17,668**	**17,650**	**18,363**		**71,354**
Change due to:						
Change in population	(91)	(80)	(88)	(114)		(372)
Change in pool	312	466	553	506		1,836
Change in relativities	...	351	734	926		2,011
2018-19 Budget	**17,895**	**18,405**	**18,849**	**19,681**	**20,457**	**74,829**
Change since 2017-18 Budget	**341**	**798**	**1,294**	**1,431**	**na**	**3,863**

In April 2018, the Commonwealth Grants Commission (CGC) recommended the final per capita relativity for New South Wales for 2018-19 which, at 0.855, was higher than anticipated in the 2017-18 HYR. New South Wales' per capita GST share is anticipated to fall across the four years to 2021-22, reflecting its economic and fiscal strength. However, the relativity is forecast to decline at a slower rate than was previously anticipated due to the softening of the property market in New South Wales and a strengthened fiscal outlook for other states and territories.

Despite these improvements, this should not mask that the NSW share of GST is a reflection of a system that penalises strong performing states (see Box 5.3).

Over the four years to 2021-22, GST revenue is expected to grow on average by 3.4 per cent per annum, while the national GST pool is expected to grow at an average annual rate of 5.1 per cent. New South Wales' share of the pool will steadily decline over the four years to a historic low in 2021-22, reaching around 83 per cent of the revenue it would receive under an equal per capita allocation of the GST pool (see Box 5.4). The Government continues to advocate that the people of New South Wales should not be penalised for their hard work in delivering our strong economy. The Government will continue to seek a fairer system for allocation of the GST pool between the states and territories.

Partially offsetting the improved outlook for the GST pool is a decrease in New South Wales' national population share. The NSW share of the national population is forecast to decline from 31.94 per cent in 2017-18 to 31.85 per cent in 2021-22.

Box 5.3: GST relativity affected by NSW's strong fiscal position

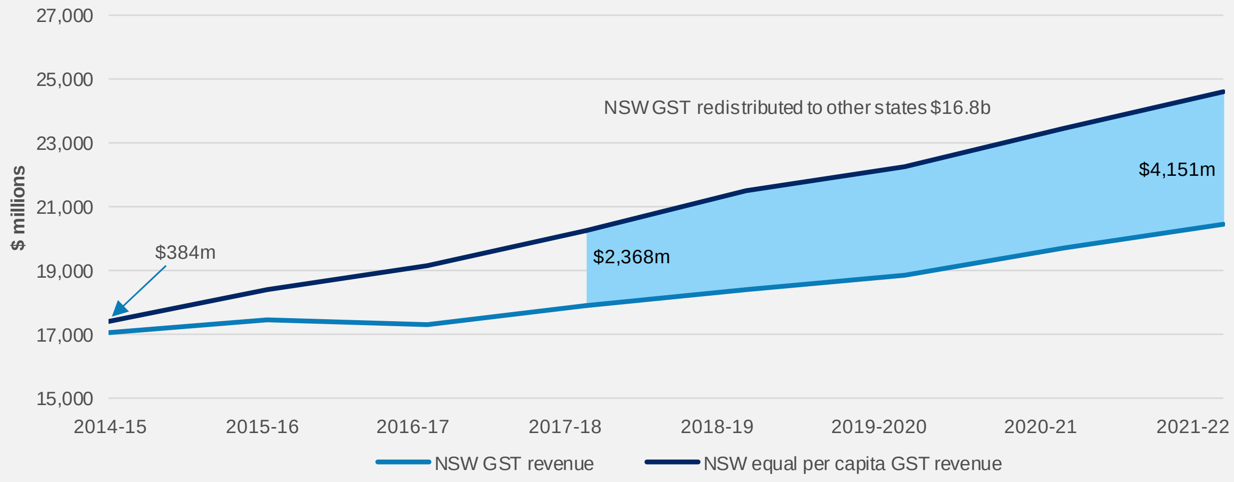
The State's GST revenues are forecast to grow at an average annual rate of 3.4 per cent over the four years to 2021-22, despite a forecast decline in the NSW share of GST revenue per capita (the NSW relativity), and a forecast declining share of Australia's population. The updated forecasts take into consideration the CGC's 2018 Update in April 2018 and recent fiscal developments in New South Wales and other jurisdictions. New South Wales' relativity is currently expected to decline from a high of 0.975 in 2014-15 to a historic low of 0.830 in 2021-22, reflecting its strong fiscal capacity relative to other states in recent years.

Weakening New South Wales transfer duty revenue, improved royalty collections in the mining states and a strengthening fiscal position in Victoria are expected to cushion the decline in New South Wales' forecast relativities compared with the forecasts at the 2017-18 HYR.

The NSW Government continues to advocate for an equal per capita distribution of the GST, greater simplification of the CGC methodology and a more meaningful role for states in the administration of Horizontal Fiscal Equalisation. If GST were distributed on an equal per capita basis, New South Wales would receive an additional $2.4 billion in 2017-18 and $3.1 billion in 2018-19, rising to $4.2 billion in 2021-22, for a total of $16.8 billion from 2017-18 to 2021-22 (see Chart 5.10).

Box 5.3: GST relativity affected by NSW's strong fiscal position (cont)

Chart 5.10: Redistribution of New South Wales' equal per capita share of GST



National Agreements

Table 5.7 summarises National Agreement payments by key service delivery area. Revenue from National Agreements is forecast to total $9.9 billion in 2018-19, an increase of 1.1 per cent on 2017-18, and is expected to increase at an average annual rate of 4.9 per cent over the four years to 2021-22.

Box 5.4: National Agreements – a fair share for New South Wales

The Government continues to work closely with the Commonwealth and other states and territories in advocating for fairer and more sustainable federal financial arrangements. Increasingly, Specific Purpose Payments are being replaced through legislation that requires states and territories to meet narrow and inflexible conditions to access ongoing Commonwealth funding for public services. This significant change in the Commonwealth Government's approach means it is more challenging than ever for New South Wales to secure a fair share while maintaining the flexibility needed to deliver high-quality services where they are most needed.

National health reform

New South Wales secured increased funding certainty with the signing of the Heads of Agreement for public hospital funding and health reform at the Council of Australian Governments (COAG) on 9 February 2018. Negotiations are now underway for a final National Health Agreement (NHA). Under the new NHA, covering 1 July 2020 to 30 June 2025, New South Wales will receive funding from the Commonwealth for 45 per cent of the growth of activity based services, subject to an annual growth cap of 6.5 per cent. New South Wales will also receive funding of $36.6 million in 2018-19 from the Commonwealth for a Health Innovation Fund to conduct trials that support health prevention and the better use of health data.

NDIS

In May 2018 the NSW Government reached a landmark agreement with the Commonwealth Government on the full rollout of the National Disability Insurance Scheme (NDIS) in New South Wales – the first state to officially sign up to the full scheme. National Disability Agreement payments will cease after 2017-18 with the full rollout of the NDIS in New South Wales.

Box 5.4: National Agreements – a fair share for New South Wales (cont)

The New South Wales funding contribution to the NDIS will exceed $3.0 billion in 2018-19, and will grow at an average rate of 4 per cent per annum. The Commonwealth Government will pay the balance of all NDIS costs above the NSW contribution. Additionally, Commonwealth funding under the DisabilityCare Australia Fund National Partnership is expected to provide $547.0 million in 2018-19, and $3.1 billion over the life of the Partnership Agreement, terminating at the end of 2023-24.

Housing

Under Commonwealth legislation, the new National Housing and Homelessness Agreement (NHHA) is intended to commence from 2018-19. Under this Agreement, New South Wales would continue to receive the same level of funding it received under the previous National Affordable Housing Agreement and the National Partnership Agreement on Homelessness – both of which cease at the end of 2017-18. New South Wales continues to negotiate with the Commonwealth regarding certain aspects of the new Agreement. A key focus is how to ensure New South Wales retains flexibility to use Commonwealth funding to deliver the greatest benefits to the social housing and homelessness sectors. In comparison, the Commonwealth seeks to direct such funding to achieve broader housing objectives, even though no additional federal funding has been provided.

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

	2016-17 Actual $m	2017-18 Revised $m	2018-19 Budget $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	% Average growth p.a. 2017-18 to 2021-22
Health	6,018	6,068	6,463	6,883	7,330	7,807	6.5
Education	2,037	2,269	2,427	2,600	2,787	2,974	7.0
Skills and workforce development	473	480	485	492	500	508	1.4
Affordable housing	430	435	477	485	493	493	3.2
Disability	477	495	...	...	...	...	(100.0)
Total National Agreement and other payments	**9,435**	**9,747**	**9,851**	**10,460**	**11,111**	**11,782**	**4.9**

National Partnerships

The Commonwealth Government provides National Partnership payments to support specified projects or achieve service delivery improvements. New South Wales will receive $9.7 billion in National Partnership payments over the four years to 2021-22 (see Table 5.8).

A new National Land Transport Agreement for the period from 2019 to 2024 is expected to be finalised with the Commonwealth during 2018-19. The Commonwealth announced in their 2018-19 Budget funding toward a Macquarie Park Transport Interchange, providing $5.0 million in 2018-19 and $60.0 million over the four years to 2021-22.

The Asset Recycling Initiative (ARI) will expire in 2018-19, when New South Wales is expected to receive the final payment of $335.2 million. New South Wales has received more than any other state from this one-off initiative designed to encourage the divestment of assets and reinvestment of the proceeds into new productive infrastructure. The ARI proceeds form part of total asset sale proceeds received by the State, which have been put toward projects aimed at improving the productivity and competitiveness of the New South Wales economy.

New South Wales will receive $5.4 million in 2018-19 under the Essential Vaccines National Partnership, a downward revision of $39.1 million since the HYR. From 1 July 2018, the Commonwealth Government will provide the bulk of vaccines directly.

Table 5.8: National Partnership payments to New South Wales

	2016-17 Actual	2017-18 Revised	2018-19 Budget	2019-20 Forward Estimates	2020-21	2021-22	% Average growth p.a. 2017-18 to 2021-22
	$m	$m	$m	$m	$m	$m	
Roads and rail including ARI	3,341	2,451	1,921	1,421	1,312	1,179	(16.7)
Education and skills	305	226	179	154	108	96	(19.4)
Disability	176	186	547	607	618	630	35.7
Health	123	115	124	51	50	45	(20.7)
Housing	30	30	...	...	...	...	(100.0)
Environment	61	171	108	45	36	36	(32.3)
Other	85	94	164	114	90	100	1.4

Box 5.5: Taking the lead on federal financial relations

The NSW Government will pursue a fairer and more dynamic form of federalism in its relations with the Commonwealth Government, other states and territories in 2018-19. The Board of Treasurers, established in October 2017, is set to play an instrumental role in building consensus on issues of common interest, advancing national reform priorities and fostering more constructive and effective engagement with the Commonwealth Government. The Board of Treasurers has agreed to:

- Establish a clear path for states and territories to play a leadership role in advancing national reform priorities, with a near-term focus on productivity-enhancing reforms as outlined in the Productivity Commission's report *Shifting the Dial: 5 year productivity review.*
- Ensure negotiations with the Commonwealth contribute to funding certainty and stability, while maintaining the States' autonomy and flexibility necessary to continue delivering high-quality services and infrastructure.

First proposed by the NSW Government in 2017, the Board of Treasurers has met on two occasions, progressing an agenda to lift national productivity and ensure states and territories continue to deliver the high-quality services that matter most to our citizens. At their May 2018 meeting, the Board of Treasurers identified priority areas for productivity-enhancing reforms.

5.5 Other revenues

Sale of goods and services

Sale of goods and services are expected to reach $8.7 billion in 2017-18, and are forecast to grow by 3.1 per cent in the four years to 2021-22.

Revenue received by the Department of Health for delivery of veterans' services on behalf of the Commonwealth Government is forecast to be $287.1 million in 2017-18. Under a new Hospital Services Arrangement, commencing on 1 December 2017, guaranteed minimum funding will be provided until 2019-20, and thereafter funding will be based on an agreed 'national efficient price'.

Fees for service are expected to reach $2.0 billion in 2017-18 and to grow at an average annual rate of 4.9 per cent in the four years to 2020-21. Within this period, changes from year to year are explained largely by timing of the More Trains More Services and New Intercity Fleet programs and their impact on revenue received by Transport for NSW for services provided to Rail Corporation NSW.

Table 5.9: Sale of goods and services

	2016-17 Actual	2017-18 Revised	2018-19 Budget	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m	$m
Rents and leases	247	246	245	236	248	245
Fees for service	1,981	2,015	2,977	2,607	2,373	2,442
Entry fees	58	66	57	57	58	58
Patient fees and hospital charges	1,005	1,085	1,166	1,216	1,242	1,269
Department of Veterans' Affairs	324	287	240	200	416	435
Court fees	131	128	129	132	133	135
Road tolls	153	156	157	159	161	162
Other sales of goods and services	4,260	4,727	4,542	4,692	4,750	5,083
Sale of goods and services	**8,159**	**8,711**	**9,513**	**9,299**	**9,381**	**9,829**

Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. In 2017-18, interest income has been revised up by $161.8 million since the 2017-18 HYR, due to higher cash holdings from major asset sale proceeds and lower than budgeted expenditure. Interest income is forecast to decline at an average annual rate of 15.9 per cent over the four years to 2021-22, as investment funds are shifted to other distributions.

Dividends and income tax equivalents

State-owned corporations pay dividends that provide a commercially appropriate return on government investment. These dividends support investment in essential government services.

Dividends and income tax equivalents have been revised down by $189.2 million in 2017-18 since the 2017-18 HYR following changes to the timing of dividend payments. In 2018-19, dividends and income tax equivalents will provide $1.8 billion of revenue and $5.5 billion over the four years to 2021-22 (see Chapter 8 for further detail).

Other dividends and distributions

Other dividends and distributions are forecast to increase by 50.2 per cent in 2017-18. Between 2017-18 and 2021-22, other dividends and distributions are expected to fall by $722.6 million. This reflects the sale of the State’s share of Snowy Hydro to the Commonwealth Government and lower distributions from other equity investments as underlying funds are spent on infrastructure.

Investment returns from investment funds are making an increasing contribution to revenue. This reflects the Government’s strategy to invest asset recycling proceeds over a horizon matching the requirements for infrastructure delivery. Distributions from the NSW Infrastructure Future Fund are expected to be $808.8 million in 2017-18, and are forecast to decrease at an average annual rate of 27.5 per cent over the four years to 2021-22 as infrastructure projects are delivered.

Over the four years to 2021-22, greater exposure to financial markets of investment funds under management may increase revenue volatility for other dividends and distributions.

Royalties

Mineral royalties are expected to provide $1.8 billion of revenue in 2017-18, an upward revision of $110.8 million since the 2017-18 Budget and $46.5 million since the 2017-18 HYR.

Royalty revenue over the four years to 2021-22 will total $7.4 billion, an upward revision of $813.4 million since the 2017-18 HYR. The revision reflects long-term price forecasts, expectations of steady growth in coal export volumes and a slight depreciation in the Australian dollar.

Coal export volumes will be supported by strong demand from India, Japan, South Korea and China. The spot price for thermal coal is currently around US$94 per tonne, but market expectations suggest a gradual moderation of thermal coal prices over the next four years. Royalty estimates are susceptible to changes in global coal production, import and export restrictions in China, and exchange rate fluctuations.

Fines, regulatory fees, licences and other revenue

Total revenue from fines, licences and other sources is $3.0 billion for 2017-18, and is forecast to grow at an average annual rate of 6.2 per cent over the four years to 2021-22.

Fines revenue is expected to increase at an average annual rate of 7.9 per cent over the four years to 2021-22, reflecting underlying growth of fines revenue and road safety initiatives. This growth is partially offset by a reduction in parking fines issued by state government agencies, which is expected to reduce fines revenue by $6.4 million over the four years to 2021-22 (see Section 5.1 for additional detail).

Licence revenue will be $210.0 million in 2017-18, a $34.2 million revision since the 2017-18 HYR reflecting a greater than expected uptake of 10-year drivers licences. Licence revenue is forecast to fall in 2021-22 due to a recurring cycle in the pattern of drivers licence renewals.

Other revenues are forecast to grow at an average annual rate of 6.2 per cent over the four years to 2021-22. The greatest contribution to this growth arises from non-cash revenue associated with the accounting recognition of the NorthConnex and WestConnex Stage 1 Public Private Partnership motorways. These non-cash revenues will accrue each year as a right to receive until the concessions end.

Expansion of Special Infrastructure Contributions across metropolitan precincts will also generate revenue to deliver infrastructure required to support the development of growing communities. Other revenues in 2021-22 are boosted by planned sales of development sites.

Table 5.10: Fines, regulatory fees, licences and other revenues

	2016-17 Actual	2017-18 Revised	2018-19 Budget	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m	$m
Fines	584	632	698	819	821	857
Regulatory fees	146	139	155	171	173	178
Licences	190	210	220	226	243	211
Other revenues	2,204	2,060	1,856	2,521	2,336	2,620
Total fines, regulatory fees, licences and other revenues	**3,123**	**3,041**	**2,929**	**3,737**	**3,573**	**3,866**