NSW GOVERNMENT

The NSW BUDGET 2019–2020
HALF-YEARLY REVIEW

GETTING *it* DONE

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NSW Budget

2019-20 Half-Yearly Review

Released by The Hon. Dominic Perrottet MP, Treasurer

This statement is released in compliance with Division 7.4, section 7.16 of the *Government Sector Finance Act 2018*.

This section requires the Treasurer by 31 December in each year, to publicly release a statement (the Half-Yearly Review) containing:

- revised projections from the original Budget for the current annual reporting period for the NSW Government and an explanation of any significant variation in those revised projections from the original Budget projections, and
- revised forward estimates, for major aggregates, over 3 years and an explanation of any significant variation in those revised projections from the original Budget forward estimates, and
- the latest economic projections for the current annual reporting period for the NSW Government and an explanation of any significant variation from the original budget time projections contained in the Budget Papers.

Section 7.16 also requires that a half-yearly review is to be presented in a way that is consistent and allows comparison with the preceding Budget.

Also published with this statement are Uniform Presentation Framework (UPF) tables to meet Australian Loan Council reporting obligations.

Budget Paper No. 1 *Budget Statement* contains the full details of the 2019-20 Budget, as well as budget scope and other explanatory information. All financial statements presented are prepared in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Notes to using this report

The Budget year refers to 2019-20, while the forward estimates period refers to 2020-21, 2021-22 and 2022-23. Figures in tables, charts and text have been rounded. Discrepancies between totals and sums of components reflect rounding. Percentage changes are based on unrounded estimates.

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1. OVERVIEW

2019-20 Half-Yearly Review Highlights

- Six months on from the 2019-20 NSW Budget, both the New South Wales economy and budget remain in good shape, despite the ongoing drought, recent volatility in the housing market and softer household consumption growth.
- Since June, the State's forecast budget position has improved over the forward estimates, with average surpluses of $1.9 billion now forecast over the four years to 2022-23.
- The NSW Generations Fund (NGF) has outperformed expectations, growing to $10.9 billion as at end June 2019.
- Both Moody's and S&P Global have reaffirmed the State's triple-A credit rating since the Budget, underscoring the State's strong fiscal and economic position.
- The Government's disciplined financial management has made it possible for critical new expenditure commitments since the 2019-20 Budget, including:
  - $208 million in additional drought relief, bringing the total value of Government drought support to approximately $2 billion.
  - $74.6 million in disaster recovery support for communities impacted by devastating bushfires.
- In the midst of global, national and local economic headwinds, economic growth in New South Wales is forecast to be stable in 2019-20 at 1¾ per cent, before increasing to 2¼ per cent in 2020-21 and 2½ per cent in 2021-22.
- Employment continues to be an area of notable strength, as the number of jobs created continues to exceed expectations, including in the regions. The number of people with jobs increased by 114,300 in 2018-19, with 34 per cent of this growth in regions outside Greater Sydney.
- The Government's record infrastructure program continues to make a significant contribution to the State's economy at a time when other factors (including drought and weak household consumption) are weighing on growth.
- The total four-year infrastructure program is now at a record $97.3 billion, following investment decisions and initial funding for Sydney Metro West, Western Harbour Tunnel, Warringah Freeway Upgrade and the Sydney Fish Market.
- The Government has made substantial progress on reform initiatives, including those announced in the 2019-20 Budget, to address long term fiscal and economic challenges. These include:
  - publication of the *NSW 2040 Economic Blueprint*, an economic roadmap for NSW
  - announcement of the Global NSW strategy, to help unlock international investment and drive exports
  - commencement of the Federal Financial Relations Review, led by David Thodey AO
  - launch of the *Kickstarting the Productivity Conversation* discussion paper by the NSW Productivity Commissioner
  - rollout of the transition to Outcome Budgeting to every Government agency.

The 2019-20 Half-Yearly Review provides an update on the fiscal and economic position of New South Wales since the 2019-20 Budget. The Half-Yearly Review also details new policy measures since the 2019-20 Budget.

Australia's largest economy continues to support solid jobs growth

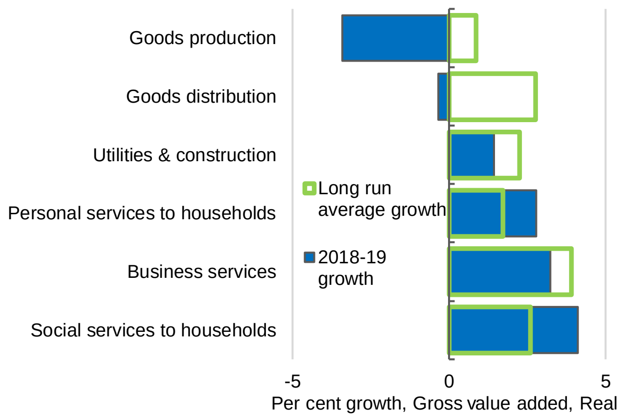
New South Wales recorded growth of 1.9 per cent in 2018-19, following a four-year period of at or above-trend economic growth. Growth is expected to be 1¾ per cent in 2019-20, before accelerating to 2¼ per cent in 2020-21 and returning to trend growth of 2½ per cent in 2021-22.

The State's infrastructure program is stimulating economic activity and boosting the future productive capacity of the economy, at a time when softer household spending and the effects of the drought are dampening growth. Public investment is expected to contribute, on average, ½ a percentage point per annum to economic growth over the next two years. This is around five times its long-run average contribution.

Business investment is also supporting growth and is expected to contribute ¾ percentage point to Gross State Product (GSP) in 2019-20, around double its historical average.

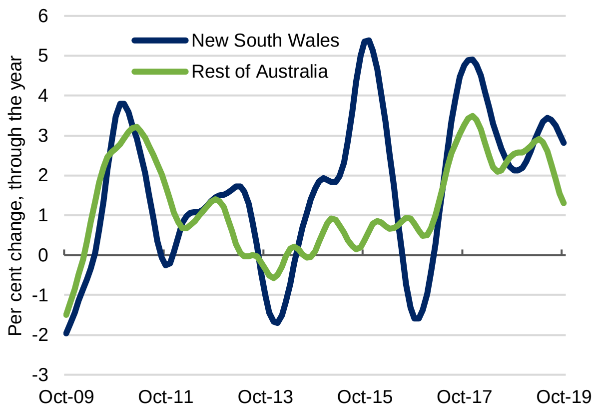
The current drought across New South Wales is weighing on economic growth, and this is expected to continue in the short term. Lower international rural exports reduced economic growth by a ¼ percentage point in 2018-19. Farm inventories and interstate trade have also deteriorated due to drought, while a decline in farm incomes has weighed on farm investment and household consumption (see Chart 1.1 and Box 2.2 in Chapter 2 for further details).

Chart 1.1: The drought and cautious consumers are negatively impacting goods production and distribution industries[1]



Source: ABS 5220.0 and NSW Treasury

Chart 1.2: New South Wales has seen robust full-time employment growth



Source: ABS 6202.0 and NSW Treasury.

The contraction in house prices and sales between mid-2017 and mid-2019 has weighed on household spending, particularly demand for discretionary goods, such as new vehicles and household furniture. Since the Budget, however, the housing market has improved and house prices are exhibiting positive growth.

[1] Goods production include agriculture, forestry & fishing, mining and manufacturing. Goods distribution include wholesale trade, retail trade and transport, postal & warehousing. Personal services to households include accommodation & food services, arts & recreation services and other services. Business services include finance & insurance services, rental, hiring & real estate services, administrative services, professional, scientific & technical services and information media & telecommunications. Social services include public administration & safety, education & training and health care & social assistance. Utilities and construction include electricity, gas, water & waste services and construction.

The revival in the housing market is expected to support an acceleration in economic growth in 2020-21. This will occur through direct effects, such as higher demand for services related to selling homes, as well as flow-on impacts, such as greater household spending (through a positive wealth effect). Stronger housing prices should also encourage an earlier recovery in the housing construction market.

The New South Wales labour market remains a standout of the economy:

- in 2018-19, employment grew by more than double its long-run average, largely driven by full-time employment – the number of people in jobs grew by 114,300 (see Chart 1.2)
- New South Wales is currently witnessing a near-record high workforce participation rate of 65.6 per cent
- the State has the lowest trend unemployment rate across the states
- the NSW unemployment rate has now been equal to or lower than the national average for over five and a half years.

See Chapter 2 for more information.

The Government is delivering fiscal stability in a challenging environment

The economic and fiscal environment has been mixed since the 2019-20 Budget. For example:

- weaker economic conditions and household spending resulted in reduced GST receipts, with the 2019-20 forecast revised down by $352 million
- a faster-than-expected recovery in the housing market has flowed through to higher transfer duty forecasts.

The Government is managing these challenges and remains on track to deliver a Budget surplus of $702 million for 2019-20. This is $314 million lower than the projection at the time of the 2019-20 Budget. The revised 2019-20 result takes into account:

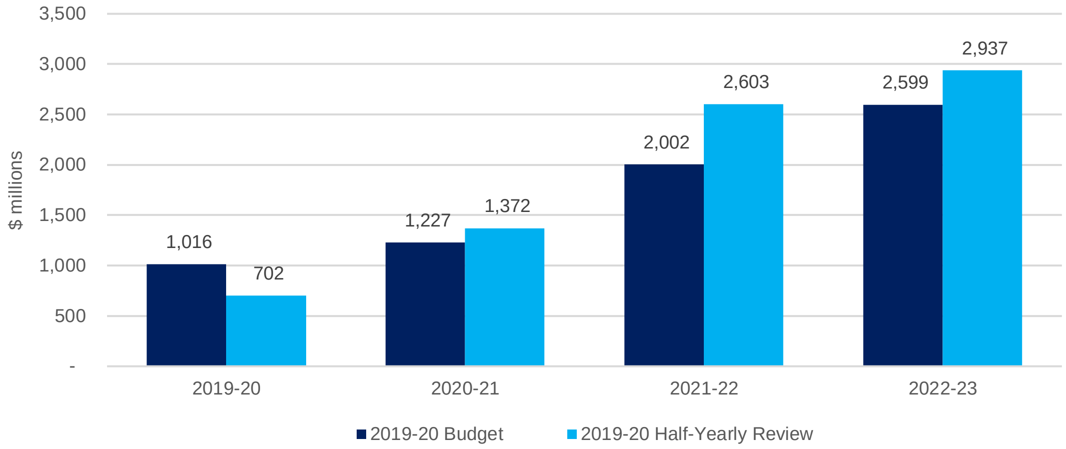
- revenue impacts including lower sales of goods and services, a lower-than-expected GST pool and lower fines revenue, all of which have been partially offset by an improvement in transfer duty
- expenditure impacts to reflect emerging budget pressures and changes to actuarial expenditure forecasts.

The Government continues to project surpluses over the four years to 2022-23, with an annual average surplus of $1.9 billion (see Chart 1.3).

Despite the economic challenges, the Half-Yearly Review sees average annual revenue growth of 3.3 per cent remain above average annual expense growth of 2.9 per cent.

See Chapter 3 for further analysis.

Chart 1.3: Budget Result – 2019-20 Budget vs 2019-20 Half-Yearly Review



Solid budget surpluses provide the Government with fiscal capacity to respond flexibly to emergencies and natural events, without compromising core service delivery. To this end, the Government is continuing to deliver critical drought assistance to farmers and regional communities across the State (see Box 1.1).

Box 1.1: The Government is continuing to provide critical drought support

New South Wales is experiencing one of the worst droughts on record – 99.9 per cent of the State is currently drought-affected. The NSW Government has progressively ramped up assistance to impacted communities. The 2019-20 Budget announced further drought support measures that brought the Government's commitment to $1.8 billion. Measures in this Half-Yearly Review bring that level of support to approximately $2 billion.

Existing Government support has included:

- $1 billion for the Farm Innovation Fund, to provide concessional loans and provide greater drought resilience
- $170.0 million for the Drought Stimulus Package, to fund shovel-ready infrastructure projects
- waiving of certain vehicle registration charges for Class 1 agricultural vehicles, including bulldozers, tractors and harvesters
- waiving of heavy vehicle charges for eligible primary producers
- deferral or extended instalment plans for drought-affected customers having difficulty meeting their payroll tax obligations
- waiver of Local Land Services rates and other Government charges
- support for rural financial counselling and mental health wellbeing.

Since the 2019-20 Budget, the Government has introduced additional funding of $208 million over the five years to 2023-24 – bringing total assistance to approximately $2 billion. This includes:

- $165.8 million for critical water programs to secure water supplies in regional New South Wales communities
- $36.0 million to continue drought transport subsidy payments
- $5.0 million to implement the fish rescue and restocking program
- $1.2 million to cover interest forgone to extend the Drought Assistance Fund.
- A new dedicated Office of Drought Response has also been formed to better coordinate support delivered by all NSW Government agencies for farmers, communities, businesses and towns affected by drought.

In response to recent bushfires, the Government is also delivering additional disaster recovery relief to affected communities – see Box 1.2 below for detail.

Box 1.2: Support for families and communities impacted by bushfire

The recent bushfires have had a devastating impact on families and communities across the State.

The NSW Government, through existing and new programs, is supporting communities at this critical time. To assist with clean-up and restoration costs, the following assistance is available:

- $48.2 million in joint funding with the Commonwealth to provide recovery grants to small businesses and farmers, improve access to mental health services, and support community organisations and local governments in providing bushfire recovery services
- $25.0 million to facilitate the clean-up of homes and properties damaged and destroyed by recent fires
- $1.4 million for volunteer-based organisation BlazeAid, to assist with repairing fencing damaged by bushfires.

With many fires still burning, and the hottest months still to come, our strong budget position will allow us to provide further funding if required.

The Government's four-year infrastructure program has now reached a record $97.3 billion, up from the 2019-20 Budget record of $93.0 billion, and is supported by a strong operating position.

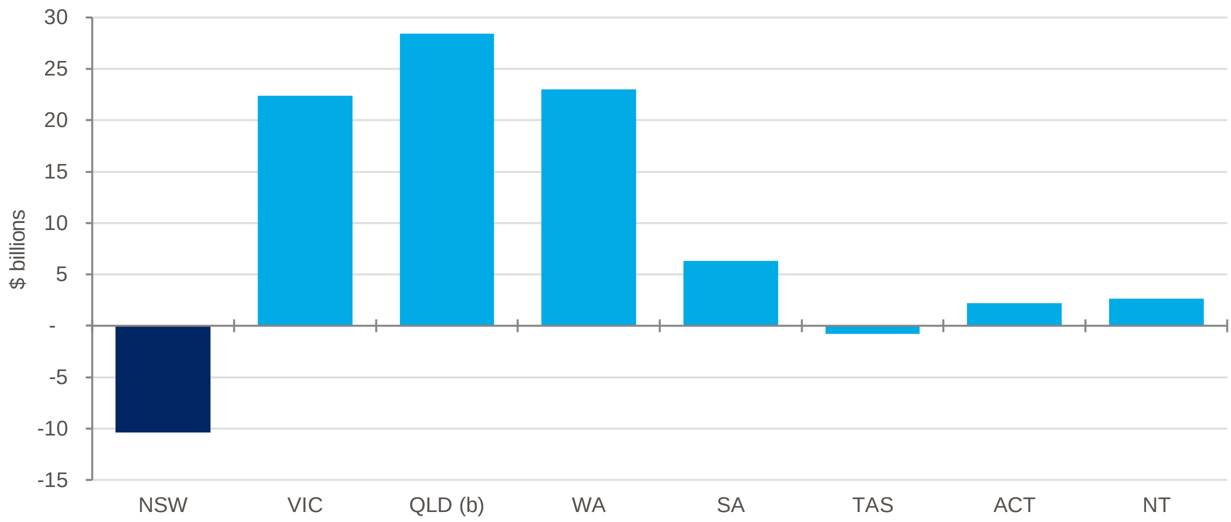
Since the 2019-20 Budget, the Government has made investment decisions to commence Sydney Metro West (which is Australia's largest ever public transport project) and the redevelopment of the Sydney Fish Market. The Government has also made investment decisions on the Western Harbour Tunnel and Warringah Freeway Upgrade projects, to significantly relieve congestion across Sydney.

The Government is actively using its balance sheet to invest in productive, city-shaping infrastructure for the people of New South Wales. The State's infrastructure program is funded by asset recycling proceeds, cash operating surpluses and sustainable levels of borrowings consistent with a triple-A credit rating. The Government continues to undertake balance sheet reform measures to ensure taxpayer assets are optimised.

New South Wales' net debt was negative $10.4 billion at June 2019 (see Chart 1.4). By June 2020, net debt is expected to be $12.9 billion – which is consistent with a triple-A credit rating and lower than the average of all other States and Territories.

New South Wales is one of only five comparable sub-sovereigns outside the United States to hold a triple-A credit rating from both S&P Global and Moody's. The two ratings agencies reaffirmed the State's triple-A credit rating in September 2019. International ratings agencies recognise the Government's innovative balance sheet reform and strong operating position has helped deliver its record infrastructure program, whilst maintaining a triple-A credit rating.

Chart 1.4: Lowest net debt of all jurisdictions across Australia as at June 2019 [(a)]



(a) Net debt as reported in published 2018-19 final budget outcomes for all jurisdictions except for Queensland and South Australia which are yet to report and are shown as at the 2019-20 Budget.
(b) Queensland reported net debt is adjusted for its superannuation assets treatment, making all States and Territories comparable.

Source: State Budget Outcomes 2018-19 and Budget Papers 2019-20

Since being re-elected for a third term in March 2019, the Government has delivered projects that are making New South Wales a better place to live, work, run a business and raise a family:

- Metro North West (opened in May 2019), moving over 75,000 people each day, with a travel time of less than 38 minutes between Tallawong and Chatswood
- WestConnex New M4 Tunnel (opened in July 2019) has led to travel savings for citizens of up to 20 minutes from Parramatta to the Sydney CBD, allowing them to spend less time in traffic and more time with family and friends
- Western Sydney Stadium (opened in April 2019), a world class 30,000 seat stadium bringing fans closer to the action than any other stadium in Australia
- The CBD and South East Light Rail (scheduled to open December 2019).

The Government is responding to current and emerging economic challenges

New South Wales is not immune from national pressures. While State economic growth is forecast to return to trend and the Budget is in good shape, there are emerging and fiscal challenges on the horizon.

- Household consumption growth remains weak, constrained by flat real income growth, while consumption patterns are shifting away from discretionary spending towards essential (GST exempt) services. These factors combined are weighing on GST, a major source of revenue
- There are limitations on the further use of monetary policy to support economic growth
- Labour productivity growth has slowed since the major economic reforms of the 1980s and 1990s, holding back growth in real wages and improvements in living standards
- The NSW economy is susceptible to the volatility of the Sydney housing market, resulting in fluctuations in State transfer duty revenues
- Investment in residential construction has passed its record highs and is now declining. With an increasing population, more supply will be needed to keep pace with expected growth.

To address these challenges and to create opportunities for the New South Wales economy to grow, the Government has made significant progress on its reform journey, across the areas of productivity, economic growth, federal financial relations and the State's trade and investment strategy (see Box 1.3).

Box 1.3: Delivering on our ambitious reform agenda

The NSW Government is continuing its reform priorities introduced in the 2019-20 Budget, to ensure the State has a sustainable fiscal and economic future.

NSW 2040 Economic Blueprint: *Investing in the State's Future*

- On 20 November 2019, the NSW Chief Economist released the *NSW 2040 Economic Blueprint*. The Economic Blueprint outlines the long-term economic vision for the State out to 2040, with a focus on both short and long-term strategies to grow the NSW economy (see Box 2.1 in Chapter 2 for further detail).
- The Blueprint forecasts New South Wales will continue to power the nation, with the State economy expected to become Australia's first trillion-dollar economy by 2030.

NSW Review of Federal Financial Relations

- On 12 August 2019, the NSW Treasurer announced an eminent Panel to lead this independent Review.
- The Review will develop recommendations for the State and Commonwealth governments to address growing demand on government services and infrastructure, eroding and inefficient taxes and complex and prescriptive Commonwealth funding arrangements.
- On 21 October 2019, the Review commenced a national conversation on reform with the release of its Discussion Paper *Working Together for a Better Future.*
- The Review is expected to deliver its final report to the NSW Government in 2020.

Productivity reform: Kickstarting the Productivity conversation

- In October 2019 the NSW Productivity Commissioner released the first of a series of papers to shape the productivity reform agenda for New South Wales (see Box 2.3 in Chapter 2 for further detail).

Global NSW

- In December 2019, the NSW Government launched the Global NSW strategy, which will help unlock international investment and drive exports, to keep our State as the nation's economic powerhouse and create jobs across industries of the future.
- The Strategy will focus on key growth industries including health, deference and aerospace, agribusiness and food, resources and infrastructure.
- As part of the strategy, the Government will expand the network of offices overseas from 11 to 21 in order to capitalise on expanding markets in China, South-East Asia and India as well as diversify exports in establishing markets like Japan, the United States and Europe.
- The strategy also includes the appointments of an Agent General in London and five senior NSW Commissioners in Mumbai, New York, Shanghai, Singapore and Tokyo.

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2. ECONOMIC OUTLOOK

Key points

- The New South Wales economy is expected to grow 1¾ per cent in 2019-20. Growth is then forecast to accelerate to 2¼ per cent in 2020-21 and 2½ per cent in 2021-22.
- A faster than expected improvement in housing market conditions should support an acceleration in economic growth in 2020-21.
- The NSW Government's infrastructure program has continued to play an important role in supporting economic activity in both the public and private sectors.
- However, the drought is affecting economic growth, subtracting ¼ percentage point from growth in 2019-20 through lower rural exports.
- The labour market remains a standout for the New South Wales economy. The unemployment rate is among the lowest in the nation and there has been significant job creation across the state.
- Wages growth is expected to be below trend over the next few years, but will gradually accelerate as the national labour market tightens and inflation expectations return to levels consistent with the Reserve Bank's inflation target.

2.1 Gradual return to trend growth over the medium term

Solid labour market conditions supported by strong public demand

The New South Wales economy grew by 1.9 per cent in 2018-19 and is on track to grow by 1¾ per cent over 2019-20. The economy is expected to return to trend growth of 2½ per cent in 2021-22.

Growth is being supported by the State's strong public investment program, which in turn is encouraging private investment, particularly in major transport projects. Over the past year, however, the drought directly reduced economic growth by around ¼ of a percentage point due to lower rural exports, while weaker farm incomes also weighed on investment and household consumption. A gradual farm sector recovery is expected to begin in 2020-21 (see Box 2.2).

Increased turnover in the housing market since the middle of 2019 is contributing directly to economic growth. A rebound in house prices is expected to positively impact household consumption through positive wealth effects, and will encourage a return to growth in dwelling investment from 2021-22.

With support from the Government's new record $97.3 billion four-year capital program, public investment is expected to contribute an average of ½ percentage point to Gross State Product (GSP) growth over the next two years. This is around five times its long-run average contribution.

Strong public infrastructure investment is also supporting private sector activity, with nearly 75 per cent of public sector engineering work undertaken by the private sector over the last year. Private business investment has been robust and is anticipated to contribute double its historical average in 2019-20. The contribution from household consumption is expected to pick up in 2020-21, and the current weakness in dwelling investment is expected to subside.

Forecasts for GSP growth in 2019-20 and 2020-21 have been revised lower since Budget, mainly reflecting a more muted outlook for household consumption growth. Households continue to exhibit cautious spending behaviour in response to modest income growth and a housing market that is still below its previous peak.

The NSW labour market has performed strongly. In 2018-19, employment grew by more than double its long-run average. This has prompted a near record-high labour participation rate and has kept the trend unemployment rate below that of any other state. Wages growth has slowed recently, which is partly due to excess capacity in the national labour market and modest expectations for inflation.

Table 2.1: Economic performance and outlook[(a)]

	2018-19	2019-20	2020-21	2021-22	2022-23
	Outcome	Revised Forecast	Revised Forecast	Revised Projection	Revised Projection
Real state final demand	2.1	2 (2½)	2¼ (2½)	-	-
Real gross state product	1.9	1¾ (2¼)	2¼ (2½)	2½	2½
Employment	3.3	1½	1¼	1¼	1¼
Unemployment rate [(b)]	4.4	4¾ (4½)	4½	4½	4½
Sydney consumer price index	1.7	1¾ (2)	1¾ (2)	2 (2¼)	2 (2½)
Wage price index	2.4	2¼ (2½)	2½ (2¾)	2¾ (3)	2¾ (3)
Nominal gross state product	3.7	3½ (3¾)	4 (4½)	4½ (4¾)	4½ (5)
Population [(c)]	1.5	1.5 (1.6)	1.5	1.4 (1.5)	1.4 (1.5)

(a) Per cent change, annual average, unless otherwise indicated. Budget forecasts in parenthesis where different.
(b) Annual average, per cent.
(c) Per cent change through the year to 30 June. 2018-19 is a forecast. Forecasts rounded to nearest 0.1 percentage point.

Source: ABS 5206.0, 5220.0, 6202.0, 6401.0, 6345.0, 3101.0 and NSW Treasury

Several risks highlighted at Budget have now materialised. This is particularly evident in the household sector, where spending has been more cautious than expected. The continuation of drought conditions could also affect the speed of the economic recovery. Globally, the growth outlook has weakened since Budget, owing to risks stemming from US-China trade tensions.

Counterbalancing these risks, home sales and prices are recovering faster than expected, and may continue to do so. While the outlook for global growth has weakened since Budget, the actual impact on New South Wales has been lower than forecast.

Box 2.1: Economic Blueprint—towards the nation's first trillion-dollar economy

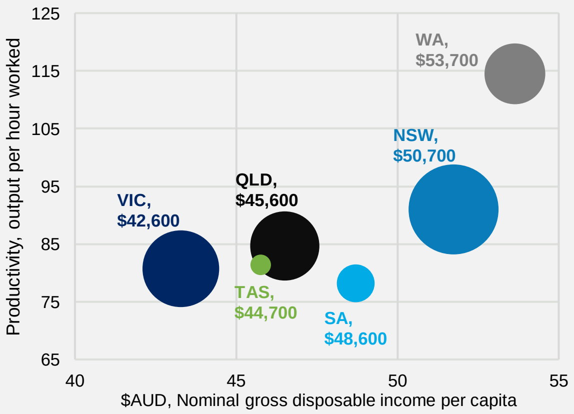
In November 2019, the Treasurer released the *NSW 2040 Economic Blueprint—Investing in the State's Future*. The Blueprint, compiled by the NSW Chief Economist, sets a long-term vision for New South Wales. It makes 39 recommendations for the future prosperity of our State.

The Blueprint highlights the State's many strengths, including:

- a pristine environment
- abundant natural resources
- a healthy economy
- high income and productivity (see Chart 2.1).

The Blueprint also identifies several global megatrends that will affect the future of the State, including the changing climate, the ageing population and rapid changes in technology.

Chart 2.1: NSW is a high productivity and high-income state



Source: ABS 5220.0 and NSW Treasury

The Blueprint draws attention to local challenges such as complex planning and regulatory regimes and an inefficient and volatile state tax system.

The Blueprint provides pathways to address the State's current shortcomings and implement changes that would drive an innovative and productive economy, not just now but for future generations.

The Blueprint is comprehensive and provides direction across:

- our economy
- our people
- cities
- regions
- businesses
- the environment
- Government performance.

As a forward-looking document, it identifies industries with potential to generate jobs and economic prosperity in the future, as well as strategies to foster these industries.

The document makes recommendations across a number of policy areas from skills and migration, to energy policy, infrastructure governance, innovation precincts and government procurement.

The Blueprint will form the basis of further stakeholder consultation and foster a more strategic and visionary approach to policy making, with an emphasis on planning the next 20 years of the State's economy.

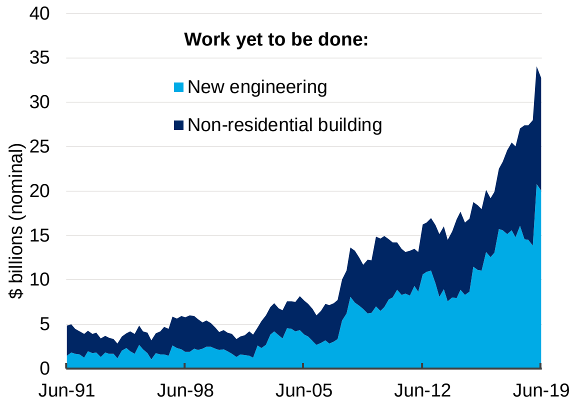
2.2 Investment remains a pillar of growth

The State's public investment program is supporting growth

Public demand directly contributed almost two-thirds of the State's economic growth in 2018-19. The strength in public demand has been driven by both:

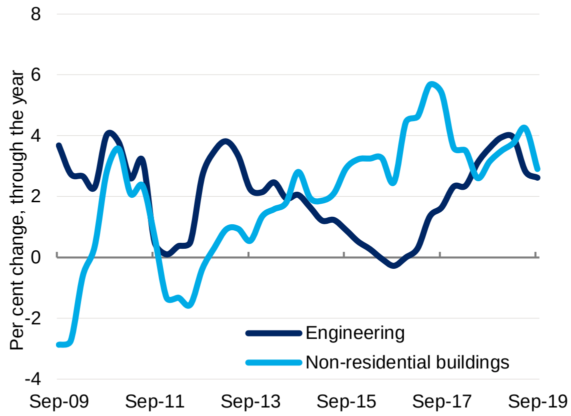
- public investment, driven by a solid pipeline of State led projects (see Chart 2.2)
- public consumption, reflecting the continued roll-out of the National Disability Insurance Scheme (NDIS) and other front line service improvements.

Chart 2.2: Public and private construction pipeline remains elevated



Source: ABS 8762.0, 8752.0 and NSW Treasury

Chart 2.3: Non-dwelling construction cost growth remains modest



Source: ABS 5206.0 and NSW Treasury

Public investment over the next two years is expected to remain a pillar of economic growth, underpinned by the Government's record $97.3 billion four-year capital program. This investment has twin benefits. Firstly, it drives immediate employment, particularly in construction and supporting services. Secondly, once the projects are opened they add to the productive capacity of the State and support economic activity.

The unprecedented infrastructure program is fully utilising the State's infrastructure supply chain. This has resulted in some cost growth, although to a moderate degree at this stage (see Chart 2.3). Industry liaison suggests that localised capacity constraints are appearing in specialised skillsets and equipment, such as tunnel boring operators and machines.

Business investment growth was solid in 2018-19

Business investment is expected to contribute ¾ of a percentage point to economic growth in 2019-20, driving almost half of the state's economic growth.

Across the State, the combined pipeline of infrastructure and commercial building projects remains at near record levels (despite surveys of business sentiment showing signs of caution).

The State's infrastructure investment is having positive spill-over effects on private sector activity. For example, much of the State's public infrastructure program is being delivered by the private sector. In some cases, such as WestConnex, ownership has now been transferred to the private sector (see Chart 2.4). The delivery and maintenance of these critical assets has lifted private investment and supported strong employment in the construction and professional, scientific and technical services industries.

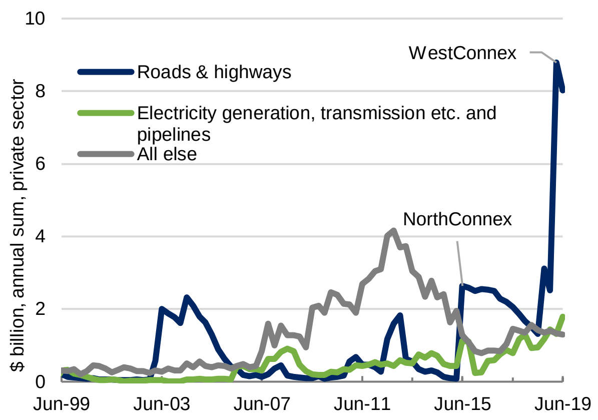
In addition to the infrastructure program, business investment is expected to benefit from the NSW Government's initiatives to make it easier to do business. An example is the recent changes to the payroll tax threshold, which means that an additional 5,000 small businesses in New South Wales will pay no payroll tax by 2021-22.

Growing demand for accessible, high-quality office space (partly to accommodate additional workers) coupled with a withdrawal of stock from the market has seen Sydney office vacancy rates drop below 4 per cent. This is the lowest vacancy rate in 10 years. Office demand in Sydney has promoted new investment and development activity, with 319 cranes raised across Sydney, 44 of which are on commercial office sites.

Strength in the non-residential sector is expected to continue. The pipeline of new building work continues to be fed by strong building approvals that will sustain activity over the next two years. This strength is broad-based and extends beyond the office market, into retail, warehouses and short-term accommodation. The latter sector has benefitted from growing tourist and international student arrivals.

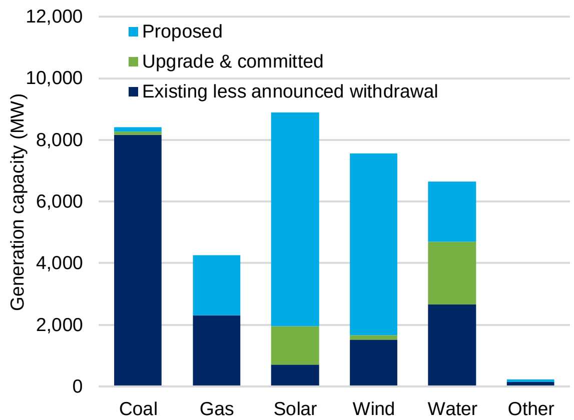
Investment in renewable energy infrastructure is another source of strength. Across Australia, installations of renewable energy capacity are growing at a rate 10-times faster than the global average (in per capita terms). In New South Wales, the private investment pipeline for electricity generation is $1.8 billion, exceeding the combined non-road pipeline of $1.3 billion (see Chart 2.4).

Chart 2.4: Near record private engineering pipeline supported by new investment in roads and electricity generation



Source: ABS 8762.0 and NSW Treasury

Chart 2.5: NSW electricity generation by capacity and technology



Source: AEMO[2] and NSW Treasury

The State's future electricity generation mix will see a significant shift over time with proposed and committed solar power matching existing coal generation capacity (see Chart 2.5). The NSW Government's Electricity Strategy, launched last month, will ensure the continuation of this boom into the future. The NSW Government is launching Australia's first renewable energy zone in the Central West of the State, with construction to begin in 2022.

Despite these strengths in non-dwelling investment, there is uncertainty around machinery and equipment investment, which accounts for 35 per cent of business investment. It is more vulnerable to swings in business confidence, which has softened since Budget. Given the high import intensity of machinery and equipment, softening investment is likely to flow through to lower capital imports.

[2] Australian Energy Market Operator

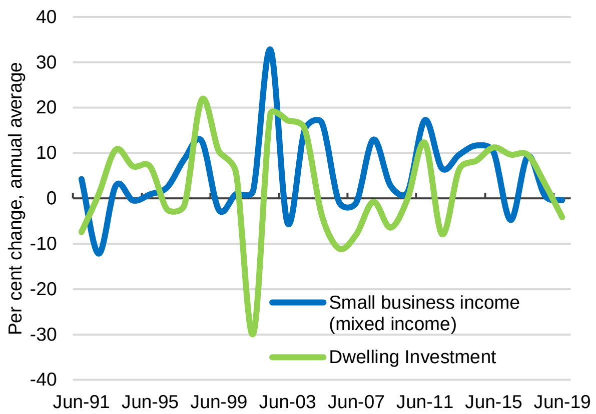
2.3 A recovery in household consumption will support growth

Several factors discussed below combined to contain consumption growth to 1.8 per cent in 2018-19, which was below Budget expectations.

House prices fell by around 9 per cent last financial year and housing turnover declined by 24 per cent, which acted as a drag on household consumption. Lower housing values generate negative household wealth effects, which lowers the borrowing and spending capacities of households. Further, the decline in housing turnover dampened spending on durable goods, such as household furniture.

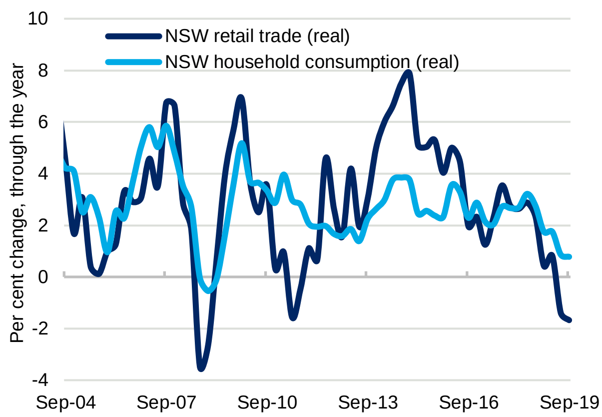
Household income growth is another factor constraining consumption. It remains low compared to historical averages. Wages growth has remained subdued and other forms of income are being negatively impacted by the severity of the drought and the residential construction downturn (see Chart 2.6).

Chart 2.6: The dwelling investment downturn is lowering small business income growth



Source: ABS 5220.0 and NSW Treasury

Chart 2.7: Retail spending weighing on consumption



Source: ABS 8501.0, 5206.0 and NSW Treasury

The recent easing of monetary policy by the Reserve Bank of Australia (RBA) and the Commonwealth Government's tax offsets have not yet been reflected in consumption data. Consumption growth was 0.8 per cent through the year to the September quarter, and in real terms retail spending fell by 1.7 per cent through the year. This was the weakest annual retail spending growth since the Global Financial Crisis (see Chart 2.7).

High levels of household debt and uncertainty about future economic conditions have affected household spending on discretionary goods, with households choosing to repay credit card and mortgage debt instead. Banks are reporting that most households have maintained their mortgage repayment levels despite lower interest rates. The effectiveness of monetary policy is also somewhat constrained. Lower interest rates adversely affect those households that rely on interest income, such as retirees. Additionally, banks have not passed on the full extent of RBA cash rate cuts to borrowers.

The forecast for higher consumption growth in 2020-21 is supported by the expected recovery in the housing market, solid labour market conditions, and a gradual improvement in wages growth. History indicates that demand for durable discretionary items (for example, new cars, furnishings and household equipment) are strongly correlated to movements in house prices (see Chart 2.8).

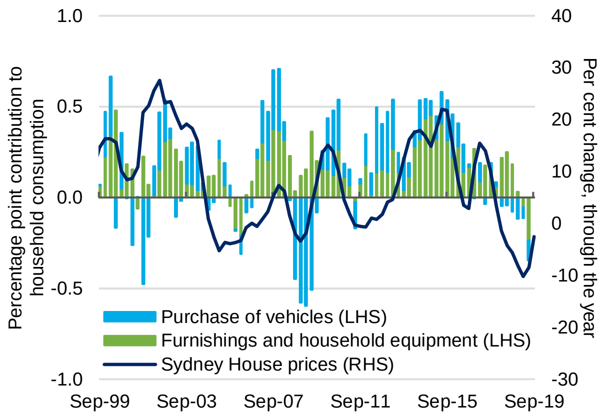
Support from housing is stronger than expected

The NSW economy remains highly vulnerable to swings in the Sydney housing market. Housing prices have turned around more quickly than expected at the time of Budget—an example of the volatility and unpredictability of the housing market.

After a period of declining house prices, the median Sydney house price has rebounded and risen by 8.2 per cent in just six months (May to November 2019). This turnaround in housing prices has been accompanied by a strong rise in the auction clearance rate in Sydney, as well as a pick up in the value of new housing finance commitments. Housing turnover (the number of properties sold) is similarly picking up, although it currently remains well below its historical average per capita. The increase in property transactions is important because it will flow through to the 'ownership transfer costs' component of GSP. Ownership transfer costs should make a positive contribution to the State's economic growth in 2019-20, having detracted 0.4 percentage points from growth in 2018-19.

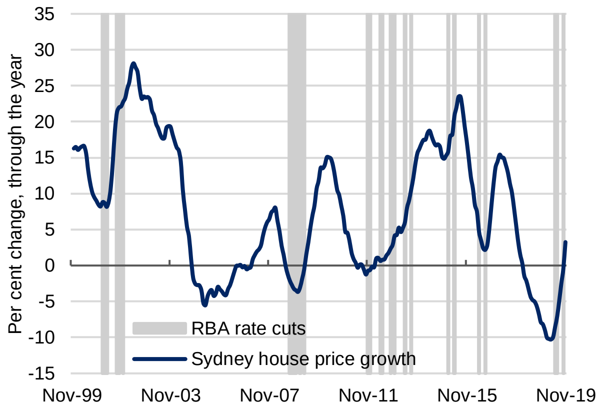
The turnaround in the housing market has been supported by a number of factors including lower interest rates (see Chart 2.9), the easing of uncertainty in relation to housing tax arrangements following the Federal election, and the Australian Prudential Regulation Authority lowering the minimum mortgage serviceability requirement for new lending. Home buyer sentiment has also improved, with house price expectations increasing markedly since May 2019.

Chart 2.8: Discretionary spending to be supported by house price growth



Source: ABS 5206.0, CoreLogic and NSW Treasury

Chart 2.9: Interest rate cuts are supporting an improvement in house price growth



Source: RBA, CoreLogic and NSW Treasury

Although house prices are rising, dwelling construction has fallen (from recent highs) and this trend is expected to continue for the remainder of 2019-20. This decline in new construction partly reflects the tail end of strong investment in new dwellings over the past six years, with a record level of completions bringing new housing supply on to the market.

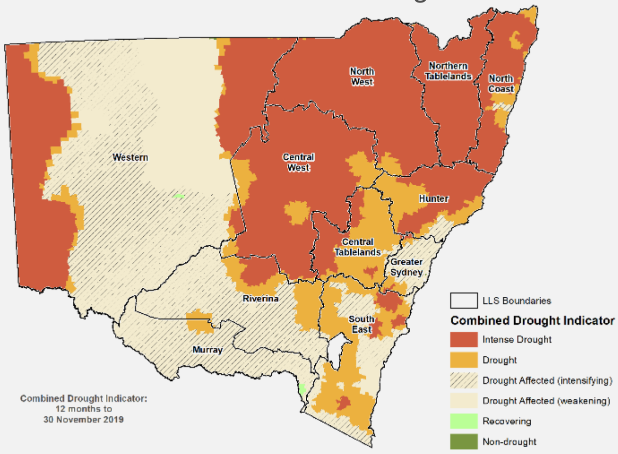
Further ahead, investment in dwellings should lift again. This is supported by a slight improvement in the outlook for building approvals. Dwelling investment is expected to bottom out in 2020-21 and grow thereafter. Solid population growth, lower interest rates and higher housing prices all support this forecast. The stabilisation in residential construction will flow through to the incomes of many small businesses involved in construction, which in turn should support consumption growth.

Box 2.2: The economic impact of the drought

The drought continues to intensify, with 99.9 per cent of the State now considered drought affected (see Chart 2.10)[3]. The drought, which began in 2017-18, is expected to continue for some time.

The most recent climate update from the Bureau of Meteorology suggests drier than average conditions will continue to year end. Some easing in drought conditions is expected in the March quarter 2020, although the unpredictability of weather patterns means there are risks to this eventuating.

Chart 2.10: Almost 100 per cent of the State is considered drought affected

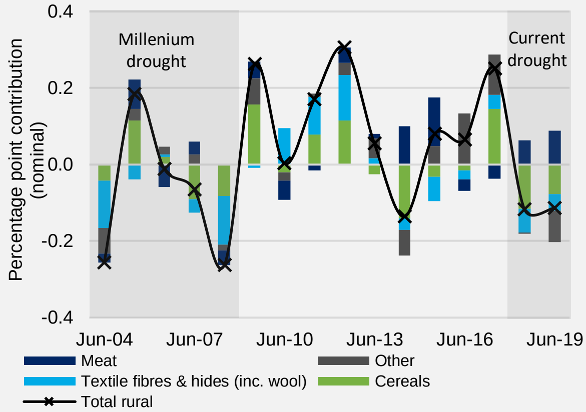


Source: NSW Department of Primary Industries

The prolonged drought is depleting soil moisture, water storage and herd sizes, meaning a recovery from drought conditions will take time. Farm profits are under significant pressure as production falls in tandem with mounting costs for water and feed supplies.

The large decline in rural international exports directly detracted 0.2 percentage points from (real) GSP in 2018-19. The severity of the drought has seen farmers run down their crop inventories and led the Commonwealth Department of Agriculture to approve overseas wheat importation for the first time since 2007. NSW buyers also turned to suppliers from other states, contributing to a reduced interstate trade balance—the balancing item (interstate trade) detracted 0.5 percentage points from GSP growth in 2018-19.

Chart 2.11: Contribution of overseas rural exports to nominal GSP growth



Source: ABS 5368.0 and NSW Treasury

The fall in overseas exports was led by declines in textile fibers and hides (including wool) and cereal products. Meanwhile, many farmers have run down their herds of livestock in response to drought conditions, temporarily boosting meat exports (see Chart 2.11).

Agricultural income fell by almost 20 per cent in 2018-19 and is expected to fall further in 2019-20[4].

Falling income is flowing through to slower household consumption growth and lower investment in new farm machinery and equipment. Business investment in cultivated biological products (which includes investment in livestock raised for breeding, dairy and wool) fell 22 per cent in 2018-19.

The effects of the drought have also spilled over into downstream industries. Transport, warehousing and postal services detracted 0.1 percentage points from growth in 2018-19. A fall in grain-related transport and transport support services contributed to this detraction.

A recovery in rural exports and a rebuild in herd stocks are expected to contribute to economic growth in 2020-21 and beyond. This forecast is largely informed by available information on the outlook for the rural sector from Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

3 November 2019.
4 The ABARES, Agricultural Commodities Report

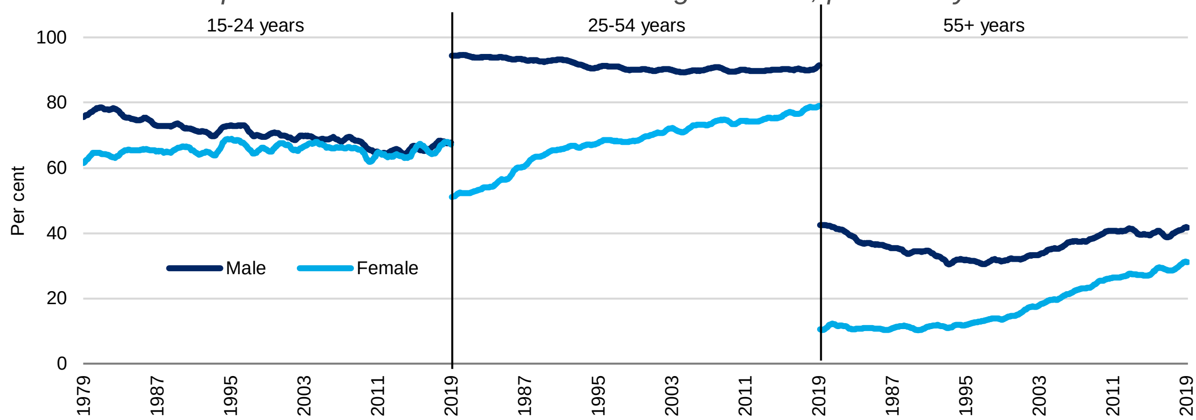
2.4 Solid employment growth with modest wages growth

Labour market close to full employment

Conditions in the labour market have remained resilient since Budget and continue to be among the strongest in the nation.

Employment growth has continued to exceed expectations and its long-run average, with the benefits being seen across the State, including in regional New South Wales. Solid employment growth has encouraged an influx of workers, particularly women, into the labour market, lifting the workforce participation rate to record highs (see Chart 2.12). Despite a recent lift, the unemployment rate remains low and consistent with estimates of full employment.

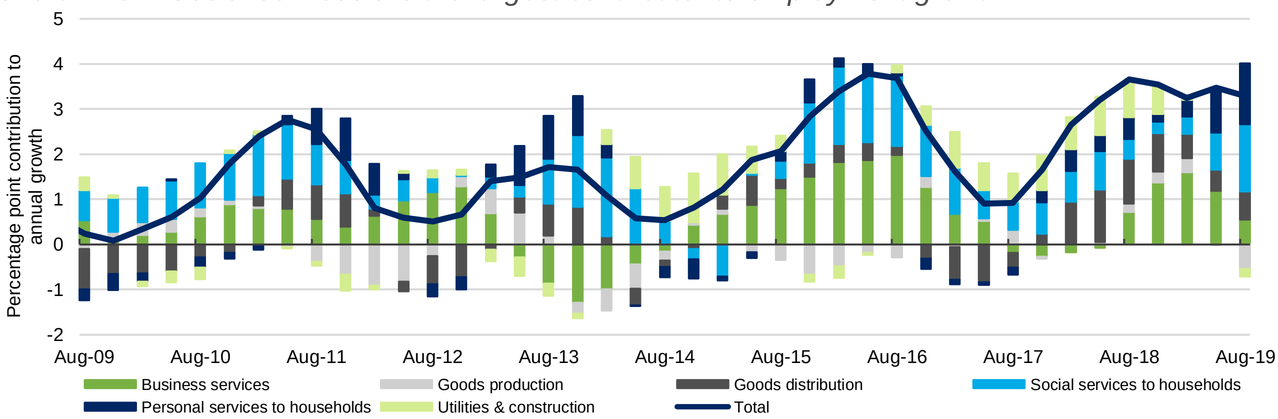
Chart 2.12: Participation rates have risen across all age cohorts, particularly for females



Source: ABS 6291.0.55.001 and NSW Treasury

Much of the recent strength in employment has been concentrated in industries that provide social services to households, accounting for over 45 per cent of employment growth over the past year. This has been driven principally by jobs in public administration and safety, health care and social assistance, which have benefited from the continued rollout of the NDIS and other health related services (see Chart 2.13).

Chart 2.13: Social services are the largest contributor to employment growth



Source: ABS 6291.0.55.003 and NSW Treasury

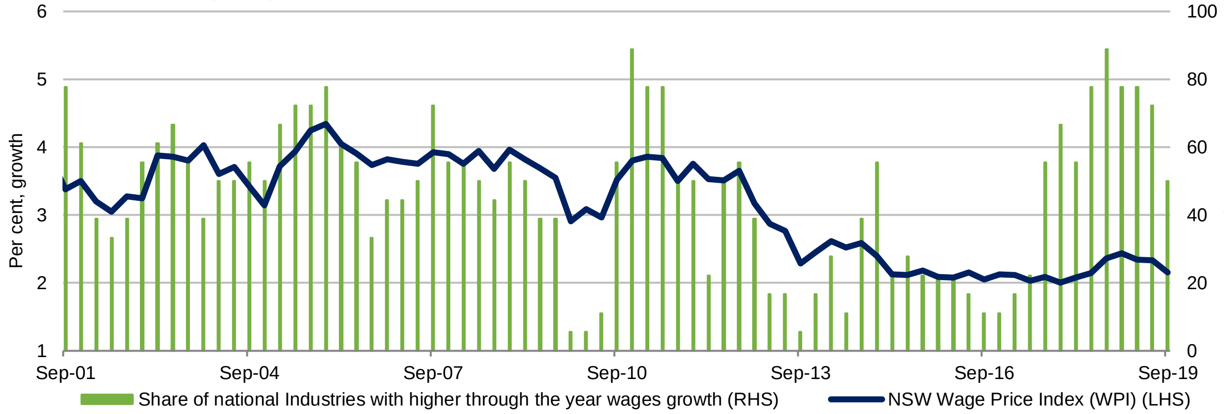
Looking ahead, softening conditions in the residential construction sector are expected to weigh on construction employment. Providing some offset to this effect is the Government's record infrastructure pipeline and solid growth in non-residential business investment. There is also some evidence that major construction firms are seeking to retain workers, with the decline in residential construction expected to stabilise in 2020-21.

The outlook for the labour market remains largely unchanged since Budget. Indicators of weakening labour demand and the slowdown in economic activity suggest employment will increase at a slower pace in the near term. However, offsetting this, a high number of existing job vacancies should support solid growth in employment across the medium term.

Wages growth expected to pick up more gradually

After picking up over the course of 2018-19, momentum in wages growth appears to have slowed. Growth in the Wage Price Index eased to 2.2 per cent through the year to the September quarter 2019, down from 2.3 per cent in the previous quarter. This slowdown is largely broad based, with half of all industries experiencing weaker annual wages growth (see Chart 2.14).

Chart 2.14: Wages growth has slowed across most industries



Source: ABS 6345.0 and NSW Treasury

Factors contributing to weaker wages growth include modest inflation expectations and elevated spare capacity in the national labour market, due to strong inward migration and high workforce participation.

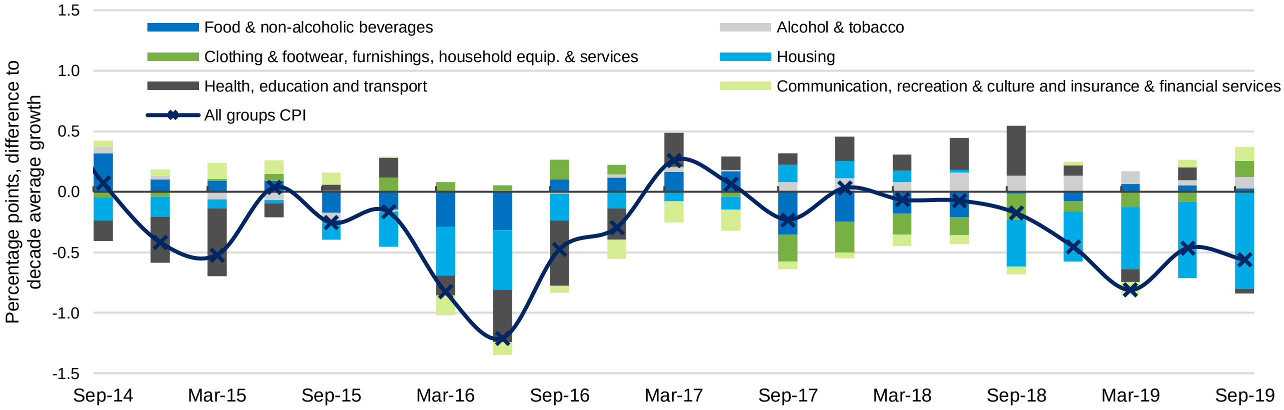
Disappointing growth in labour productivity nationally may also be contributing to lower-than-expected wages growth. The level of economic output per employee (and per hour worked) has been flat-to-declining in recent years, placing pressures on businesses to keep wages (and other) costs contained. The NSW Government is taking action to meet this challenge, with the NSW Productivity Commissioner releasing a Discussion Paper in October 2019 (see Box 2.3), which identified six priority areas with potential to boost productivity in New South Wales. The Discussion Paper will be followed by the development of a Green Paper and White Paper.

In an encouraging sign, broader wage measures that account for compositional effects in the labour force have been picking up. Solid full-time employment growth has helped, while several other compositional factors that weighed on income growth in recent years may also be starting to dissipate—for example, bonus payments have begun to pick up.

Wages growth is expected to be relatively subdued over the next few years, but will gradually accelerate as productivity improves, the national labour market tightens and inflation expectations return to levels more consistent with the RBA's inflation target. This recovery is likely to be a little more protracted than was expected at the time of Budget.

The inflation outlook has also softened since Budget. In addition to softer wages growth, housing-related costs have been a major drag on consumer price inflation since mid-2018 (Chart 2.15).

Chart 2.15: Housing related costs driving below average inflation



Source: ABS 6401.0 and NSW Treasury

Rental prices declined over the past year, the first annual decline on record. A downturn in housing market conditions and a ramp up in housing supply has seen a material lift in the Sydney rental vacancy rate, placing downward pressure on rents. With dwelling completions expected to remain elevated in the near term, there is limited scope for an acceleration in rental price pressures.

Government policies aimed at supporting families with the cost of living have seen inflation in areas such as education, health and transport remain more subdued than otherwise.

The lower Australian dollar and drought have contributed to a recent lift in clothing, household, furnishings and food inflation. This growth is unlikely to be sustained as the currency stabilises and weather conditions eventually improve. The gradual increase in wages and rising global prices are expected to see inflation rise over the next four years.

2.5 Risks to the economic outlook are balanced

Several domestic risks highlighted at Budget have materialised. This has particularly been the case in the household sector of the economy, which has seen a further slowing in construction activity, cautious consumer spending and a softening in household income growth. The continuation of drought conditions is also weighing on farm incomes and production.

Looking ahead, there are both upside and downside risks in the household sector. House prices are recovering faster than expected after falling from their peak in mid-2017. If house prices continue to rise faster than forecast, it would boost forecasts for housing construction, housing turnover and consumption (due to positive wealth effects). The downside risk is that incomes do not improve as expected, which would have the opposite effect on consumption and see weak retail spending continue.

As growth drivers have shifted from consumption towards investment, economic growth has become more volatile. The lumpy nature of private and public investment creates both upside and downside risks for annual economic growth.

Persistent drought conditions also contribute uncertainty to the outlook. Current forecasts by ABARES imply a very gradual recovery in crop production, consistent with depleted water stocks and the Bureau of Meteorology's most recent climate outlook. The Bureau expects drier-than-average conditions to continue into the start of 2020. The unpredictability of weather patterns means growth could take longer than forecast to recover. Alternatively if the drought breaks sooner, it would have positive flow-on effects to the broader economy.

Box 2.3: Progressing the Government's productivity agenda for New South Wales

Productivity growth is about ensuring the State reaps the biggest benefits from its assets. That includes its people (human capital), its physical assets (traditional capital), its natural resources and use of technology.

In May 2018, Peter Achterstraat AM was appointed the inaugural NSW Productivity Commissioner. The Commissioner and his team were initially mandated to address four key themes:

- making it easier to do business
- lowering the cost of living
- making housing more affordable
- making NSW the easiest state to move to.

The Commission's first full year of work culminated in October 2019 with public release of the discussion paper *Kickstarting the Productivity Conversation*. The paper aims to commence a conversation about how productivity-enhancing reform can support living standards in the years ahead. Six areas of focus were identified as priorities:

- building **human capital** for a modern and evolving economy
- reliable, sustainable and productive use of our **water and energy**
- smart ways to get more from our **infrastructure**
- modernising our **tax** system to help our economy grow
- **planning** for the housing we want and the jobs we need, and
- forward looking **regulation** to support competition and innovation.

The paper's release was followed by extensive consultation, including invitations to public submissions. The Commission's efforts have now turned to preparing a Productivity Green Paper identifying potential reform pathways. This is scheduled for release in the first half of 2020.

Following a further round of consultation, final recommendations to improve productivity will be outlined in the Productivity White Paper later in 2020. The Government will then consider the White Paper recommendations and prepare a Government response.

The Government is already taking steps by announcing its plans to boost the timeliness, certainty and transparency of the State's planning system. The reforms will reduce assessment timeframes, cut red tape, fast-track projects in high growth areas and address the uncertainty of developer contributions to boost investment.

The possibility of additional monetary or fiscal policy stimulus carries upside risk. This would particularly flow through to public demand, business investment and household consumption. Appendix D provides a sensitivity analysis of the economic impacts from additional public demand. However, there is also a high degree of uncertainty around the nature and extent of flow-through from stimulus. Key factors driving this uncertainty include relatively high levels of household debt, ongoing risks that banks do not pass through full rate cuts and any capacity constraints in the infrastructure sector.

Global risks seem to have eased somewhat since the time of the 2019-20 Budget. There are prospects of a US-China trade deal by the end of the year, which would provide some impetus for global growth to improve over the next year—consistent with current IMF forecasts. However, recent unrest in Hong Kong could play out in unforeseen ways, including delaying the timetable for the trade deal. There is also always a risk of a re-escalation in the trade dispute in the lead up to or after the US presidential election.

The slowdown in growth of Chinese visitors and students continues to be monitored. There is some level of uncertainty about the source of this weakness. Appendix D provides a sensitivity analysis of the economic impacts from a pronounced slowdown in China's GDP growth. Offsetting some of this risk from Chinese student growth is a shifting focus to Nepalese and Indian student enrolments, which are both experiencing double digit growth.

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3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

The 2019-20 Half-Yearly Review continues to project surpluses across the four years to 2022-23, with average surpluses of $1.9 billion per year. The projected average surplus is up by $192.1 million compared to the 2019-20 Budget and is driven by an increase in transfer duty, which is partly offset by lower GST, additional drought support and emerging risks (see Section 3.8 for further detail on risks).

Table 3.1: General government operating position and outlook

	2018-19	2019-20	2019-20	2020-21	2021-22	2022-23
	Actual	Budget	Revised	Forward Estimates		
Revenue ($m)	81,690	84,316	84,157	88,270	90,678	93,072
Revenue growth (%)	1.3	3.9	3.0	4.9	2.7	2.6
Expenses ($m)	80,471	83,300	83,455	86,899	88,075	90,135
Expense growth (%)	5.5	3.7	3.7	4.1	1.4	2.3
Budget Result ($m)	1,219	1,016	702	1,372	2,603	2,937
Per cent of GSP	0.2	0.2	0.1	0.2	0.4	0.4

Responding to drought and bushfires, supported by a strong fiscal position

Since the 2019-20 Budget the Government has continued delivering its election agenda while supporting communities in hardship, including:

- additional drought support for farmers and regional communities across the State (see Box 1.1 in Chapter 1 for detail)
- disaster recovery relief in partnership with the Commonwealth for bushfire affected communities to assist with recovery and clean-up (see Box 1.2 in Chapter 1 for detail).

By maintaining a sustainable operating position, the Government is able to respond flexibly to drought and bushfires without having to cut expenses from other services or raise taxes.

The *Fiscal Responsibility Act 2012* (FRA) guides the Government's fiscal strategy (see Table 3.2), including its commitment to maintain a triple-A credit rating (see Box 3.1) and manage annual expense growth in line with long-term revenue growth. Since the FRA came into force in 2012, the Government has met its expense growth commitment and remains on track to meet the target over the four years to 2022-23 (see Chart 3.1).

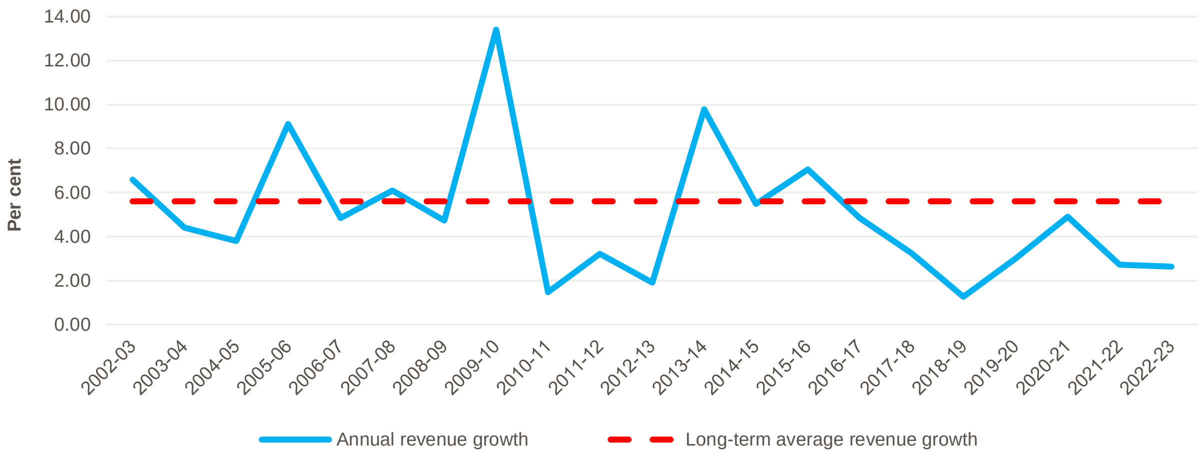
Table 3.2: Fiscal objective and targets

Requirements of the *Fiscal Responsibility Act 2012*	Target met?	Explanation
Objective: Maintain the triple-A credit rating		
S&P Global	✓	Reaffirmed AAA with a stable outlook in September 2019
Moody's	✓	Reaffirmed Aaa with a stable outlook in September 2019
Target 1: Annual expense growth less than long-term average revenue growth of 5.6 per cent	✓	Annual expense growth is less than long-term average revenue growth (5.6 per cent) across the forward estimates
Target 2: Elimination of the State's unfunded superannuation liability by 2030	✓	NSW is on track to be fully funded by 2030

Chart 3.1: Annual expense growth – performance against Fiscal Responsibility Act 2012 target

While revenue growth has been revised down by 0.9 per cent in 2019-20, this has been more than offset by increases in annual revenue growth over the forward estimates. This is driven by an improvement in stamp duty and land tax as a result of a better-than-expected recovery in residential and commercial property price growth and transaction volumes. Overall, annual revenue growth has started to trend back towards the long-term average of 5.6 per cent (see Chart 3.2).

Chart 3.2: Annual revenue growth compared to long-term revenue growth



Box 3.1: Triple-A credit rating reaffirmed

In September 2019 international ratings agencies, Moody's and S&P Global, reaffirmed a triple-A credit rating for New South Wales. This result underscores the Government's continued fiscal discipline and strong economic health. It also reflects the State's delivery of a sustainable operating position and manageable levels of debt over the medium-term.

New South Wales is one of only two Australian States or Territories and one of five comparable sub-sovereigns outside the United States to be rated triple-A by both ratings agencies (see Chart 3.3 below).

Chart 3.3: State and Territory comparison of credit ratings

Effective balance sheet management

The State's balance sheet continues to lead the nation. New South Wales has a lower net debt to Gross State Product (GSP) ratio over four years to 2022-23 than the average of all other jurisdictions in Australia.

The State's strong balance sheet allows the Government to plan for the future and deliver productive infrastructure that improves the lives of citizens. It also enables the Government to respond quickly in times of emergency and community need, such as bushfires and drought (see Box 1.1).

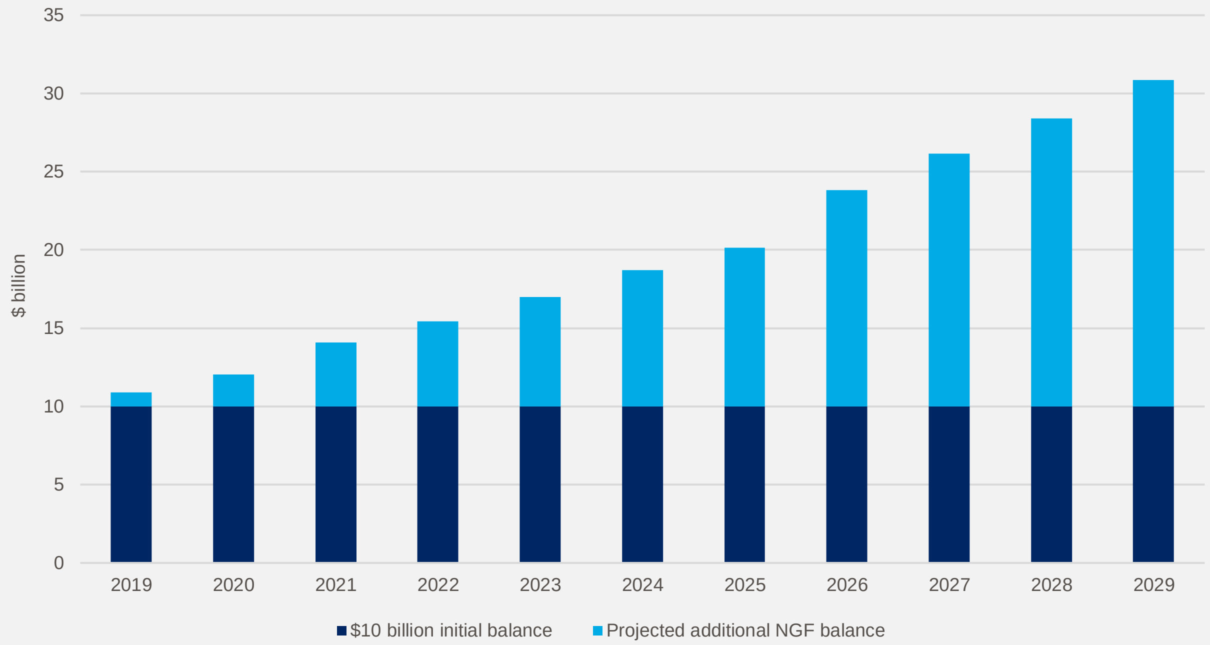
Since the 2019-20 Budget, the Government has approved new investment in Sydney Metro West, the Western Harbour Tunnel and Warringah Freeway Upgrade projects and the Sydney Fish Market. With these new investments, capital expenditure is projected to reach a record $97.3 billion over the budget and forward estimates across the non-financial public sector (NFPS), an increase of $4.3 billion since the 2019-20 Budget.

To deliver a record infrastructure program, the State is committed to ongoing fiscal discipline and maintaining sustainable levels of debt consistent with a triple-A credit rating. A key component of the Government's fiscal strategy is the NSW Generations Fund (NGF). The NGF was established in 2018 as a dedicated debt retirement fund. It helps support intergenerational equity by ensuring future generations are not burdened with excessive debt (see Box 3.2).

Box 3.2: Planning for the future - NSW Generations Fund

Established last year, the NGF has outperformed expectations, reaching $10.9 billion as at June 2019, with a net return of 9.6 per cent. Since the 2019-20 Budget the Government has transferred nearly $300 million of windfall tax revenue into the NGF and will transfer the distributions from Ausgrid and Endeavour Energy into the NGF from 2020-21 onwards. The NGF, which supports the State's triple-A credit rating, is now forecast to exceed $30 billion as at June 2029, triple its initial balance – see Chart 3.4 below.

Chart 3.4: Projected NGF balance is growing over the next 10 years[(a)]



(a) Projected NGF returns also include forecast distributions from the NGF equity interests.

Table 3.3: General government capital and fiscal outlook

	2018-19	2019-20	2019-20	2020-21	2021-22	2022-23
	Actual	Budget	Revised	Forward Estimates		
Capital Expenditure ($m)	16,623	22,345	23,683	18,821	18,126	15,407
Per cent of GSP	2.7	3.4	3.7	2.8	2.6	2.1
Net Debt ($m)	(10,401)	12,354	12,867	25,316	35,397	41,414
Per cent of GSP	(1.7)	1.9	2.0	3.8	5.0	5.6
Net Worth ($m)	250,172	266,946	251,068	266,462	284,725	299,213
Per cent of GSP	40.0	41.1	38.8	39.5	40.4	40.6

In June 2019, New South Wales recorded negative net debt of $10.4 billion. Net debt is forecast to increase over the budget and forward estimates, reflecting a ramp up in infrastructure investment as the State takes advantage of the low interest rate environment and its strong balance sheet. Since the 2019-20 Budget, forecast net debt for June 2020 has increased by $513.1 million, primarily due to new investment decisions, capital expenditure movements for Sydney Metro projects and a new lease extension for the NSW Police Headquarters.

Net worth, a measure of the Government's overall financial position, was recorded at $250.1 billion at June 2019. This means New South Wales continues to be the only State or Territory in Australia to achieve a net worth of a quarter of a trillion dollars. Since the 2019-20 Budget, expected net worth as at June 2020 has decreased by $15.9 billion. This is primarily due to an actuarial adjustment to the State's superannuation liability and other factors associated with lower bond rates in the public financial corporation (PFC) sector. Section 3.7 provides further detail on the State's balance sheet.

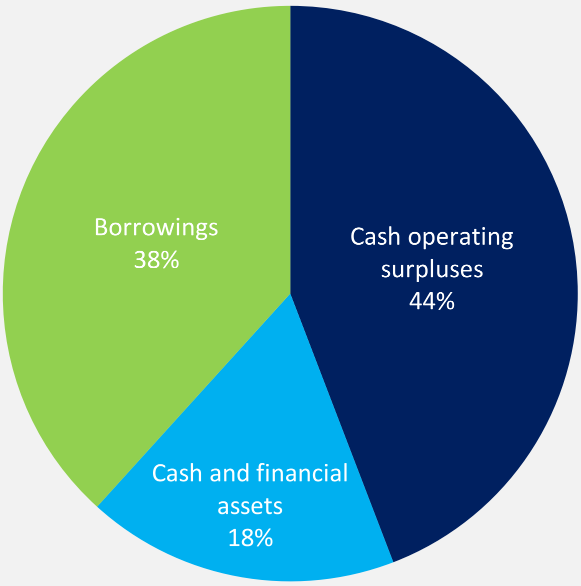
Box 3.3: Strategically funding the record infrastructure program

The Government is continuing to deliver an unprecedented infrastructure program. New South Wales' program is the largest of any jurisdiction across Australia. It is contributing to the State's economic growth and creating jobs (see Chapter 2 for more information).

To fund this record infrastructure program, the Government continues to strategically use a mix of operating surpluses, cash and financial assets (primarily from the State's successful asset recycling program) and sustainable levels of borrowings consistent with a triple-A credit rating. In addition, the NGF helps to ensure debt is maintained at sustainable levels over the longer-term.

Over the five years from June 2019 to June 2023, more than 60 per cent of the general government capital program is being funded from non-debt funding sources (see Chart 3.5).

Chart 3.5: Funding of the capital program across five years from June 2019 to June 2023[(a)]



(a) Source: General government financial statements as published in Appendix B.

3.2 Revenue outlook

General government revenue is forecast to be $84.2 billion in 2019-20, which is $158.6 million lower than forecast in the 2019-20 Budget. Lower revenue expectations in 2019-20 are being driven by lower sales of goods and services, and a lower-than-expected GST pool. This has been partially offset by higher-than-expected taxation revenue, in particular transfer duty.

Over the four years to 2022-23, general government revenue is expected to be $2.2 billion higher than forecast in the 2019-20 Budget. After a period of declining house prices, the property market has begun to recover. This recovery has seen a sharper upward turn in residential and commercial property price growth and transaction volumes than was forecast at the time of the 2019-20 Budget. It has led to upward revisions to forecast stamp duty and land tax. The upward revision in stamp duty and land tax is partially offset by lower revenue from GST payments, coal royalties, and other dividends and distributions.

General government revenue is expected to increase by 3.3 per cent per year over the four years to 2022-23. This rate is slightly higher than forecast in the 2019-20 Budget. Table 3.4 provides a summary of revenue in the general government sector.

Table 3.4: General government sector revenue

	2018-19	2019-20		2020-21	2021-22	2022-23	% Average growth p.a. 2018-19 to 2022-23
	Actual	Budget	Revised	Forward Estimates			
	$m	$m	$m	$m	$m	$m	
Revenue from transactions							
Taxation	31,443	31,841	32,515	35,439	36,619	38,129	4.9
Grant revenue (including GST)	31,848	33,003	32,666	33,941	35,888	37,403	4.1
Sales of goods and services	8,990	9,762	9,337	10,259	9,607	8,984	(0.0)
Interest income	491	333	368	414	408	391	(5.5)
Dividends and income tax equivalents from other sectors	1,932	1,877	1,870	1,329	768	817	(19.4)
Other dividends and distributions	1,934	2,001	2,024	1,802	1,967	2,145	2.6
Royalties	2,093	1,988	1,803	1,766	1,853	1,898	(2.4)
Fines, regulatory fees and other revenues	2,958	3,510	3,574	3,320	3,568	3,304	2.8
Total revenue	**81,690**	**84,316**	**84,157**	**88,270**	**90,678**	**93,072**	**3.3**
Annual change	*1.3%*	*3.9%*	*3.0%*	*4.9%*	*2.7%*	*2.6%*	

Chart 3.6: Composition of total revenue, 2019-20

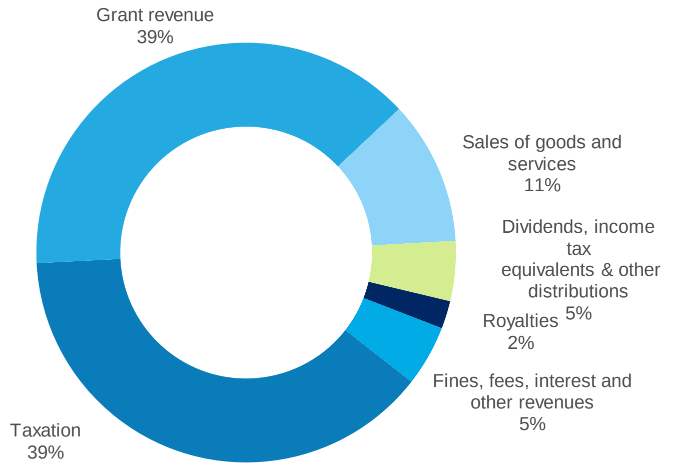


Chart 3.7: 2019-20 changes in revenue – 2019-20 Budget to Half-Yearly Review

Policy measures affecting revenue since the 2019-20 Budget

NSW Government decisions since the 2019-20 Budget have had a net impact on revenue of negative $296.0 million in 2019-20 and negative $323.3 million over the four years to 2022-23. These include:

- **Additional land tax compliance activity.** Investment in system upgrades and improved data management in Revenue NSW will make it easier for taxpayers to manage their land tax obligations and facilitate improved compliance, increasing land tax revenue by $264.5 million in the four years to 2022-23.
- **Changes to the Towards Zero program.** The NSW Government is committed to reducing road fatalities and serious injuries by 30 per cent by 2021 and trauma to zero by 2056, as outlined in its Road Safety Plan 2021 (Towards Zero program). In the four years to 2022-23, the Towards Zero program, which includes the roll out of mobile phone detection cameras, is expected to increase revenue from fines and fees by $62.8 million.
- **NSW Eating Disorder Initiative.** The NSW Government will receive an additional $10.5 million in grant revenue from the Commonwealth over the four years to 2022-23 following the signing of the project agreement for the New South Wales Eating Disorder Initiative. This program will include the establishment of a residential eating disorder centre.
- **Walsh Bay Arts Precinct Redevelopment.** Revenue from tenant contributions has been delayed, with a reduction of $11.7 million over the four years to 2022-23 reflecting changes to the timing of project delivery.
- **NSW Generations Fund (NGF) distributions.** Endeavour Energy and Ausgrid distributions will be directed into the NGF from 2020-21, which will increase distributions from the NGF by $38.0 million over the four years to 2022-23.
- **Sydney Metro projects.** The Government has proceeded with the transfer of the remaining Sydney Metro projects from RailCorp to Sydney Metro. With the transfer, Sydney Metro will no longer receive the fee for service revenue from RailCorp for these projects. This results in a reduction in general government revenue of $691.7 million in the four years to 2022-23. This will not impact the budget result as there is also an equivalent offsetting reduction in expenses.

Table 3.5: Revenue reconciliation – 2019-20 Budget to Half-Yearly Review

	2019-20	2020-21	2021-22	2022-23	Four year total
		Forward Estimates			
	$m	$m	$m	$m	$m
Revenue - 2019-20 Budget	**84,316**	**87,632**	**90,018**	**92,009**	**353,975**
Policy changes since Budget					
Additional land tax compliance activity	40	92	74	59	265
Changes to the Towards Zero program	(125)	(26)	110	103	63
NSW Eating Disorder Initiative	7	...	1	4	11
Walsh Bay Arts Precinct Redevelopment	(12)	(2)	1	1	(12)
NSW Generations Fund distributions	...	2	10	26	38
Reallocation of projects to Sydney Metro entity	(206)	(87)	(281)	(118)	(692)
Other	0	1	1	1	4
Total policy changes	**(296)**	**(19)**	**(84)**	**76**	**(323)**
Parameter changes since Budget					
Taxation					
Transfer duty	646	1,394	1,003	945	3,987
Payroll tax	(11)	(49)	(79)	(18)	(156)
Land tax	(18)	80	278	475	815
Other taxes	16	46	48	3	114
Grant revenue					
GST	(352)	(317)	(60)	(353)	(1,082)
Other general purpose grants (including no worse off payments)	4	...	17	142	163
National Agreement payments	...	...	...	...	...
National Partnership payments	2	...	1	...	3
Other grant revenue	2	(2)	(24)	(25)	(48)
Sale of goods and services	(219)	(78)	(87)	112	(272)
Interest income	35	91	119	119	364
Dividends and income tax equivalents from other sectors	(7)	(29)	(27)	38	(26)
Other dividends and distributions	23	(201)	(246)	(232)	(656)
Royalties	(185)	(201)	(108)	(57)	(551)
Fines, regulatory fees and other revenues	201	(77)	(92)	(162)	(129)
Total parameter changes	**137**	**657**	**744**	**987**	**2,526**
Total variations	**(159)**	**639**	**660**	**1,063**	**2,203**
Revenue 2019-20 Half-Yearly Review	**84,157**	**88,270**	**90,678**	**93,072**	**356,178**

Taxation revenue

State taxation revenue is forecast to be $32.5 billion in 2019-20, which is $673.2 million higher than forecast in the Budget.

Payroll tax is the State's largest source of taxation revenue, providing 30.1 per cent of the total in 2019-20. Transfer duty remains the second largest taxation source and is expected to provide 23.2 per cent of total taxation revenue.

Table 3.6: Taxation revenue

	2018-19 Actual $m	2019-20 Budget $m	2019-20 Revised $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	% Average growth p.a. 2018-19 to 2022-23
Stamp duties							
Transfer duty	7,430	6,887	7,533	9,115	9,568	9,983	7.7
Insurance	1,022	1,061	1,061	1,124	1,157	1,201	4.1
Motor vehicles	792	807	807	860	886	915	3.7
Other	1	0	0	0	0	0	
	9,245	**8,755**	**9,401**	**11,099**	**11,611**	**12,099**	**7.0**
Payroll tax	9,357	9,796	9,785	10,246	10,656	11,194	4.6
Land tax	4,216	4,538	4,561	4,779	4,907	5,113	4.9
Taxes on motor vehicle ownership and operation							
Weight tax	2,210	2,277	2,252	2,373	2,434	2,559	3.7
Vehicle registration and transfer fees	444	455	456	469	476	492	2.6
Other motor vehicle taxes	40	42	41	42	44	46	3.4
	2,694	**2,774**	**2,749**	**2,884**	**2,954**	**3,097**	**3.5**
Gambling and betting taxes							
Racing	127	167	164	153	163	176	8.5
Club gaming devices	783	800	750	759	774	794	0.4
Hotel gaming devices	862	898	939	1,006	1,079	1,154	7.6
Lotteries and lotto	454	470	524	509	531	553	5.1
Casino	394	281	271	278	292	308	(6.0)
Other gambling & betting	15	15	15	16	17	18	4.2
	2,634	**2,631**	**2,663**	**2,720**	**2,856**	**3,002**	**3.3**
Other taxes and levies							
Health insurance levy	210	214	215	220	226	233	2.7
Parking space levy	109	112	112	114	116	118	1.9
Emergency services levy contributions	785	895	898	1,143	1,023	994	6.1
Emergency services council contributions	143	175	182	162	158	161	3.1
Waste and environment levy	767	771	771	777	788	802	1.1
Government guarantee fee	300	336	326	333	387	415	8.4
Private transport operators levy	77	82	82	85	17	8	(43.8)
Pollution control licences	18	21	26	21	22	22	4.7
Other taxes	886	743	745	856	898	873	(0.4)
	3,296	**3,347**	**3,356**	**3,712**	**3,634**	**3,625**	**2.4**
Total taxation revenue	**31,443**	**31,841**	**32,515**	**35,439**	**36,619**	**38,129**	**4.9**
Annual change	*0.4%*	*1.8%*	*3.4%*	*9.0%*	*3.3%*	*4.1%*	

Since the Budget:

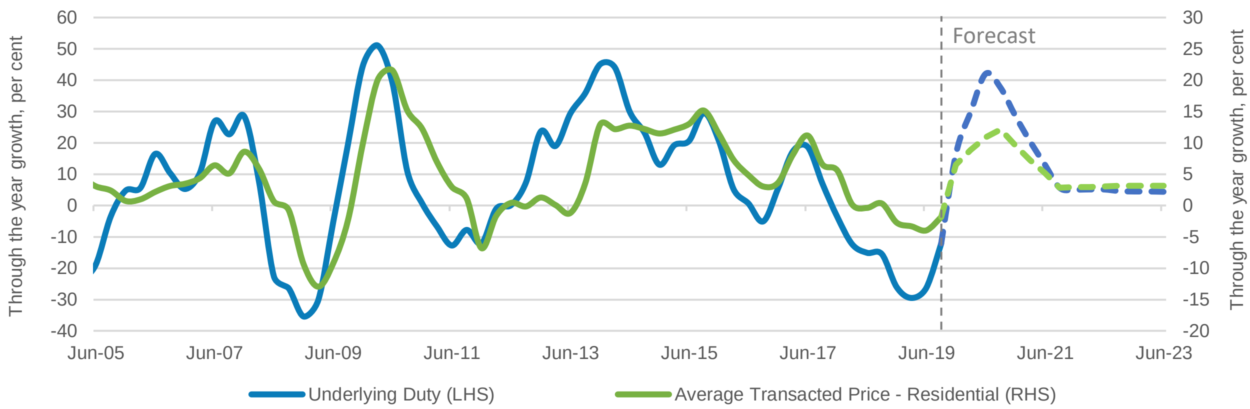
- **Transfer duty** revenue has been revised up by $645.8 million in 2019-20 and by $4.0 billion over the four years to 2022-23. A stronger outlook for both residential and commercial property markets has driven the upward revision to revenue, within the range of historical volatilities (Chart 3.8).

  Since the 2019-20 Budget, expected residential property price growth has been revised upwards. At the 2019-20 Budget, the RBA had recently lowered the cash rate by 25 basis points, with one more rate cut forecast for later in the year. Now, three rate cuts have been delivered during 2019 and a further rate cut is expected in early 2020. The cumulative effect of rate cuts, along with easing macroprudential measures, are having a significant impact on price growth. The CoreLogic Hedonic Home Value Index for Sydney has risen sharply in recent months, by 8 per cent from mid-August to early December. Forward-looking indicators, such as Sydney auction clearance rates, suggest that price growth will continue to strengthen into 2020.

  Transaction volumes remain low but are expected to recover sharply and grow strongly through to 2020-21, before levelling off across the forward estimates. Residential transaction volumes are now expected to rise by 11.2 per cent in 2019-20 and by 13.9 per cent in 2020-21.

- **Foreign investor transfer duty surcharge** has been revised up by $2.0 million in 2019-20 and by $28.0 million over the four years to 2022-23, in line with the outlook for the residential property market.

Chart 3.8: Underlying transfer duty and average residential transacted price, quarterly



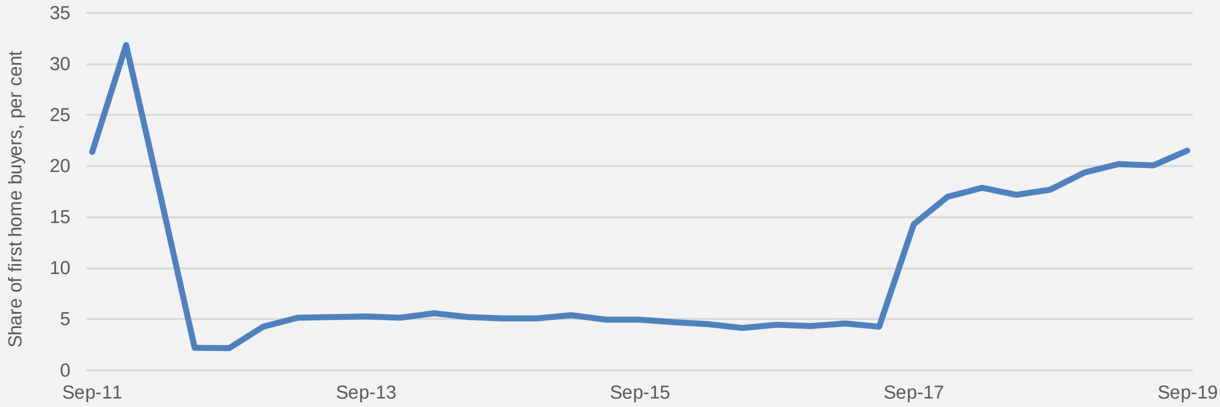
Source: Revenue NSW, NSW Treasury

Box 3.4: The Government is continuing to support first home buyers

The NSW Government provided $533.6 million in support to first home buyers in 2018-19 and this is forecast to increase to $675.2 million in 2019-20. First home buyers have typically been responsive to policy action (see Chart 3.9). Assistance currently comes in the form of transfer duty exemptions (on purchases up to $650,000) or concessional rates (on purchases between $650,000 and $800,000) and grant payments of $10,000 for builders of new homes up to $750,000 and purchasers of new homes up to $600,000.

The number of first home buyer purchases rose by 9 per cent over the year to September quarter 2019 to just over 8,600 purchases – accounting for 21.5 per cent of all residential transactions in the September quarter 2019. This is a 50 per cent increase in the relative share of first home buyers to all residential transactions (at 14.3 per cent of all residential transactions) from just two years ago, when assistance was extended to the purchase of existing homes.

Chart 3.9: First Home Buyers as a proportion of all transactions



Source: Revenue NSW, NSW Treasury

- **Land tax** has been revised up by $22.4 million in 2019-20 and by $1.1 billion in the four years to 2022-23. The upward revision in 2019-20 reflects additional compliance activities, while stronger property prices over the four years to 2022-23 are expected to flow into higher land valuations and land tax revenue.
- **Payroll tax** has been revised down by $10.7 million in 2019-20 and by $156.0 million over the four years to 2022-23, reflecting weaker wages growth expectations over the forward estimates.
- **Motor vehicle stamp duty** is unchanged in 2019-20 and has been revised up by $128.0 million over the four years to 2022-23. In 2019-20, lower new vehicle sales have been offset by higher-than-expected vehicle prices. Over the three years to 2022-23, new motor vehicle sales are expected to pick up, reflecting higher expected growth in household wealth. Vehicle price growth is also expected to continue to be higher than anticipated at Budget.
- **Taxes on motor vehicle ownership and operation** have been revised down by $25.0 million in 2019-20 and $169.0 million over the four years to 2022-23. In 2019-20, lower growth in vehicle stock is expected to reduce revenue. Over the three years to 2022-23, revenue from weight tax is expected to be lower than the Budget forecast due to indexing to consumer price inflation, which has been revised down.

- **Gambling and betting taxes** have been revised up by $32.0 million in 2019-20 and $137.3 million in the four years to 2022-23, primarily due to higher forecast revenue from lotteries duty. Casino revenue is expected to decline in 2019-20 largely due to a one-off licence fee received in 2018-19, before increasing again over the forward estimates.
- **Emergency Services Levy revenue** (including insurer and council contributions) has been revised up by $10.6 million in 2019-20 and by $53.9 million over the four years to 2022-23. This increase is due in part to expenses related to employee insurance and additional contributions to the workers compensation scheme to provide greater support for firefighters who are diagnosed with prescribed cancers.
- **Private transport operators levy** includes passenger service levy revenue, and application and annual authorisation fees for taxi and booking service providers. Revenue forecasts are unchanged relative to Budget. The passenger services levy is expected to reach its $250 million target for industry assistance in 2021-22, resulting in a decline in revenue.

Grant revenue

In addition to taxation revenue, New South Wales receives grant revenue from the Commonwealth Government including GST payments, National Agreements, National Partnerships and other Commonwealth payments. Grant revenue also includes a small number of other grants and subsidies received from other sources.

Grant revenue is forecast to be $32.7 billion in 2019-20, which is $336.9 million lower than at Budget. Since the Budget:

- **GST revenue** has been revised down by $352.0 million in 2019-20, and $1.1 billion over the four years to 2022-23. The 2019-20 revision is largely due to a lower-than-expected GST pool in 2018-19 and a downgrade to the 2019-20 GST pool forecast. Over the three remaining years to 2022-23, weaker household consumption and dwelling investment growth nationally is expected to reduce the national GST pool. Increases to NSW transfer duty revenue will lead to a decrease in the New South Wales' share of the GST pool over the forward estimates. This impact on the New South Wales' share is partially offset by stronger than expected royalty revenues for Western Australia and Queensland, and weaker coal royalty revenue for New South Wales.

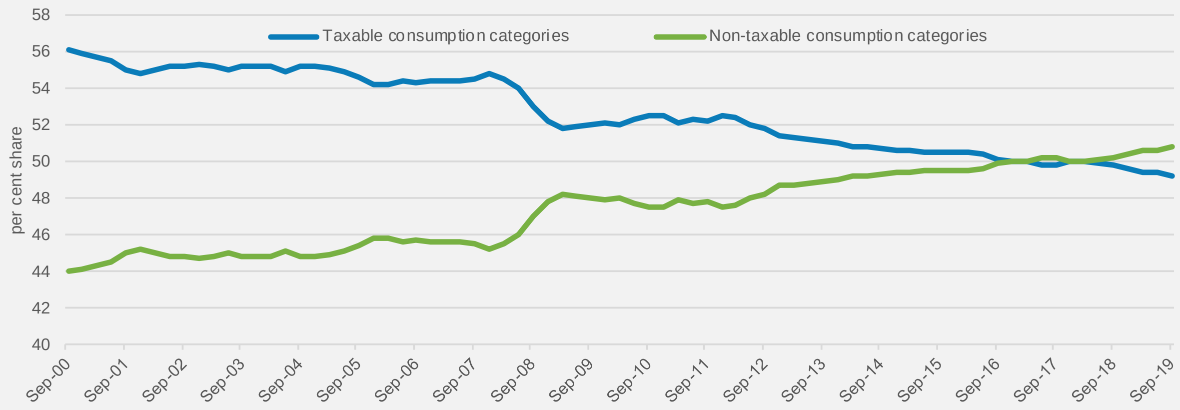
  Looking forward, there are risks to NSW GST revenue forecasts. The national GST pool is exposed to downside risk as household consumption continues to soften, particularly in discretionary spending. Further uncertainty arises from the Commonwealth Grants Commission 2020 Review, which will be finalised in early 2020. See Section 3.8 *Fiscal Risks* for more information.
- **Other general purpose grants** are $163.4 million higher over the four years to 2022-23 compared to the 2019-20 Budget. This is due to higher forecast no worse off payments under the new Horizontal Fiscal Equalisation arrangements.

Box 3.5: GST revenue and changing household consumption

The GST was introduced in July 2000 based on an expectation that revenue would grow in line with the broader economy, providing states and territories with a reliable revenue base into the future. Nineteen years later, this expectation is not being fulfilled. GST as a proportion of Gross Domestic Product has fallen from 4.1 per cent in 2003-04 to 3.3 per cent in 2018-19.

As shown in Chart 3.10, taxable consumption categories made up about 56 per cent of national consumption at the time the GST was introduced in July 2000. By the June quarter 2019, taxable consumption categories accounted for 49 per cent of total consumption. This trend is likely to continue during the forecast period.

Chart 3.10: Changes in consumption over time



Source: ABS, NSW Treasury
Note: Non-taxable consumption categories includes ABS National Accounts categories: food, health, education services, rent and other dwelling services, and insurance and other financial services

Erosion of the GST tax base arises from exemptions for essential goods and services including fresh food, rent for housing, health and education services. These exemptions are interacting with several economic trends to lower GST revenue:

- price growth for GST exempt goods and services is outpacing growth in the prices for taxable goods and services. This is compounded by weakness in retail price growth because of competition from online retailers
- a compositional shift in household spending is taking place, with consumption being directed to essential expenditure on goods and services like health care and fresh food
- the emergence of the peer-to-peer economy presents a new risk to growth in the GST pool. Individual and small operators and suppliers that may fall under the GST registration threshold could lead to the displacement of traditional larger firms in sectors like accommodation.

The 2018-19 Mid-Year Economic and Fiscal Outlook (MYEFO) and the 2019-20 Commonwealth Budget collectively revised down the GST pool by $10.9 billion over four years to 2021-22. These downgrades have resulted in a projected $3.0 billion reduction in GST payments to NSW. Further downgrades to the GST pool and revisions to the NSW share in this Half-Yearly Review revises NSW GST revenue down by a further $1.1 billion over the four years to 2022-23.

Ongoing weakness in GST receipts means all states and territories are more reliant on tied payments or own source revenue to fund public services and infrastructure. The NSW Government is seeking to address this challenge through strong financial management, the current New South Wales Review of Federal Financial Relations (see Box 3.6) and by working with other states and territories through the Board of Treasurers.

The Australian Government has legislated significant changes to Horizontal Fiscal Equalisation (HFE), which presents ongoing implications for the State's share of GST. A no worse off guarantee is in place until 2026-27, which will ensure that New South Wales receives the better of the systems during this transition period. However, these increasingly complex HFE arrangements present significant longer term downside risks to the State.

- **National Agreement payments** are expected to provide $10.4 billion in 2019-20 and $45.5 billion over the four years to 2022-23. There is no change since the 2019-20 Budget.
- **National Partnership payments** are expected to provide $9.7 billion in revenue over the four years to 2022-23. Since the 2019-20 Budget, revenue from National Partnerships is $13.5 million higher over the four years to 2022-23 primarily due to the signing of the Community Health and Hospitals Program Project Agreement for the New South Wales Eating Disorder Initiative.

Box 3.6: Independent Federal Financial Relations Review

In the 2019-20 Budget the NSW Government announced an independent Review of Federal Financial Relations (the Review). The Review Panel is chaired by prominent businessman David Thodey AO and includes a diverse panel of experts in public policy, tax reform, and constitutional law.

While the State's finances are strong now, the ability of future state governments to provide citizens with responsive, simple, and reliable public services and infrastructure will be challenged by the demographic, technological and economic changes playing out in Australia and abroad.

In this context, the Review seeks to drive a national conversation on how state and Commonwealth governments can address growing demands on government services and infrastructure, inefficient taxes, and complex Commonwealth funding arrangements.

The Review has been tasked with forging a roadmap for a more dynamic federation and more sustainable funding arrangements. In particular, the Review will recommend practical options for a more productive and sustainable tax mix, streamlined federal funding, and more effective Commonwealth-state relationships to support future reform.

The Review commenced a national conversation with the release of its Discussion Paper, *Working Together for a Better Future*, on 21 October 2019. The Discussion Paper sought public input on how:

- the tax system can work better for citizens and businesses in a changing environment
- the states can reduce their dependence on Commonwealth funding
- Commonwealth-state relations can better encourage innovation and reform
- Commonwealth grants can balance accountability and a flexible approach to delivering the best outcomes for citizens
- Governments can work better together with citizens at the centre of decision making.

The Review is consulting nationally with the community, academia, governments, think tanks and advocacy groups to inform its recommendations to the NSW Government.

The Review will deliver its final report to the NSW Government in 2020.

Non-taxation revenue

In addition to taxation and Commonwealth grants, New South Wales receives revenue from other sources, including mineral royalties, sales of goods and services, interest income and dividends from state-owned corporations. Since the 2019-20 Budget:

- **Mineral royalties** have been revised down by $185.0 million in 2019-20 and by $551.0 million over the four years to 2022-23. Global thermal coal prices are below expectations at the 2019-20 Budget, due to weaker global demand for coal, in particular from Japan and Korea, as some electricity generators substitute away from coal towards lower cost energy sources such as LNG. Coking coal prices are also lower due to uncertainty over China's import policies. Coal prices are forecast to remain near current levels over the forecast period.
- **Total revenue from fines, regulatory fees and other revenue sources** has been revised up by $64.0 million in 2019-20 and down by $81.6 million over the four years to 2022-23. The upward revision in 2019-20 has been driven by a $146.9 million increase in cash donations and contributions – largely due to a reclassification of revenue from sales of goods and services. This change in treatment is to better reflect the nature of key non-state sources of funding for public education, such as the payment of voluntary parent contributions.

  This has been partly offset in 2019-20 by downward revisions to motor traffic fines and other infringements – reduced by $60.6 million and $126.8 million, respectively in 2019-20. Lower observed growth rates in driver and vehicle-related fines revenue have led to downward revisions in the forecasts for motor traffic and other infringements fines revenue over the four years to 2022-23.
- **Sales of goods and services** have been revised down by $424.6 million in 2019-20 and $956.1 million over the four years to 2022-23. The revision is due in part to lower fees for service revenue received from RailCorp, reflecting the reallocation of Sydney Metro projects from RailCorp to Sydney Metro and the reprofiling of the Faster Rail project. Due to a reclassification of revenue to donations and contributions, revenue from fees for service is lower for the Department of Education. The revised forecast for the sale of goods and services also includes lower revenue from patient fees, with NSW Health expected to collect $75.0 million less in 2019-20 relative to expectations at Budget. This revision follows the announcement by some private health funds that they will now be paying a single room supplement for patient stays in NSW public hospitals at a rate lower than the rate gazetted by the NSW Government.
- **Interest income** is expected to be $34.6 million higher in 2019-20 and $364.7 million higher over the four years to 2021-22. Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. The forecast increase partly reflects adjustments to the investment profile mix.
- **Dividends and income tax equivalents** have been revised down by $7.1 million in 2019-20 and $26.0 million over the four years to 2022-23. State-owned corporations pay dividends that provide a commercially appropriate return on government investment. Forecast dividends from Sydney Water Corporation over the forward estimates have been revised lower following the expected decision by IPART to lower the regulated weighted average cost of capital, which has lowered Sydney Water Corporation's expected return.

- **Other dividends and distributions** are received from entities other than state-owned corporations and also include returns from the State's investment funds. Revenue from other dividends and distributions has been revised up by $23.1 million in 2019-20. This revision mainly reflects slightly better performance by funds such as the NSW Infrastructure Future Fund (NIFF). Over the four years to 2022-23, dividends and distributions are expected to be $618.5 million lower than the Budget forecast due to the reclassification of certain distributions.

3.3 Expenses outlook

The Government's longstanding commitment to fiscal discipline has enabled continued support to communities affected by drought and bushfires and measures to stimulate the New South Wales economy.

General government sector (GGS) expenses are forecast to be $83.5 billion in 2019-20, which is $155.5 million higher than forecast in the 2019-20 Budget. In total, expenses have been revised up by $1.4 billion over the four years to 2022-23.

Annual expense growth is estimated to be 3.7 per cent in 2019-20, which is consistent with the 2019-20 Budget. Average annual expense growth over the four years to 2022-23 is forecast to be 2.9 per cent, compared to 2.7 per cent expected at the time of the 2019-20 Budget. The change over the forward estimates reflects the impact of:

- new policy measures
- parameter and other budget variations, including higher costs to maintain service provision on a no policy change basis, partially offset by lower superannuation and interest expenses.

Table 3.7 provides a summary of GGS expenses by major category.

Table 3.7: General government sector expenses

	2018-19 Actual	2019-20 Budget	2019-20 Revised	2020-21	2021-22 Forward Estimates	2022-23	% Average growth p.a. 2018-19 to 2022-23
	$m	$m	$m	$m	$m	$m	
Total employee-related expenses	37,621	38,496	38,391	38,871	40,922	43,111	3.5
Employee expenses	*33,158*	*34,266*	*34,311*	*35,119*	*37,033*	*38,970*	*4.1*
Superannuation	*4,463*	*4,230*	*4,081*	*3,752*	*3,889*	*4,142*	*(1.9)*
Other operating	21,146	20,815	21,152	22,055	21,240	21,062	(0.1)
Depreciation and amortisation	5,192	6,110	6,079	6,745	6,885	7,189	8.5
Grants and subsidies	14,700	15,602	15,694	16,722	16,475	16,131	2.3
Interest	1,812	2,278	2,139	2,505	2,552	2,641	9.9
Total expenses	**80,471**	**83,300**	**83,455**	**86,899**	**88,075**	**90,135**	**2.9**
Annual change	*5.5%*	*3.7%*	*3.7%*	*4.1%*	*1.4%*	*2.3%*	

At the 2019-20 Budget, $1.8 billion in recurrent expenses were allocated over the four years to 2022-23 to deliver the Government's election commitments. Progress has been made to deliver these commitments, as outlined in Box 3.7.

Box 3.7: Election commitment progress

The Government has made progress in delivering its election agenda since being re-elected for a third term in March 2019. The below table provides a snapshot of the progress since March.

Table 3.8: Progress of Government election commitments

Election commitment	Progress
35 new free mobile dental clinics for primary school children, by investing $70 million over the next four years.	In July 2019, the first of thousands of kids have had their teeth checked for free in new mobile clinics, setting them up for a lifetime of good dental health.
Reduce the Opal Weekly Travel cap by approximately 20 per cent to $50 a week for all train, bus, ferry and light rail customers.	The new weekly travel cap came into effect on 24 June 2019 and the concession cap was reduced from $31.60 to $25 per week. This is expected to benefit approximately 55,000 commuters, with individual savings of up to $686 a year. Since 23 September 2019, the Opal Weekly Travel Cap has also been available to customers using contactless payments across the Opal network.
Double the Active Kids Rebate to encourage children's participation in physical activity.	From 1 July 2019, parents, guardians and carers of school-enrolled children have been able to apply for a second $100 Active Kids voucher.
Introduce half-priced registration for eligible drivers, to ease the cost of living for frequent toll road users.	From 1 July 2019, drivers who spend on average $15 or more per week on tolls have been eligible to receive half-price registration. So far, more than 43,500 owners have benefited from half-priced registration.
Introduce an annual $200 energy rebate for eligible independent retirees to meet cost of living pressures.	From 1 July 2019, the Senior Energy Rebate was made available to help eligible retirees cover the cost of their electricity.
Help schools take effective steps to reduce, re-use and recycle their resources, by investing $10 million over four years in the Sustainable Schools Program.	The first round of grants opened for applications on 1 November 2019 and successful schools will be notified in February 2020.

Table 3.9 provides a reconciliation of changes to expenses between the 2019-20 Budget and 2019-20 Half-Yearly Review.

Table 3.9: Expense reconciliation – 2019-20 Budget to Half-Yearly Review

	2019-20	2020-21	2021-22	2022-23
	Revised		Forward Estimates	
	$m	$m	$m	$m
Expenses - 2019-20 Budget	**83,300**	**86,405**	**88,016**	**89,410**
Policy measures – Sydney Metro projects	(206)	(87)	(281)	(118)
Policy measures – other	97	112	158	133
Total parameter and other budget variations	265	469	182	710
Expenses - 2019-20 Half-Yearly Review	**83,455**	**86,899**	**88,075**	**90,135**

New policy measures announced since the 2019-20 Budget have decreased expenses in total by $109.5 million in 2019-20 and $191.5 million over the four years to 2022-23. This is largely driven by the transfer of assets related to Sydney Metro City and Southwest and Sydney Metro West into the general government sector, which has reduced expenses by $691.7 million over four years to 2022-23. This will not impact the budget result as there is also an equivalent offsetting reduction in revenue.

Other new measures increase expenses by $500.1 million over four years to 2022-23, including:

- $122.8 million for emergency drought relief, including for water initiatives to support drought affected communities. This is in addition to the $170.0 million Drought Stimulus Package announced at the 2019-20 Budget, which has now been allocated to 54 projects (see Box 1.1 in Chapter 1)[5]
- $93.3 million over four years ($121.6 million to 2023-24) providing a new 10 per cent industry rebate for the Post, Digital and Visual Effects (PDV) sector. This will increase New South Wales' global competitiveness in the film, television and streaming industries[6]
- $72.6 million over four years for the continued implementation of the Towards Zero Program, including the roll-out of mobile phone detection cameras, which is aimed at improving safety on our roads and reducing road fatalities
- $56.4 million over four years ($87.7 million to 2023-24) to increase fees paid to solicitors and barristers providing legal aid services, enabling greater access to legal representation for disadvantaged people
- $50.0 million in 2019-20 to progress the planning and tender process for the Stadium Australia redevelopment.

The Government is also assisting bushfire affected communities with disaster recovery relief, in partnership with the Commonwealth Government. This assistance will support communities, farmers and small businesses and includes:

- $48.2 million in joint funding with the Commonwealth to improve access to mental health services, support community organisations and local governments provide bushfire recovery services, and provide grants of up to $15,000 to help small businesses and farmers
- $25.0 million allocated to facilitate the clean-up of homes and properties damaged and destroyed by recent fires
- $1.4 million for volunteer-based organisation BlazeAid, to assist with repairing fencing damaged by bushfires.

In addition to new policies, parameter and other budget variations since the 2019-20 Budget are expected to increase expenses by $265.1 million in 2019-20 and by $1.6 billion over the four years to 2022-23. Within this, reductions in superannuation and interest expenses partially offset increases for a range of other factors. These include long-service leave and insurance expenses, bad-debt write off expenses, the reprofiling of expenses to align with planned service delivery and higher expected costs to maintain service provision on a no policy change basis.

[5] $122.8 million is provided from within existing resources and has no impact on general government sector expenses. There is additional capital expenditure and expenses in the public-non-financial corporation sector provided for drought relief, as outlined in Box 1.1 in Chapter 1.

[6] Includes $6.0 million provided from within existing resources, which has no impact on general government sector expenditure.

The Government continues to demonstrate prudent fiscal management to address immediate and emerging budget pressures, as outlined in *Section 3.8 Fiscal Risks*. A range of measures were introduced in the 2019-20 Budget to address these challenges and maintain annual expenditure growth below long-term average revenue growth. Key actions the Government is taking include:

- implementing whole-of-government savings measures announced in the 2019-20 Budget, including administrative and procurement savings, reducing employee and contractor expenditure, lower expenditure on the contingent workforce, and abolishing public service senior executive discretionary pay
- making better use of existing budgets by funding new initiatives through reprioritisation within existing resources
- using innovation to improve productivity and efficiency, as demonstrated by the establishment of the Digital Restart Fund (see Box 3.8)
- machinery of government changes, which consolidate the public service from 10 to 8 clusters, reducing duplication and making more efficient use of existing resources
- initiating targeted outcome and expenditure reviews across a range of clusters and developing cluster outcome and business plans, to further promote evidence-informed decision making
- continuing the NSW Public Sector Wages Policy to manage employee expense growth.

Box 3.8: Digital Restart Fund

The Digital Restart Fund was established in the 2019-20 Budget, with seed funding of $100.0 million provided over two years. The Digital Restart Fund will fund a whole-of-government digital transformation that will enhance customer experiences. To date, $38.6 million has been approved for projects across various clusters including:

- $18.2 million for seed funding and prototyping solutions towards legacy system modernisation to deliver government priorities, including:
  - $2.3 million to enable the leasing of public housing via a mobile app
  - $1.2 million to improve the tracking of firearms acquisition and disposals
- $9.1 million for the development of minimum viable products for State Digital Asset solutions that reduce costs to government and create consistent user experience through agencies' better use of core and common ICT components, including:
  - $2.5 million to allow instant verification functionality of the 'Working With Children Check'
  - $2.1 million to make it easier for small businesses to sell to the Government with the development of *buy.nsw*
- $5.7 million for improving customer experience across life events, including:
  - $3.0 million to provide digital support to assist with the loss of a loved one
  - $0.6 million to provide digital support to navigate having a baby
- $5.6 million to transform digital capability across the public sector.

3.4 Expense measures statement

The NSW Government is putting citizens first. That starts with outcome-based budgeting and flows through to great implementation and service delivery. Initiatives funded since the Budget include ongoing support to drought-affected communities, investments in innovative and digital solutions and other measures to promote New South Wales as a great place to live, work, run a business and raise a family, both now and into the future.

Table 3.10 shows the impact of new policy measures by cluster. The table displays the expense impact of these measures and does not include associated revenue or capital expenditure.

Table 3.10: New policy measures since the 2019-20 Budget – recurrent expenses [(a)(b)]

	2019-20 Revised	2020-21	2021-22 Forward Estimates	2022-23	Four year total	Comment on major decisions included in totals
	$m	$m	$m	$m	$m	
Customer Service	20.9	6.4	7.6	8.3	**43.2**	• Digital Restart Fund: – Digital support for customer life events and journeys, such as navigating a loss of a loved one, starting retirement or having a baby. – Enhancement of State Digital Assets to drive cost savings and consistent user experience through agencies' better use of ICT solutions. – Agency digital investment and legacy modernisation to support agency digital innovation and ICT modernisation. – Enhancement of the land tax portal and further links to the Service NSW website to leverage customer experience, increase tax compliance and boost future land tax revenue. – Modernisation of the Government Licensing System (GLS) and optimisation of customer experience across various government digital service platforms. • Support for the Building Commissioner to reform the building and construction industry.
Education	2.5	0.0	0.0	0.0	**2.5**	• Digital Restart Fund: – Investment in the on-line school enrolment system, leading to improvements for both parents and school administrators.
Health	3.4	0.0	0.0	0.0	**3.4**	• Digital Restart Fund: – Roll out of the Single Digital Patient Pilot Program enabling access to real time clinical information from various Sydney Children's hospitals. This provides health professionals with a holistic view of children's health care information. – Real Time Prescription Monitoring (RTPM) Solution to enhance existing legacy system and processes.
Planning, Industry and Environment	32.0	29.3	36.1	(5.4)	**91.9**	• Further drought-related measures including: – Critical programs to secure water supplies in regional New South Wales. – Shovel ready infrastructure projects to deliver economic stimulus to local economies experiencing drought.

	2019-20 Revised	2020-21	2021-22 Forward Estimates	2022-23	Four year total	Comment on major decisions included in totals
	$m	$m	$m	$m	$m	
Premier and Cabinet	17.8	23.5	24.2	34.1	**99.6**	• New 10 per cent industry rebate towards the post, digital and visual effects (PDV) sector to establish New South Wales as a global destination for the PDV industry.
Stronger Communities	69.9	13.6	20.8	27.5	**131.8**	• Increases to fees paid to solicitors and barristers providing legal aid services. • Planning and tender processes for the Stadium Australia redevelopment. • NSW securing NRL Grand Finals until 2046.
The Legislature	3.9	0.0	0.0	0.0	**3.9**	• Savings relief for the 2019-20 savings allocation.
Transport	(330.2)	(75.6)	(265.0)	(100.4)	**(771.2)**	• Expenditure associated with the delivery of Transport projects, including Sydney Metro City and Southwest. • This is largely offset by the transfer of assets related to Sydney Metro City and Southwest and Sydney Metro West into the general government sector[c].
Treasury	(7.5)	193.9	123.0	68.7	**378.1**	• NSW securing NRL Grand Finals until 2046. • NSW hosting an additional four sporting events as part of the 10 World Cups in 10 years. • Reversals of expenses for Digital Restart Fund. • Restart NSW grants to local governments, NGOs and other entities.
Other	77.9	(165.8)	(68.9)	(17.4)	**(174.2)**	• Whole-of-government measures and items that cannot be attributed to an individual cluster, including updates to Restart NSW reservations, and reversals of reservations, as commitments are approved.

(a) A positive figure increases expenses and a negative figure decreases expenses.
(b) The figures presented are the net figure for new policy decisions that increase or decrease expenses.
(c) This is offset by corresponding revenue and does not impact the budget result.

3.5 Capital expenditure outlook

General government capital expenditure

General government capital expenditure is forecast to be $23.7 billion in 2019-20, which is $1.3 billion higher than at the Budget. General government capital expenditure for the four years to 2022-23 is forecast at $76.0 billion, an upward revision of $4.3 billion.

The upward revision for 2019-20 is driven by the Government's continued strong investment program, particularly due to new investment decisions, movements in capital expenditure for Sydney Metro projects and a new lease extension for the NSW Police headquarters. Table 3.11 provides a reconciliation of capital expenditure between the 2019-20 Budget and the Half-Yearly Review.

Table 3.11: General government capital reconciliation – 2019-20 Budget to Half-Yearly Review

	2019-20 Revised	2020-21	2021-22 Forward Estimates	2022-23
	$m	$m	$m	$m
Capital - 2019-20 Budget	**22,345**	**17,750**	**17,247**	**14,349**
Policy measures	706	834	810	1,038
Parameter and other variations[(a)]	631	237	69	20
Capital - 2019-20 HYR	**23,683**	**18,821**	**18,126**	**15,407**

(a) Includes reprofiling of capital expenditure within years to align with revised project delivery schedules.

New capital expenditure approved over the forward estimates since the Budget includes:

- $2.2 billion for Western Harbour Tunnel
- $1.4 billion for the Warringah Freeway Upgrade
- $565.0 million to support construction of the new Sydney Fish Market.
- Since the 2019-20 Budget, the Government has continued to utilise Restart NSW to fund investment in new infrastructure. Further detail is provided in *Section 3.6 - Restart NSW Fund (including Rebuilding NSW)*.

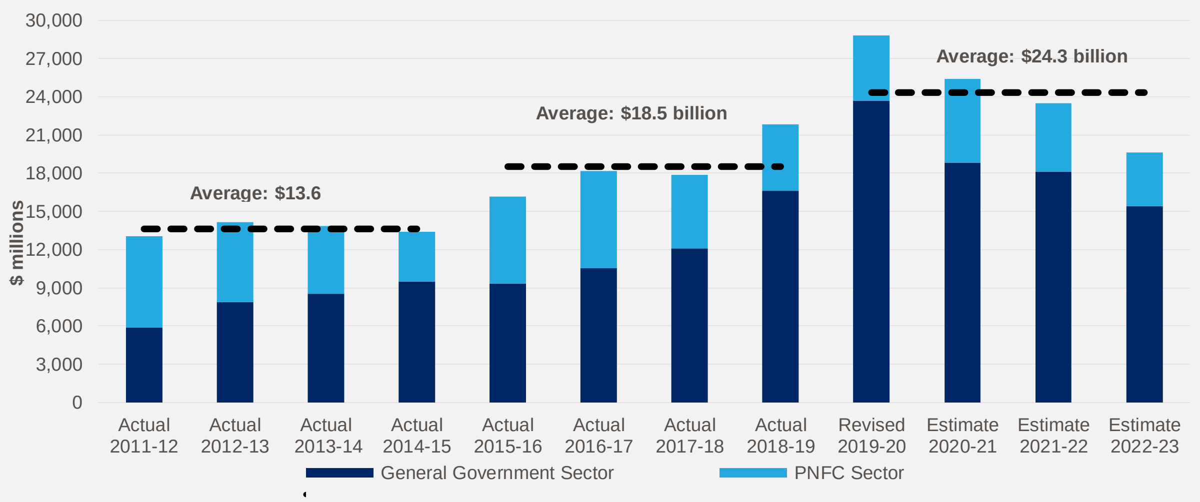
Box 3.9: The $97.3 billion record infrastructure program is stimulating the economy

The Half-Yearly Review includes $97.3 billion of capital expenditure projected over the four years to 2022-23 across the general government and public non-financial corporation sectors – an increase of $4.3 billion since the 2019-20 Budget. This includes:

- $10.2 billion[7] for hospitals and health facilities
- $7.3 billion for schools and skills infrastructure
- $4.0 billion for justice and emergency services infrastructure
- $57.5 billion for public transport and roads.

The New South Wales Government is delivering a well targeted infrastructure program that will not only enhance services to people in New South Wales but also boost economic growth. The Government's record infrastructure program in public investment is expected to contribute ½ a percentage point per annum to economic growth this year and over the next two years, around five times its historical average.

Chart 3.11: Infrastructure program from 2011-12 to 2022-23



7 Includes capital expensing amounts totalling $536 million over the four years relating to certain expenditure associated with the construction of health capital projects, which fall below the capitalisation threshold and are not classified as capital expenditure under the accounting standards. Additionally, assets leased by Health from other government agencies are included in the above total.

The Government's infrastructure investment is changing the lives of citizens across New South Wales. The following milestones have been delivered since the 2019-20 Budget was handed down in June 2019:

- WestConnex New M4 Tunnel opened to traffic on 13 July 2019. Approximately 80,000 vehicles use the Tunnel east of Homebush Bay Drive each day
- major road upgrades were completed including Sydney Airport East (Wentworth Avenue Extension and Joyce Drive widening), New England Highway upgrade (widening Singleton Rail Underpass at Gowrie Gates) and a new bridge over the Clarence River at Grafton
- the Blacktown Hospital Acute Services Building (Blacktown Stage 2) opened as part of the Blacktown and Mount Druitt Hospitals Expansion Project
- four additional ambulance stations opened at Bungendore, Pottsville, Rutherford and Yass – as part of the Rural Ambulance Infrastructure Program
- the Dialysis Unit at Dubbo Hospital opened on 10 December 2019
- major school upgrades at Auburn North Public School, Belmont High School, Denistone East Public School, Merrylands Public School, Old Bar Public School, Quakers Hill East Public School and Rosehill Public School
- the Circular Quay to Randwick light rail line will open to the public on 14 December 2019.

3.6 Restart NSW Fund (including Rebuilding NSW)

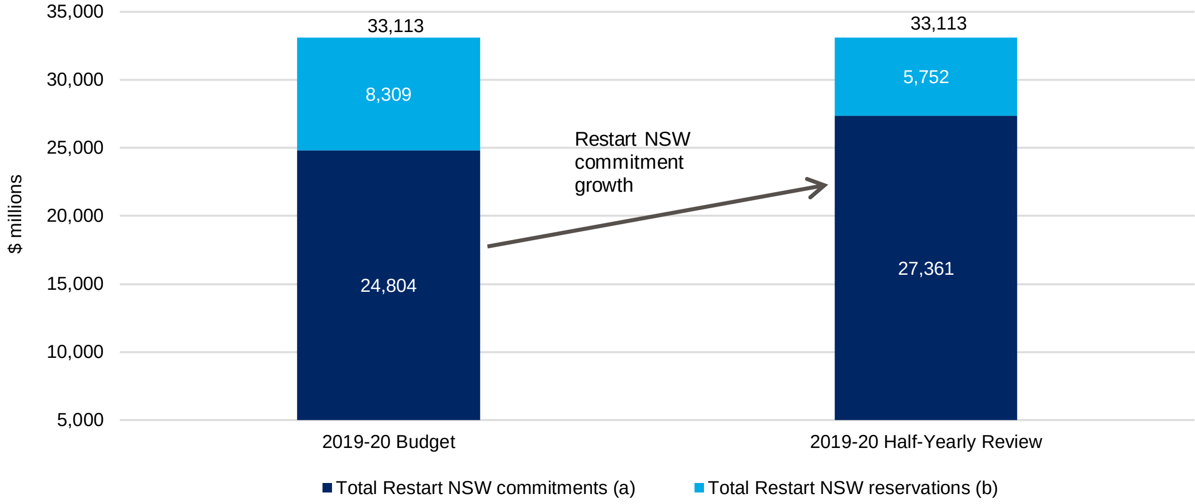
The Restart NSW Fund (Restart NSW) was established in 2011 to enable the funding and delivery of infrastructure projects that improve State economic growth and productivity.

For a project to access Restart NSW funds, it must satisfy the requirements set out in the *Restart NSW Fund Act 2011.* In particular, a project must secure a funding recommendation from Infrastructure NSW.

Since the 2019-20 Budget, commitments to fund infrastructure projects and programs have increased to $27.4 billion, representing an increase of 10.3 per cent on the $24.8 billion already committed at the Budget. This reflects the transition of the Government's infrastructure program from planning reservations[8] to the delivery stage of commitments[9], as shown in Chart 3.12.

[8] Reservations are inflows that are reserved with a view to a future commitment.
[9] Commitments are inflows that are committed to be spent on an individual project or program.

Chart 3.12: Restart NSW commitments and reservations



(a) Including $301.2 million in funding from the Consolidated Fund for the $1.0 billion Safe and Secure Water Program
(b) In addition, $2.0 billion has been reserved for Sydney Metro projects against future Restart investment earnings including funds in the NSW Infrastructure Future Fund.

Restart NSW Commitments

The Half-Yearly Review includes a number of new Restart NSW funding commitments, including Rebuilding NSW[10] projects. These projects are supported by an independent funding recommendation from Infrastructure NSW and a sound business case demonstrating their economic viability. Table 3.12 summarises these commitments.

Table 3.12: Additional Restart NSW commitments by program from 2019-20 Budget to the Half-Yearly Review

	Commitment $m
Sydney Metro projects	2,047.8
Regional Rail Fleet	301.3
Regional Growth: Environment and Tourism Fund	89.7
Bridges for the Bush	21.9
Regional Growth Roads	7.0
Water Security for Regions Program	2.4
Restart NSW commitments (excluding Rebuilding NSW)	**2,470.1**
Regional Road Freight Corridor	132.9
Safe and Secure Water Program	83.1
Regional Growth: Economic Activation Fund – Growing Local Economies	80.7
Housing Acceleration Fund (HAF 4)	35.1
Fixing Country Roads program	0.6
Housing Acceleration Fund (HAF 3)	0.6
Rebuilding NSW commitments	**333.1**
Total commitments since the 2019-20 Budget	**2,803.2**

[10] Rebuilding NSW is the NSW Government's 10-year plan to invest $20 billion in new infrastructure funded by electricity network transactions, Commonwealth Government asset recycling initiative payments and investment earnings.

Restart NSW – regional investment

The Government is committed to delivering 30 per cent of Restart NSW funding to regional and rural areas (outside the metropolitan areas of Sydney, Newcastle, and Wollongong) over the life of the fund. This includes the Government's pledge to invest $6.0 billion in regional New South Wales from the $20 billion Rebuilding NSW plan.

Since the 2019-20 Budget the Government has continued to commit funding for high value investments in regional communities. An additional $719.6 million of Restart NSW funds has been committed to the regions for 69 new infrastructure projects. This includes $301.3 million for the Regional Rail Fleet program. It also includes smaller projects being delivered by local councils, with examples listed in Table 3.13 below.

Table 3.13: Selected Restart commitments from 2019-20 Budget to the Half-Yearly Review to fund projects being delivered by Local Councils

Council	Project	Commitment $m
Wagga Wagga City Council	Bomen Enterprise Area – Services and Subdivision	29.2
Eurobodalla Shire Council	Eurobodalla Southern Storage	25.6
Snowy Valleys Council	South West Slopes Timber Industry Road – Network	20.4
Tamworth Regional Council	Tamworth Enterprise Area and Intermodal Activation project	20.2
Bellingen Shire Council	Sewering Coastal Villages	11.3
Dubbo Regional Council	'Destination Dubbo': International Ready	10.1
Bogan Shire Council	Nyngan Cobar Water Security	8.2
Central Coast Council	Mardi Water Treatment Plant Upgrade	6.9
Wingecarribee Shire Council	Bowral Water Treatment Plant	6.6
Armidale Regional Council	Puddledock Dam Raw Water Transfer System Augmentation	5.8
Shoalhaven City Council	Shoalhaven Sustainable Tourism Infrastructure Package	5.3

3.7 Managing the State's assets and liabilities

The New South Wales balance sheet remains strong, with negative net debt of $10.4 billion at June 2019, a $1.6 billion improvement on the 2019-20 Budget forecast. Better than expected returns from the State's investment funds is one of the contributors.

New South Wales continues to lead the nation with innovative balance sheet reforms, including the issuance of $1.8 billion of NSW Sustainability Bonds in November 2019 (Box 3.10).

Box 3.10: NSW Sustainability Bond Programme

Following the issuance of the Green Bond in November 2018 by NSW Treasury Corporation (TCorp), the Government has successfully issued $1.8 billion worth of NSW Sustainability Bonds in November 2019. This initiative has been recognised with three industry awards:

- Best Sustainable Finance Deal – Financial Institution
- Australian Dollar Rates Bond Deal of the Year
- Australian Sustainability Issuer of the Year.

New South Wales is the only Australian state to have a Sustainability Bond Programme. Funds are earmarked for positive environmental and social projects that align with the United Nations Sustainable Development Goals. Adding to the list of assets from 2018 that included the Metro North West, Newcastle Light Rail and Lower South Creek Treatment Program, the following assets and programs were added:

- Green Square Trunk, Astrolabe Park, and Strangers Creek Stormwater Improvement
- Powells Creek and Cooks River Naturalisation
- Transport Access Program and the Schools Program.

New South Wales has the lowest net debt of all mainland States and Territories

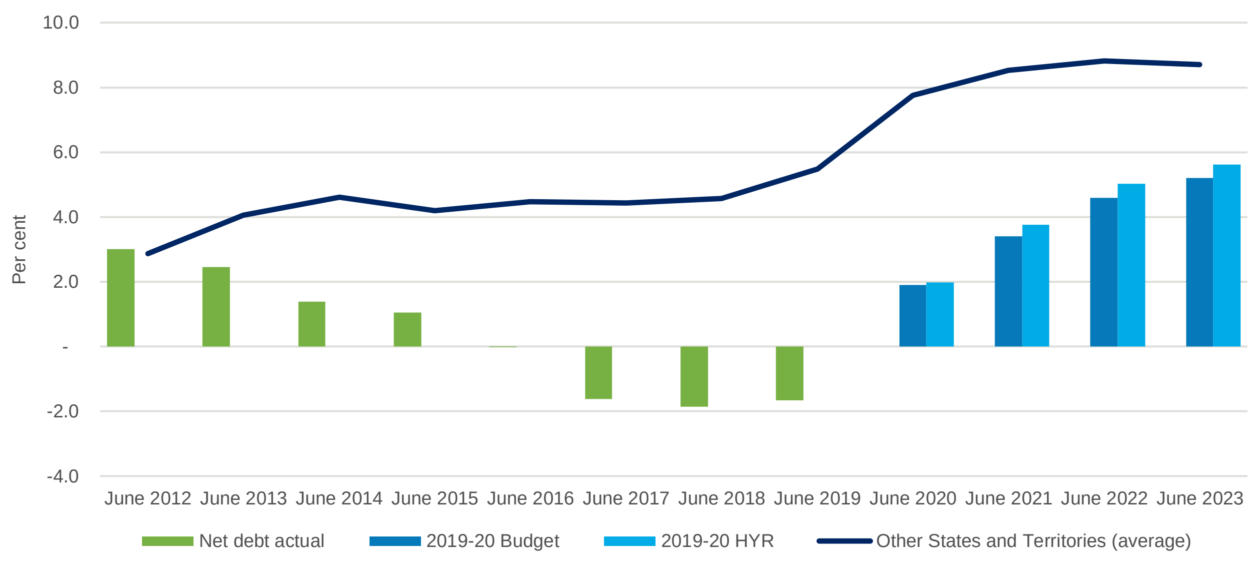
The 2019-20 Half-Yearly Review projects net debt will be $12.9 billion at June 2020, a $513.1 million increase from the 2019-20 Budget (see Table 3.14). This modest increase is primarily due to new investment decisions, movements in capital expenditure for Sydney Metro projects and a new lease extension for the NSW Police Headquarters.

Table 3.14: NSW general government balance sheet aggregates

	June 2019	June 2020	June 2020	June 2021	June 2022	June 2023
	Actual	Budget	Revised	Forward Estimates		
Total Assets ($m)	402,282	420,280	421,853	440,821	458,486	475,501
Financial Assets ($m)	169,907	169,454	169,682	173,064	176,474	181,997
Non-Financial Assets ($m)	232,375	250,826	252,172	267,757	282,012	293,505
Total Liabilities ($m)	152,110	153,334	170,785	174,359	173,761	176,289
Net Worth ($m)	250,172	266,946	251,068	266,462	284,725	299,213
as a per cent of GSP	40.0	41.1	38.8	39.5	40.4	40.6
Net Debt ($m)	(10,401)	12,354	12,867	25,316	35,397	41,414
as a per cent of GSP	(1.7)	1.9	2.0	3.8	5.0	5.6

Looking further ahead to June 2023, net debt is projected to reach $41.4 billion, or 5.6 per cent of GSP, an increase of $2.8 billion since the 2019-20 Budget. This reflects the State's new investment in productive economic infrastructure, including Western Harbour Tunnel, the Warringah Freeway Upgrade and the Sydney Fish Market.

Chart 3.13: General government sector net debt relative to GSP since 2012 – NSW vs. Other States and Territories



As the Government draws down on asset recycling proceeds to fund its infrastructure program, the financial assets included in the calculation of net debt[11] are projected to be $40.7 billion at June 2023. The decrease in asset recycling proceeds held in the NSW Infrastructure Future Fund is partially offset by the growth in the NSW Generations Fund.

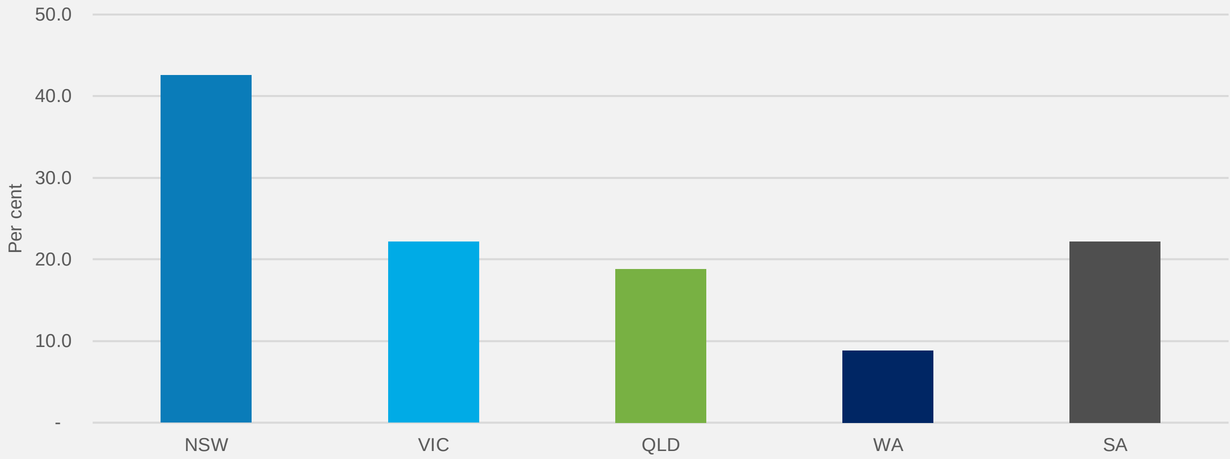
11 The asset side of net debt calculations consists of the sum of cash and cash equivalents, advances paid and investments, loans and placements. The liability side of net debt calculations consists of the sum of deposits held, advances received, loans and other borrowings.

The Government is also undertaking sustainable levels of borrowings consistent with a triple-A credit rating to support its infrastructure program. As such, the liabilities included in the calculation of net debt are now projected to be $82.1 billion at June 2023. The State's strong diverse economy and revenue base also help support the use of borrowings to fund infrastructure investment. The Government's fiscally responsible approach to funding infrastructure has enabled it to deliver significantly more infrastructure for less debt than other mainland States (see Box 3.11).

Box 3.11: New South Wales is getting the highest infrastructure bang for its buck

In 2018-19, New South Wales delivered $16.6 billion of public infrastructure, which accounted for 43 per cent of the total capital investment for all States and Territories across Australia. However, the State contributed less than a quarter of the total gross debt for those States and Territories. Due to its strong balance sheet management, New South Wales is able to deliver more infrastructure for relatively less debt than other mainland States (see Chart 3.14).

Chart 3.14: Capital expenditure to gross debt ratio in 2018-19 – NSW vs. other States[(a)]



(a) Capital expenditure and gross debt as reported in published 2018-19 final budget outcomes for all jurisdictions except for Queensland and South Australia which are yet to report and are shown as at the 2019-20 Budget.

New South Wales' net worth continues to lead the nation

New South Wales' net worth is projected to be $251.1 billion at June 2020 (see Chart 3.15), the highest of all States and Territories[12]. This represents a $15.9 billion decrease since the 2019-20 Budget, reflecting an increase in the State's superannuation liabilities (attributable to the lower Commonwealth Government long-term bond rate) and other factors associated with the lower bond rates in the public financial corporation (PFC) sector.

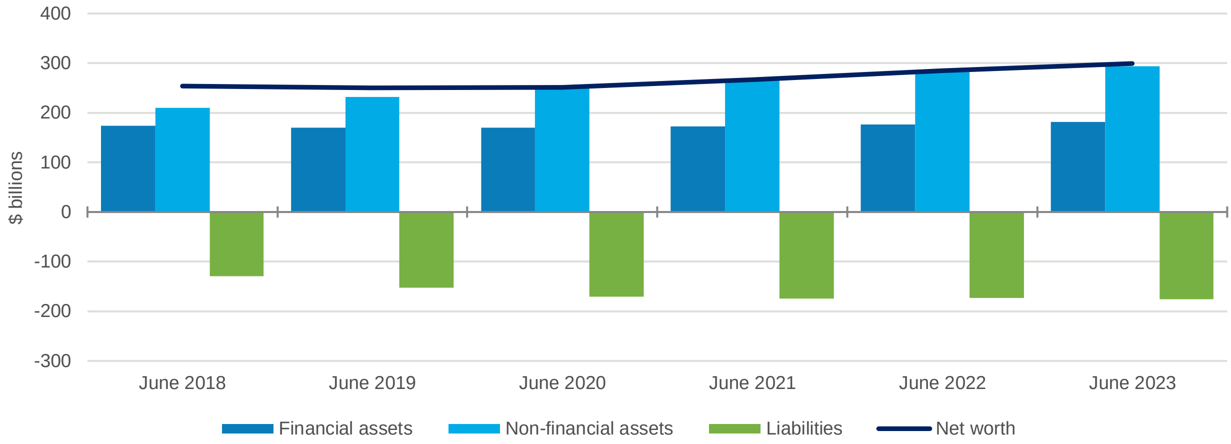
Over the four years to June 2023, net worth is projected to reach $299.2 billion by June 2023. This is driven primarily by strong growth in the State's non-financial assets, while liabilities remain generally stable.

[12] Net worth measures overall State wealth by calculating the difference between total assets and total liabilities.

Most notably:

- the value of property, plant and equipment is expected to grow from $238.4 billion at June 2020 to $277.4 billion at June 2023, due to the delivery of the record infrastructure program, asset revaluations, and growth in financial assets
- the expected $25.8 billion increase in borrowings to June 2023 is largely offset by a $21.1 billion decrease in superannuation liabilities, as the State progresses on its commitment to fully fund its superannuation liabilities by 2030.

Chart 3.15: NSW general government sector assets and liabilities from June 2018 to June 2023



3.8 Fiscal risks

The 2019-20 Budget and Half-Yearly Review are prepared, in part, on forecasts and assumptions. Some of these can be subject to risks and variation.

Revenue risks

The increase in State taxation revenue reported in this update may lift New South Wales' own revenue performance relative to other states, putting downward pressure on the State's GST relativity. Downside risks also remain for the GST pool as household consumption continues to soften, and to New South Wales' share due to ongoing uncertainty around the outcome of the Commonwealth Grants Commission's 2020 Review.

Mining royalties are sensitive to global economic developments. These developments can cause volatility in global coal prices, foreign exchange rates and domestic production. Since the Budget, global coal prices have declined and remain a key risk to the outlook for royalties. Coal prices are sensitive to both demand from key coal importers, such as Japan and China, and the supply response of high-cost producers to declines in coal prices. Policy developments in China remain a significant uncertainty for global coal prices.

In this update, transfer duty revenue has been revised upwards in response to an improved outlook for the broader property market. The pace of recovery in both the number of property transactions and prices remain key determinants for transfer duty outcomes. A reintroduction of macroprudential measures, comparable to regulatory changes in 2017, or a weaker than expected recovery in the property market could detract from growth in transfer duty revenue. Conversely, stronger than anticipated recovery in property prices or transaction volumes could lead to higher revenues.

Sales of goods and services can vary depending on a variety of factors including broader economic conditions and sector competition. Agencies that engage in fee-for-service activities (such as Ministry of Health and NSW TAFE) can see volatility in sales revenue due to changes in pricing and cost recovery by private operators in their relevant sectors.

Expense risks

Drought and other extreme weather events, demographic, economic and legal expense risks are continuing to emerge since the 2019-20 Budget. Further expense impacts may emerge from extreme weather events (including further drought and bushfire risks). Potential civil action in relation to historical child sexual abuse and increased depreciation expenses from the implementation of new accounting standards for service concessions could also place pressure on general government expenses in the short-term.

Economic uncertainty may result in reductions to the State's borrowings interest expenses and superannuation interest expenses as further downward pressure is placed on New South Wales and Commonwealth Government bond yields (see Box 3.12). Increased demand for government services (for example, health, education and transport) driven by demographic pressures, including a growing and ageing population, may place further pressure on service delivery costs over the long-term.

Infrastructure investment risks

Over the long-term, there are potential expense risks associated with increases in maintenance, depreciation and operating costs associated with the State's growing asset base. In addition, the size and pace of infrastructure investment across the state is growing. Increasing demand for inputs, including raw materials and skilled labour, can place upward pressure on costs. Risks can also emerge when procuring infrastructure. If the Government is procuring from overseas, foreign exchange risks may emerge that would need to be carefully managed and hedged if necessary.

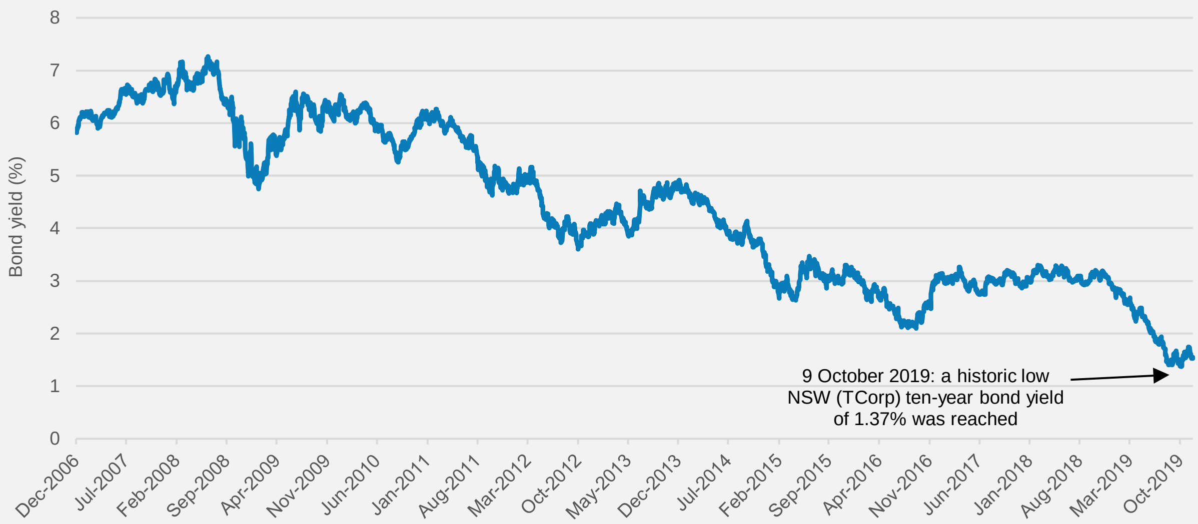
Box 3.12: Historically low borrowing costs and bond yields under triple-A

New South Wales is witnessing historically low borrowing costs due to global downward pressure on interest rates from a more challenging economic environment.

The Government's objective to maintain the State's triple-A credit rating will enable borrowing costs to be kept as low as possible. The triple-A rating demonstrates the State's fiscal discipline and economic strength to global investors, particularly when economic uncertainty is present.

Spreads between yields of triple-A and lower-rated government bonds are tight in the current environment but can widen significantly during periods of economic stress, leading to a much higher cost of borrowing for non triple-A rated governments.

Chart 3.16: NSW (TCorp) ten-year bond yields [(a)]



(a) Market yields on ten-year NSW (TCorp) bonds (AAA/Aaa) between 3 December 2006 and 26 November 2019.

Balance Sheet Risks

Market and economic volatility/uncertainty, accounting standard changes and civil litigation risks continue to emerge and may place significant pressure on the State's balance sheet if they eventuate.

The State's growing financial asset levels increases the impact of market volatility risks on the State's balance sheet. While market risk can be mitigated through portfolio diversification and effective hedging instruments, significant shifts in market performance can impact the State's financial assets and net debt.

Economic volatility/uncertainty can have a significant impact on the State's superannuation and long service leave liabilities, as the Commonwealth long-term bond rate is used as the discount rate to value these liabilities on the balance sheet. In addition, new service concession accounting standards could also affect financial liabilities (impacting net debt) and will lead to previously unrecognised assets and liabilities being reflected on the State's balance sheet.

The State also faces a number of non-quantifiable contingent liabilities from a variety of issues, including legal matters. Civil litigation for historical child sex abuse is a non-quantifiable contingent liability for the NSW Government.

3.9 Commercial performance in the broader public sector

Introduction to the public sector and its commercial operations

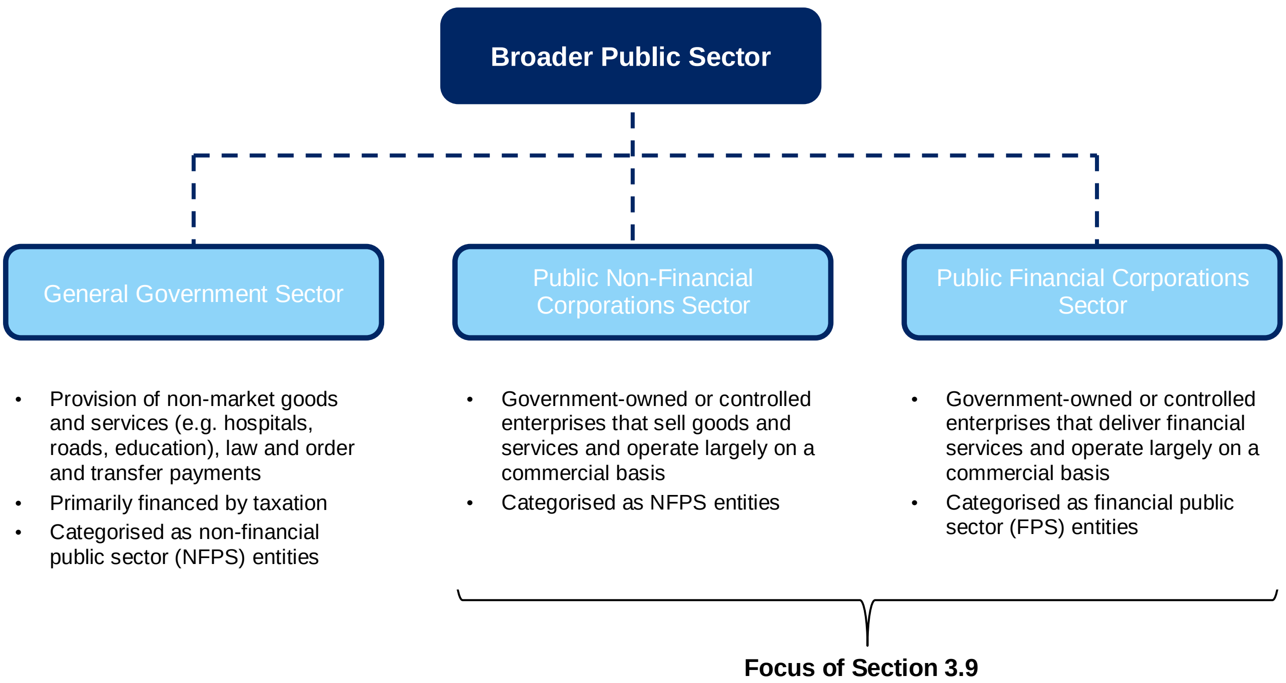
The public sector encompasses a range of entities that deliver services to citizens. General Government Sector (GGS) entities are involved in the provision of non–market services, regulation and redistribution of resources between sections of the community. In addition, the public sector includes entities that:

- sell goods or services to the public and which operate largely on a market basis (Public Non–Financial Corporations)
- engage in financial intermediation (Public Financial Corporations).

This section of the Half-Yearly Review provides an update on the Public Non–Financial Corporation (PNFC) and Public Financial Corporation (PFC) sectors.

Both the PNFC and PFC sectors are guided by a Commercial Policy Framework. This framework encompasses a suite of Treasury policies that apply to government businesses. It aims to replicate in government businesses the disciplines and incentives that lead private sector businesses towards efficient commercial practices.

Figure 3.1: The public sector and its commercial operations



Initiatives of government businesses

Water

Alongside the general government sector, government businesses are heavily involved in planning and implementing the Government's drought responses, both immediate and long-term.

Sydney Water and WaterNSW have together developed a suite of options to minimise drought impacts on Greater Sydney customers and improve system resilience, in accordance with the Metropolitan Water Plan. A number of these options are already underway. Meanwhile, Hunter Water is implementing a program of drought responses outlined in the NSW Government's Lower Hunter Water Plan.

Across metropolitan and regional New South Wales, investment is being made in infrastructure that both increases the resilience of the water system and responds to the current drought. These projects will increase access to available water and enhance interconnectivity between water systems, so that they can supplement each other in times of need.

Box 3.13: The Government is addressing water security in the regions

WaterNSW is delivering emergency drought projects to extend water supply in rural and regional New South Wales. Measures include:

- the construction of a new permanent pipeline in the Peel Valley to prolong Tamworth town water supplies
- pumping infrastructure to access deep water storage at Burrendong Dam in Dubbo.

WaterNSW continues to administer the Government's Emergency Drought Relief Package rebate to all general security licenses (and supplementary water access licenses) in rural and regional NSW, with up to $4,000 per licence.

Longer term regional water security solutions are also being progressed. The NSW and Commonwealth Governments have jointly announced an upgrade of the Wyangala Dam in the State's Central West and a new Dungowan Dam near Tamworth. They have also announced a feasibility study for the Border Rivers project on the Mole River, near the Queensland border.

WaterNSW will lead the feasibility studies and detailed planning on these projects.[13]

Sydney Water is planning for the Cascade Water Systems Resilience Upgrades. This investment will unlock an additional new raw water source for the Blue Mountains, increase the capacity of the emergency supply from the Orchard Hills System and slow the depletion of Oberon Dam.

If drought conditions continue, the Government will consider increasing the capacity of the Sydney Desalination Plant in order to deliver 30 per cent of Greater Sydney's water supply. If this occurs, Sydney Water will also need to increase the capacity of its water distribution infrastructure, including increased pumping capacity, a new reservoir and the replacement of a large transfer pipeline.

In addition to major infrastructure investments, Sydney Water and Hunter Water are working on initiatives to enhance water efficiency, at both a customer and water network level, reducing demand on the water system. These initiatives include:

- campaigns to increase awareness of water conservation issues
- providing water efficient devices for customers
- use of data analytics to better target water saving initiatives and support network management
- additional investment to improve response to and detection of leaks and other water losses from the network, which are often intensified by drought conditions.

Both Greater Sydney and the Lower Hunter have reached dam levels that trigger water restrictions set out in their region's respective water management plans. Water restrictions have already resulted in reduced demand but may need to be increased if the drought continues.

[13] Leading into the 2020-21 Budget, New South Wales will work with the Commonwealth to finalise these funding arrangements. Consistent with standard practice, the expected impact of this project will be incorporated into the aggregates at that time. Further details on accounting policies can be found *at Appendix A - Statement of Significant Accounting Policies and Forecast Assumptions.*

In Greater Sydney, Level 2 water restrictions came into effect on 10 December 2019. Should hot and dry conditions continue, triggers for Level 2 water restrictions in the Lower Hunter could also be reached as early as January 2020. These restrictions include more severe limitations on garden watering, filling pools and cleaning vehicles.

Other Businesses

The Port Authority of New South Wales (Port Authority) is responsible for the State's commercial shipping functions in the ports of Sydney, Newcastle, Port Kembla, Eden and Yamba. The Port Authority has recently installed two new gangways at the Overseas Passenger Terminal ahead of the 2019-20 peak cruise season. The gangways will improve the terminal's operational efficiency, increase capacity and allow for faster embarkation and debarkation for passengers.

In October 2019, the Port Authority also released its Response to Submission Report and Determination for the multi-user facility on Glebe Island. Detailed proposals from potential tenants seeking to operate within the multi-user facility are now being sought and will be considered subject to business case approval by the Port Authority's Board.

Landcom continues to deliver on its housing affordability objectives and exceeded its First Home Buyers program target of 500 new homesites, delivering 673 homesites by September 2019. These sites are priced to qualify for the First Home Buyer Grant and the Government's stamp duty relief. It also supports increasing housing affordability across metropolitan and regional New South Wales by delivering 5 to 10 per cent affordable housing on all new projects.

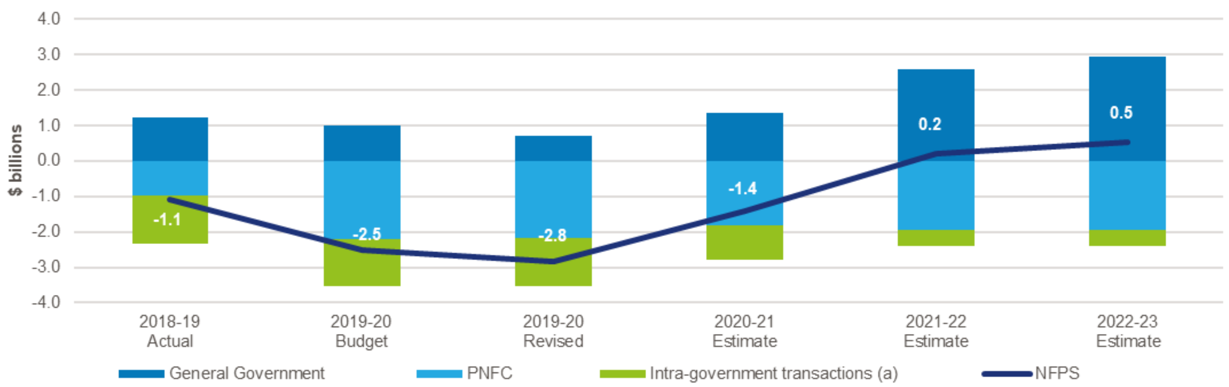
In August 2019, the NSW Government announced that it will seek more information about the viability of a long-term lease of the State's commercial softwood plantation business, consistent with its asset recycling strategy. Forestry Corporation of NSW's profitable softwood division consists of around 230,000 hectares of radiata pine forests that produce timber primarily for use in housing construction.

Non-Financial Public Sector (NFPS) operating performance

The net operating balance of the NFPS for 2019-20 remains largely in line with the Budget. Over the budget and forward estimates, the net operating balance has been revised up by $2.6 billion, primarily due to higher PNFC revenue.

Chart 3.17 below shows the key components of the NFPS net operating balance 2018-19 to 2022-23.

Chart 3.17: Components of the non-financial public sector net operating balance



(a) Intra-government transactions refer to payments between state entities, such as dividends paid from PNFCs to GGS.

Dividends and tax equivalent payments

Dividends received by the general government sector from PNFCs and PFCs are based on the operating performance and credit worthiness of those businesses. To ensure competitive neutrality with private sector counterparts, certain PNFCs and PFCs make tax equivalent payments and, with respect to the cost of debt, pay debt neutrality charges (government guarantee fees).

In 2019-20, the dividend and tax equivalent payments are forecast at $1.9 billion, which is largely in line with the Budget.

Government guarantee fees are forecast to be $326.0 million in 2019-20, which is $10.0 million below the forecast in the Budget. This is primarily attributable to falling interest rates.

Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $4.8 billion, which is largely in line with the Budget. Table 3.15 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors from 2018-19 to 2022-23.

Table 3.15: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations

	2018-19	2019-20	2019-20	2020-21	2021-22	2022-23
	Actual	Budget	Revised	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Electricity	67	32	27	39	52	61
Water	1,290	1,195	1,194	844	446	439
Property and Resources	256	310	312	285	88	110
Ports	16	12	11	41	51	61
Public Financial Corporations	303	329	326	121	131	146
Total Dividends and Tax Equivalent Payments	1,932	1,877	1,870	1,329	768	817

Capital expenditure

In 2019-20, capital expenditure within the PNFC sector is forecast to be $5.1 billion, $260 million lower than in the 2019-20 Budget, primarily due to the transfer of capital expenditure from RailCorp to the appropriate spending entity, Sydney Metro, to deliver Sydney Metro City & Southwest and Sydney Metro West.

Capital expenditure within the PNFC sector over the budget and forward estimates is forecast to be $21.3 billion, $53.0 million lower than forecast in the Budget. While capital expenditure declined for RailCorp, as mentioned above, it is largely offset by the inclusion of drought-related infrastructure within Sydney Water's capital expenditure plans.

Public Financial Corporations

The Public Financial Corporations sector includes NSW Treasury Corporation (TCorp) and Insurance and Care NSW (icare).

TCorp is the State's central financing authority and investment management agency, with a balance sheet in excess of $80 billion. TCorp manages funds on behalf of icare, SAS Trustee Corporation, the NSW Generations (Debt Retirement) Fund and the NSW Infrastructure Future Fund, among others. TCorp's total funds under management have increased to over $108.0 billion as at 31 October 2019.

In November 2019, TCorp issued a new $1.8 billion NSW Sustainability Bond, the proceeds of which are earmarked to finance or refinance projects or assets that support the NSW Government's environmental and social objectives. The Sustainability Bond will assist in diversifying the State's funding sources by attracting a different market of investors due to the sustainable nature of the projects or assets they fund.

As the Government's social insurer, icare, is delivering insurance and care services to people, business and communities across New South Wales. Since inception, icare has delivered $1.47 billion in benefits to customers via premium discounts to employers with the safest workplaces, as well as having achieved nearly $1 billion through operating and claims-relating savings.

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A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

The Half-Yearly Review presents the Estimated Financial Statements of the general government sector (GGS).

These comprise the GGS operating statement (Table B.1), GGS balance sheet (Table B.2) and GGS cash flow statement (Table B.3). These are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions.

Collectively, the statements and the Statement of Significant Accounting Policies and Forecast Assumptions are referred to as the 'Estimated Financial Statements'.

The Estimated Financial Statements cover the revised budget estimates for the current year ending 30 June 2020, and estimates for the three forward years ending 30 June 2021, 2022 and 2023.

Scope

The Estimated Financial Statements are prepared for the New South Wales GGS, which is determined in accordance with the principles and rules contained in the Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (cat. No. 5514) (ABS-GFS Manual).

The GGS comprises government agencies controlled by the State that:

- undertake regulatory functions
- redistribute income and wealth
- provide or distribute goods and services on a non-market basis to individuals and the community and/or provide other services to general government agencies.

The scope of the GGS is outlined in Appendix A3 of the 2019-20 Budget Paper No.1 *Budget Statement*

Basis of preparation

The Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2019-20 Budget and based on the assumptions outlined below.

The 2019-20 Budget information included in the Estimated Financial Statements reflects the original budget tabled in Parliament on 18 June 2019.

The Estimated Financial Statements are prepared using the accrual basis of accounting, which recognises the effects of transactions and events when they are forecast to occur.

The Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by Government, as well as known Commonwealth Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review. The revised estimates for 2019-20 are based on actual results as at and for the four-month period ending 31 October 2019, and updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data currently available to Treasury up to 9 December 2019.

In keeping with these principles, where the impact of a policy decision or planned event cannot be reliably measured, the impact is not reflected within the Estimated Financial Statements (for example, due to uncertainties regarding the timing and amount of future cash flows).

Any estimates or assumptions made in measuring revenue, expenses, other economic flows, assets or liabilities are based on the latest information available at the time, professional judgements derived from experience and other factors considered to be reasonable under the circumstances. Actual results may differ from such estimates. Key assumptions are detailed below, under the headings *Material economic and other assumptions* and *Summary of other key assumptions*.

Accounting policies

Australian Accounting Standards (AAS) do not include requirements or provide guidance on the preparation and presentation of prospective financial statements. However, recognition and measurement principles within AAS have been applied in the presentation of the Estimated Financial Statements to the maximum extent possible.

The Estimated Financial Statements do not include the impact of major asset transactions until they are finalised. The financial impact of these future planned discontinuing operations or restructuring transactions are not recognised due to their commercial-in-confidence nature.

These Estimated Financial Statements follow the presentation and principles in the 2019-20 Budget. Except for the matters set out below under Changes in accounting policies, the accounting policies applied in preparing the Estimated Financial Statements are not materially different from those applied in the audited 2018-19 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors as presented to Parliament.

Note 1 *Statement of Significant Accounting Policies* of the 2018-19 *Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenue, expenses, other comprehensive income, assets and liabilities.

Changes in accounting policies

AASB 15 *Revenue from Contracts with Customers* (AASB 15), AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and AASB 16 *Leases* (AASB 16) apply for the first time for the 2019-20 Budget estimates and beyond. The nature and effect of the changes are outlined in detail below.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Not-for-profit entities (including the public sector) need to determine whether a transaction is a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15).

The impact from the adoption of AASB 15 mainly relates to the recognition of revenue from non-intellectual property licenses. Cash received upfront on most long-term licenses was previously recorded as unearned income liability under ‘Other liabilities’ and recognised as revenue progressively over the license period. AASB 15 requires revenue from licences without further performance obligations to be recognised at the issuance of the licenses from 2019-20 onwards. Therefore, unearned income liabilities in respect of some licenses have been reversed effective 1 July 2019.

The implementation of AASB 15 is expected to lead to a decrease in GGS unearned income liability and revenue from 2019-20.

AASB 1058 *Income of Not-for-Profit Entities*

AASB 1058 replaces most of the existing requirements in AASB 1004 *Contributions*. The scope of AASB 1004 is now limited mainly to administrative arrangements and contributions by owners.

The impact from the adoption of AASB 1058 mainly relates to changes in the deferral of revenue recognition from certain capital grants to align with the construction of the projects to which they relate. This results in changes to unearned income liabilities under ‘Other liabilities’ and ‘Grants and subsides’ in the budget year and forward years.

The implementation of AASB 1058 is expected to lead to an increase in GGS unearned income liability and changes to income recognised each year.

AASB 16 *Leases*

Where the State is a lessee, AASB 16 requires most leases to be accounted for under a single on-balance sheet model similar to the accounting for finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of ’low-value’ assets and short-term leases (that is, leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (that is, the lease liability) and an asset representing the right to use the underlying asset during the lease term (that is, the right-of-use asset). A lessee is required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Where the State is a lessor, the accounting for lessors under AASB 16 has not significantly changed. However, an intermediate lessor in a sublease is now required to evaluate the lease classification of a sublease with reference to the right-of-use asset instead of the underlying asset of the head lease.

On adoption of AASB 16 from 2019-20 onwards, the State recognises lease liabilities (included in ‘Borrowings at amortised cost’) in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117. These liabilities are measured at the present value of the remaining lease payments, discounted using the State’s incremental borrowing rate and amortised over the remaining term of the lease. This results in an increase in ‘Borrowings at amortised cost’ and ‘Interest expense’. The right-of-use assets are recorded at an amount equal to the lease liabilities, adjusted by any prepaid or accrued lease payments immediately before the transition date. Right-of-use assets are subsequently depreciated. The recognition of right-of-use assets results in an increase in ‘Property, plant and equipment’ with a corresponding increase in ‘Depreciation expense’. Therefore AASB16 will increase interest and depreciation expenses and decrease operating lease expenses.

The State will continue to recognise leases of ’low-value’ assets and short-term leases as operating expenses.

Some sublease transactions result in a reclassification by sublessors to finance leases, resulting in a decrease in rental income.

The implementation of AASB 16 is expected to increase the assets and liabilities of the GGS from 2019-20.

The State plans to adopt the modified retrospective approach option in transitioning to AASB 15, AASB 1058 and AASB 16. The modified retrospective approach does not require the comparative years to be restated. Instead, it requires the impact of prior periods to be presented only in the opening balance of accumulated funds of the transition year. For the purposes of the Estimated Financial Statements, therefore, the State has reflected the impact of adopting the new standards in the opening balance of the accumulated funds of the budget year 2019-20, which is also the transition year. The actuals for 2018-19 do not reflect the impact of AASB 15, AASB 1058 or AASB 16.

There are no other significant changes to AAS or accounting policies adopted in 2019-20 that would significantly impact the Estimated Financial Statements.

New accounting standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 2019-20 reporting period. The following accounting standard is published but not effective and is expected to have a significant impact:

AASB 1059 *Service Concession Arrangements: Grantors*

AASB 1059 *Service Concession Arrangements: Grantor* (AASB 1059) will be effective for reporting periods commencing on or after 1 January 2020. That means the State will apply AASB 1059 from the 2020-21 Budget and beyond. AASB 1059 applies to service concession arrangements which are arrangements where an operator uses a service concession asset to provide a public service on behalf of the State.

Prior to the issuance of AASB 1059, there was no specific accounting guidance in Australia for grantors in a service concession arrangement. Currently, Privately Financed Projects (PFPs) are accounted for in accordance with NSW Treasury Policy TPP 06-8 *Privately Financed Projects* (TPP 06-8). Under TPP 06-8, most PFPs are treated as a purchase of an asset by the State, as either a lease or as an emerging right to receive assets in the future.

The scope of AASB 1059 is different than the scope of TPP 06-8. It is likely not all PFPs will fall within the scope of AASB 1059 and some arrangements that were not previously within the scope of TPP 06-8 will need to be accounted for in accordance with AASB 1059.

Where an arrangement is within the scope of AASB 1059, the State will recognise a service concession asset and a corresponding financial liability or unearned revenue liability. For some arrangements, these assets and liabilities are already recognised by the State. However, for some arrangements the application of the new accounting standard will result in the State recognising those assets and liabilities for the first time or, recognising those assets and liabilities earlier than would have been the case previously.

The scope of AASB 1059 is complex and requires significant judgement in its application. In addition, the arrangements which may be within scope of the standard are complex and unique in themselves.

Application of AASB 1059 is expected to have the following financial impacts:

- increase assets and liabilities recognised on the balance sheet
- potentially increase the value of existing financial liabilities on initial application.
- increase expenses due to the depreciation and amortisation of assets recognised for the first time
- increase revenues due to the unwinding of liabilities of unearned revenue from the grants of rights to operate assets
- decrease interest expenses on financial liabilities remeasured at initial application.

It is likely the application of AASB 1059 will have a negative impact on the budget result, because the potential increase in revenue and decrease in interest expenses will not completely offset the increase in depreciation and amortisation expenses. However, this impact has not been quantified at this stage due to the complexity of the Standard and the arrangements to which it applies.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Estimated Financial Statements.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 37 of the *2018-19 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2019-20 Budget Paper No.1 *Budget Statement*.

Presentation of the Estimated Financial Statements

The Estimated Financial Statements follow the presentation requirements for GGS reporting contained in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. AAS) with Government Financial Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics (ABS). The statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective.

The net operating balance (that is, the budget result) is the net result of harmonised GFS-GAAP transactions for the GGS.

In the operating statement:

- the *net operating balance* is the net result of *revenue and expenses from transactions*. It excludes *other economic flows*, which represent changes in the volume or value of assets or liabilities that do not arise from transactions with other entities and which are often outside the control of government
- the *operating result* is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

Further, AASB 1049 requires:

- the GGS financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the GGS financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS and/or
- where options do not exist in GAAP and there is conflict between GAAP and GFS, GAAP prevails.

Due to the prospective nature of the statements, detailed notes to the Estimated Financial Statements (including disclosure of contingent assets and liabilities) are not required to be included. This is consistent with Section 4.2 (4) of the *Government Sector Finance Act 2018*.

Each year ends on 30 June. All monetary amounts are presented in Australian dollars and rounded to the nearest million dollars ($m).

Use of a zero ("0") represents amounts rounded to zero. Use of three dots ("…") represents nil amounts.

Tables may not add in all instances due to rounding.

Material economic and other assumptions

The Estimated Financial Statements included in the Half-Yearly Review have been prepared using the material economic and other assumptions as set out below.

Table A.1: Key economic performance assumptions[(a)]

	2018-19 Outcomes	2019-20 Forecast	2020-21 Forecast	2021-22 Projection	2022-23 Projection
New South Wales population (persons) [(b)]	8,101,000	8,223,000	8,344,000	8,465,000	8,585,000
Nominal gross state product ($million)	625,400	647,300	674,000	704,200	736,400
Real gross state product (per cent)	1.9	1¾	2¼	2½	2½
Real state final demand (per cent)	2.1	2	2¼	-	-
Employment (per cent)	3.3	1½	1¼	1¼	1¼
Unemployment rate (per cent)	4.4	4¾	4½	4½	4½
Sydney consumer price index excluding tobacco excise (per cent)[(c)]	1.5	1½	1½	2	2
Wage Price index (per cent)[(d)]	2.4	2¼	2½	2¾	2¾
Nominal gross state product (per cent)	3.7	3½	4	4½	4½

(a) Per cent change, year average, unless otherwise indicated.
(b) As at 30 June each year.
(c) 2018-19 to 2020-21 excludes a ¼ percentage point from tobacco excise increases.
(d) Weighted public and private sector wages.

Source: ABS 3101.0, 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and Treasury

Summary of other key assumptions

The following section outlines the other key assumptions used in the preparation of the Estimated Financial Statements. The summary takes into account materiality in relation to the GGS's overall financial position and sensitivity to changes in key economic assumptions.

Notwithstanding these key assumptions, agency finance officers apply appropriate professional judgement in determining estimated financial information.

Revenue from transactions

Taxation revenue

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. Payroll tax, for example, involves an assessment of the outlook for employment and wages. Forecasts of government debt guarantee fees take into account an assessment of the level of debt of Public Non-Financial Corporations (PNFC) and their credit rating differential compared with the State as a whole. The forecasts of taxation revenue also involve the analysis of historical information and relationships (using econometric and other statistical methods) and consultation with relevant government agencies.

Grants and subsidies revenue

Forecast grants from the Commonwealth Government are based on the latest available information from the Commonwealth Government and projections of timing of payments at the time of preparation of the Half-Yearly Review. This takes into account the conditions, payment timetable and escalation factors relevant to each type of grant.

The adoption of AASB 15 and AASB 1058 from 2019-20 onwards results in changes to estimates, as revenue recognition on certain grants with specific performance obligations are aligned with the timing of the completion of the related performance obligations. For further details, refer to *Changes in accounting policies*. The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool. For 2019-20, the GST forecast is based on the national GST pool forecast, the assessed relativity for New South Wales in 2019-20 and population projections. The assessed relativity is based on the three-year average of actual data (2015-16, 2016-17 and 2017-18) as published by the Commonwealth Grants Commission.

Beyond 2019-20, the State's share of GST is based on New South Wales Treasury's forecast relativities, state population projections and national GST pool estimates. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared to other states and territories.

Sale of goods and services

Revenue from the sale of goods and services is forecast by taking into account all known factors, including:

- estimates of changes in demand for services provided
- expected unit price variations based on proposed fee increases set by general government agencies and/or indexation.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by Public Financial Corporations (PFC) and PNFC sectors based on expected profitability and the agreed dividend policy at the time of the Half-Yearly Review.

Other dividends and distributions

Other dividends include estimates of dividends to be received from investments in entities other than the PNFC and PFC sectors, with the revenue recognised when the right to receive payment is expected to be established. Estimates are based on advice from external parties.

Distributions are mainly from managed fund investments administered by TCorp, with the revenue recognised when the right to receive payment is expected to be established based on advice from TCorp. It excludes estimated fair value movements in the unit price of the investments, which are recognised as ‘other economic flows – included in the operating result’.

Fines, regulatory fees and other revenues

Fines, regulatory fees and other revenues include estimates of fines issued by the courts, estimated traffic infringement fines, estimated revenue from enforcement orders and regulatory fees and contributions. It also includes estimated royalty revenue based on assessments of coal volumes, and prices and the Australian dollar exchange rate. Other revenue forecasts are adjusted for indexation, where appropriate.

Expenses from transactions

To improve the accuracy of budget estimates, consistent with longstanding practice and reflecting historic trends, the Half-Yearly Review includes adjustments:

- to account for parameter and technical adjustments expected to be required to maintain service provision on a no policy change basis, reflecting the historic conservative bias in aggregate spending estimates
- to account for expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in NSW Treasury Circular TC 15-08, and
- to reflect Government decisions that are not yet included in agency estimates, for example due to timing or because they are commercial in confidence or subject to further requirements.

Employee expenses

Employee expenses are forecast based on expected staffing profiles, current salaries, conditions and on-costs. Employee expenses are adjusted over the forecast period for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the State’s wages policy at a net cost of 2.5 per cent per annum, inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of newly approved initiatives and required efficiency savings.

Superannuation expense (and liabilities)

Superannuation expense comprises:

- for the defined contribution plan, the forecast accrued contribution for the period
- for defined benefit plans, the forecast service cost and the net interest expense. This excludes the re-measurements (that is, actuarial gains and losses and return on plan assets in excess of the long-term Commonwealth Government Securities (CGS) rate) which are classified as 'other economic flows – other comprehensive income'.

Superannuation expenses for defined contribution plans are based on assumptions regarding future salaries and contribution rates.

Superannuation expenses for defined benefit plans are estimated based on actuarial advice, applying the long-term CGS yield as at 30 June in the prior year to the opening value of net liabilities (gross superannuation liabilities less assets), less benefit payments at the mid-point of the contribution year, plus any accruing liability for the year.

Forecasts of defined benefit superannuation liabilities are based on actuarial estimates of cash flows for the various defined benefit superannuation schemes discounted using a nominal long-term CGS yield as at 30 June. Gross liability estimates are based on a number of demographic and financial assumptions. The major financial assumptions used for the Budget and forward estimates period are outlined in the table below.

Table A.2: Superannuation assumptions – pooled fund / state super schemes

	2018-19 % Actual	2019-20 % Forecast	2020-21 % Forecast	2021-22 % Forecast	2022-23 % Forecast
Liability discount rate	1.25	1.00	1.25	1.75	2.00
Expected return on investments (a)	7.76	7.30/6.30	7.40/6.40	7.40/6.40	7.40/6.40
Expected salary increases(b)	2.70	3.20	3.20	3.20	3.20
Expected rate of CPI(c)	1.70	1.75	1.75	2.00	2.00

(a) The expected return on investments is 7.4 per cent on assets backing pension liabilities (taking into account available Current Pension Liability Exemption (CPLE) related tax credits) and 6.4 per cent on assets backing non-pension liabilities, consistent with the 2018 Triennial Review of the State Super schemes. For the EISS, the assumed long-term investment return is 5.2 per cent (after fees and charges).

(b) Taking the increased Superannuation Guarantee Contribution (SGC) into account, total remuneration will increase by 2.70 per cent. Note that the Commonwealth Government's *Mineral Resources Rent Tax Repeal and Other Measures Act 2014* provides a further pause in the SGC rate increases until 2021.

(c) 2018-19 to 2020-21 includes ¼ percentage point from tobacco excise increases.

Depreciation and amortisation

Property, plant and equipment are depreciated (net of any residual value) over their respective useful lives, except for right-of-use assets. Right-of-use assets are generally depreciated over their respective lease term (from 2019-20 onwards). Depreciation expense is generally allocated on a straight-line basis.

Depreciation expense is forecast on the basis of known asset valuations, the expected economic life of assets, assumed new asset investments and asset sale programs. Depreciation expense is based on the assumption that there will be no change in depreciation rates over the forecast period, but includes the estimated impact of the current and future revaluation of assets over the forecast period. Depreciation expense may be impacted by future changes in useful lives, residual value or valuation methodology.

Certain heritage assets, including original artworks and collections and heritage buildings, may not have limited useful lives because appropriate custodial and preservation policies are adopted. Such assets are not subject to depreciation. Land is not a depreciable asset.

Intangible assets with finite lives are amortised using the straight-line method. Intangible assets with indefinite lives are not amortised, but are tested for impairment annually.

Interest expense

The forecasts for the interest expense are based on:

- payments required on outstanding borrowings, including lease liabilities
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for TCorp bonds
- the unwinding of discounts on non-employee provisions.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in normal operations of agencies and include the cost of supplies and services. They are forecast by applying appropriate economic parameters and known activity changes, including planned changes in the method of service delivery and application of government policies. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants, subsidies and other transfers expenses

Grants, subsidies and other transfers expenses generally comprise cash contributions to local government authorities and non-government organisations. For the GGS, they also include grants and subsidies paid to the PFC and PNFC sectors. The forecast grant payments are determined by taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

Revaluations

The estimates are based on an examination and extrapolation of historical trends in the valuation of property, plant and equipment. The budget and forward estimates include the estimated impact of revaluations of property, plant and equipment.

Superannuation actuarial gains / losses

The forecast actuarial gains or losses on defined benefit superannuation are based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain / (loss) on equity investments in other sectors

The net gain/(loss) on equity investments in other sectors is based on estimates of the PFC and PNFC sectors’ forward comprehensive results adjusted for transactions with owners. The underlying management estimates of future comprehensive results are based on current Statements of Corporate Intent. Future distributions to equity holders are based on Treasury’s *Commercial Policy Framework*.

Net acquisition of non-financial assets

Sale of non-financial assets

Sale of non-financial assets includes the proceeds from the sale of an intangible asset recognised upfront in GFS but amortised over the term of the arrangement for GAAP. This is presented consistently in the cash flow statement.

Assets

Property, Plant and Equipment

The estimates of property, plant and equipment over the forecast period are at fair value and take into account planned acquisitions, disposals and the impact of depreciation, impairment and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period.

The adoption of AASB 16 from 2019-20 results in the recognition of right-of-use assets, including those from leases previously classified as operating leases, where the State is a lessee. The estimates of right-of-use assets are based on the State's best estimate of the timing of renewals of lease arrangements and the impact of depreciation. Refer to *Changes in accounting policies* for further details on the impacts of adopting AASB 16.

The forward estimates include the estimated impact of revaluations of property, plant and equipment. These estimates are based on an examination of expected cost trends.

To improve the accuracy of budget estimates, consistent with longstanding practice and reflecting historic trends, the Budget and Half-Yearly Review includes adjustments:

- to account for capital expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in NSW Treasury Circular TC 15-08
- to reflect Government decisions on capital expenditure that are not yet included in agency estimates, for example due to timing because they are commercial in confidence or subject to further requirements.

Liabilities

Borrowings

Estimates for borrowings are based on current debt levels, amortisation of any premiums or discounts and the cash flows expected to be required to fund future government activities.

The adoption of AASB 16 from 2019-20 results in the recognition of additional lease liabilities in relation to leases previously classified as operating leases where the State is a lessee. Estimates of lease liabilities are based on the best estimate of the timing of renewals of lease arrangements and impact of amortisation of the liabilities. Refer to *Changes in accounting policies* for further details on the impacts of adopting AASB 16.

Employee provisions

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee provisions are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the State's wages policy at a net cost of 2.5 per cent per annum, inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

Superannuation provisions

Refer to *Superannuation expense (and liabilities)* (above) for information on assumptions that also impact the measurement of the superannuation provisions.

Other provisions

Other provisions include the State's obligations for several insurance schemes. To estimate future claims liabilities, actuarial assumptions have been applied for future claims to be incurred, claim payments, inflation and liability discount rates. Actual liabilities may differ from estimates.

B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Tables

The NSW Government's 2019-20 Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS).

These revised estimates take into account fiscal and economic developments since the Budget. They also include the impact from the adoption of new accounting standards from 1 July 2019 in accordance with:

- AASB 15 Revenue from Contracts with Customers (AASB 15)
- AASB 1058 Income of Not-for-Profit Entities (AASB 1058)
- AASB 16 *Leases* (AASB 16).

The UPF tables have been prepared consistent with the 2019-20 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-6 of 2019-20 Budget Paper No.1 *Budget Statement*.

The objective of the UPF is to facilitate a better understanding of an individual government's financial results and projections through the provision of a common 'core' of financial information. As part of the Framework, each jurisdiction publishes a mid-year report, that is, a half-yearly review of the budget, by the end of February each year.

The UPF financial aggregates:

- allow consistent comparisons between the financial position of Australian governments
- facilitate time series comparisons since they are relatively unaffected by changes in public sector administrative structures
- permit an assessment of how public sector transactions affect the economy by providing data classified by economic type.

Table B.1: General government sector operating statement

	2019-20 Budget	2019-20 Revised	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	31,841	32,515	35,439	36,619	38,129
Grants and Subsidies					
- Commonwealth General Purpose	18,685	18,338	19,472	20,910	21,770
- Commonwealth Specific Purpose Payments	10,431	10,431	11,046	11,679	12,360
- Commonwealth National Partnership Payments	2,888	2,896	2,359	2,265	2,208
- Other Commonwealth Payments	372	397	442	438	458
- Other Grants and Subsidies	627	604	622	597	608
Sale of Goods and Services	9,762	9,337	10,259	9,607	8,984
Interest	333	368	414	408	391
Dividend and Income Tax Equivalents from Other Sectors	1,877	1,870	1,329	768	817
Other Dividends and Distributions	2,001	2,024	1,802	1,967	2,145
Fines, Regulatory Fees and Other	5,498	5,377	5,086	5,421	5,202
Total Revenue from Transactions	**84,316**	**84,157**	**88,270**	**90,678**	**93,072**
Expenses from Transactions					
Employee	34,266	34,311	35,119	37,033	38,970
Superannuation					
- Superannuation Interest Cost	1,079	877	668	754	900
- Other Superannuation	3,151	3,203	3,084	3,135	3,241
Depreciation and Amortisation	6,110	6,079	6,745	6,885	7,189
Interest	2,278	2,139	2,505	2,552	2,641
Other Operating	20,815	21,152	22,055	21,240	21,062
Grants, Subsidies and Other Transfer Expenses	15,602	15,694	16,722	16,475	16,131
Total Expenses from Transactions	**83,300**	**83,455**	**86,899**	**88,075**	**90,135**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,016**	**702**	**1,372**	**2,603**	**2,937**

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

	2019-20 Budget	2019-20 Revised	2020-21	2021-22 Forward Estimates	2022-23
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	11	(339)	284	544	260
Other Net Gains/(Losses)	435	381	429	693	506
Share of Earnings from Associates (excluding Dividends)	...	3	...	...	...
Dividends from Asset Sale Proceeds	(0)	(0)	(0)	...	...
Allowance for Impairment of Receivables	(38)	(53)	(38)	(36)	(36)
Deferred Income Tax from Other Sectors	15	15	26	35	31
Other	78	78	78	78	75
Other Economic Flows - included in Operating Result	**501**	**85**	**779**	**1,314**	**837**
Operating Result	**1,517**	**787**	**2,151**	**3,917**	**3,774**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**3,503**	**158**	**13,247**	**14,352**	**10,720**
Revaluations	2,811	3,225	3,826	3,345	3,512
Superannuation Actuarial Gain/(Loss)	1,953	(636)	5,595	8,141	4,523
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(1,346)	(2,504)	3,694	2,699	2,488
Deferred Tax Adjustment through Equity	85	72	132	168	198
Items that may be Reclassified Subsequently to Operating Result	**(97)**	**(48)**	**(4)**	**(6)**	**(7)**
Other	(97)	(48)	(4)	(6)	(7)
Other Economic Flows - Other Comprehensive Income	**3,406**	**109**	**13,243**	**14,346**	**10,714**
Comprehensive Result - Total Change in Net Worth	**4,923**	**896**	**15,394**	**18,263**	**14,487**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**4,923**	**896**	**15,394**	**18,263**	**14,487**
Less: Net Other Economic Flows	(3,907)	(194)	(14,022)	(15,661)	(11,551)
Equals: Budget Result - Net Operating Balance	**1,016**	**702**	**1,372**	**2,603**	**2,937**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	19,855	20,586	18,201	17,551	14,882
Sales of Non-Financial Assets	(1,031)	(814)	(1,238)	(1,491)	(1,202)
Less: Depreciation	(6,110)	(6,079)	(6,745)	(6,885)	(7,189)
Plus: Change in Inventories	(17)	(85)	(39)	(45)	0
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases	2,490	3,096	620	575	525
- Other	336	349	430	564	572
Equals: Total Net Acquisition of Non-Financial Assets	**15,523**	**17,054**	**11,228**	**10,269**	**7,588**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(14,507)**	**(16,352)**	**(9,857)**	**(7,667)**	**(4,651)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	22,345	23,683	18,821	18,126	15,407

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising leases.

Table B.2: General government sector balance sheet

	June 2020 Budget	June 2020 Revised	June 2021	June 2022 Forward Estimates	June 2023
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,050	1,196	1,158	1,043	1,054
Receivables	7,069	7,731	7,683	7,667	7,677
Tax Equivalents Receivable	29	16	19	27	31
Investments, Loans and Placements					
Financial Assets at Fair Value	34,618	38,092	34,469	33,288	34,770
Other Financial Assets	1,827	2,793	3,002	2,482	2,506
Advances Paid	1,265	1,454	1,715	2,081	2,388
Deferred Tax Equivalent Assets	2,294	2,329	2,479	2,674	2,903
Equity					
Investments in Other Public Sector Entities	108,612	103,983	111,310	116,023	119,562
Investments in Associates	12,689	12,082	11,222	11,180	11,098
Other Equity Investments	0	8	8	8	8
Total Financial Assets	**169,454**	**169,682**	**173,064**	**176,474**	**181,997**
Non-Financial Assets					
Inventories	298	312	275	230	229
Forestry Stock and Other Biological Assets	9	10	10	10	10
Assets Classified as Held for Sale	276	341	185	183	181
Property, Plant and Equipment					
Land and Buildings	96,897	98,093	102,638	104,108	104,601
Plant and Equipment	11,692	13,277	13,437	13,503	13,476
Infrastructure Systems	129,273	127,042	137,058	149,062	159,350
Intangibles	3,446	3,723	3,520	3,251	2,942
Other Non-Financial Assets	8,936	9,374	10,633	11,665	12,716
Total Non-Financial Assets	**250,826**	**252,172**	**267,757**	**282,012**	**293,505**
Total Assets	**420,280**	**421,853**	**440,821**	**458,486**	**475,501**
Liabilities					
Deposits Held	93	9	9	9	9
Payables	7,273	7,314	7,696	7,888	7,769
Tax Equivalents Payable	15	22	10	...	...
Borrowings and Derivatives at Fair Value	147	259	259	259	259
Borrowings at Amortised Cost	50,091	55,318	64,542	73,196	81,068
Advances Received	783	816	850	828	797
Employee Provisions	19,820	21,576	21,822	21,680	21,821
Superannuation Provision[(a)]	58,731	67,799	61,324	52,221	46,742
Deferred Tax Equivalent Provision	122	113	112	110	115
Other Provisions	10,556	11,406	11,553	11,683	11,843
Other Liabilities	5,701	6,153	6,181	5,888	5,864
Total Liabilities	**153,334**	**170,785**	**174,359**	**173,761**	**176,289**
NET ASSETS	**266,946**	**251,068**	**266,462**	**284,725**	**299,213**

Table B2: General government sector balance sheet (cont)

	June 2020 Budget	June 2020 Revised	June 2021	June 2022 Forward Estimates	June 2023
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	87,986	74,517	82,287	94,345	102,642
Reserves	178,960	176,551	184,175	190,380	196,571
TOTAL NET WORTH	**266,946**	**251,068**	**266,462**	**284,725**	**299,213**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**12,354**	**12,867**	**25,316**	**35,397**	**41,414**
Net Financial Liabilities[(c)]	**92,493**	**105,086**	**112,604**	**113,310**	**113,854**
Net Financial Worth[(d)]	**16,119**	**(1,104)**	**(1,295)**	**2,713**	**5,708**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.3: General government sector cash flow statement

	2019-20 Budget	2019-20 Revised	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxes Received	31,954	32,949	35,607	36,758	38,280
Receipts from Sales of Goods and Services	10,249	9,764	10,910	10,245	9,404
Grant and Subsidies Received	32,859	32,553	34,077	35,661	37,430
Interest Receipts	235	287	308	317	310
Dividends and Income Tax Equivalents	1,714	1,820	1,329	811	587
Other Receipts	10,283	8,461	8,740	8,131	8,072
Total Cash Receipts from Operating Activities	**87,295**	**85,834**	**90,970**	**91,924**	**94,083**
Cash Payments from Operating Activities					
Payments for Employees	(33,794)	(33,903)	(34,628)	(36,686)	(38,628)
Payments for Superannuation	(4,567)	(4,614)	(4,617)	(4,852)	(5,097)
Payments for Goods and Services	(20,661)	(20,800)	(22,278)	(21,146)	(20,959)
Grants and Subsidies Paid	(14,997)	(15,010)	(16,196)	(16,080)	(15,738)
Interest Paid	(1,868)	(1,892)	(2,317)	(2,479)	(2,610)
Other Payments	(4,714)	(3,624)	(3,890)	(2,971)	(2,919)
Total Cash Payments from Operating Activities	**(80,602)**	**(79,843)**	**(83,925)**	**(84,215)**	**(85,950)**
Net Cash Flows from Operating Activities	**6,693**	**5,991**	**7,045**	**7,709**	**8,134**
Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	1,120	523	1,233	1,486	1,200
Purchases of Non-Financial Assets	(20,525)	(20,703)	(17,809)	(16,663)	(15,148)
Net Cash Flows from Investments in Non-Financial Assets	**(19,404)**	**(20,180)**	**(16,576)**	**(15,178)**	**(13,948)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	158	1,379	2,290	518	500
Payments	(3,190)	(4,475)	(5,063)	(2,671)	(1,662)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(3,032)**	**(3,096)**	**(2,774)**	**(2,152)**	**(1,163)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	9,145	8,917	6,727	3,539	1,277
Payments for the Purchase of Investments	(2,727)	(3,234)	(2,685)	(1,434)	(2,282)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**6,417**	**5,683**	**4,042**	**2,105**	**(1,005)**
Net Cash Flows from Investing Activities	**(16,019)**	**(17,594)**	**(15,308)**	**(15,225)**	**(16,116)**
Cash Flows from Financing Activities					
Advances Received	170	204	171	16	31
Advances Repaid	(203)	(222)	(169)	(51)	(67)
Proceeds from Borrowings	8,192	12,043	9,775	9,527	9,021
Repayment of Borrowings	(1,323)	(1,209)	(1,691)	(2,246)	(1,189)
Deposits Received - Net	2	(58)	...	...	...
Other Financing Receipts/(Payments)	85	72	132	168	198
Net Cash Flows from Financing Activities	**6,923**	**10,830**	**8,218**	**7,415**	**7,994**
Net Increase/(Decrease) in Cash Held	**(2,403)**	**(773)**	**(45)**	**(101)**	**11**
Derivation of Cash Result					
Net Cash Flows From Operating Activities	6,693	5,991	7,045	7,709	8,134
Net Cash Flows from Investments in Non-Financial Assets	(19,404)	(20,180)	(16,576)	(15,178)	(13,948)
Cash Surplus/(Deficit)	**(12,711)**	**(14,189)**	**(9,531)**	**(7,469)**	**(5,814)**

Table B.4: Public non-financial corporation sector operating statement

	2019-20 Budget $m	2019-20 Revised $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m
Revenue from Transactions					
Grants and Subsidies					
- Other Grants and Subsidies	2,578	2,656	3,110	3,377	3,240
Sale of Goods and Services	8,135	8,311	8,656	9,069	9,381
Interest	54	55	41	41	38
Fines, Regulatory Fees and Other	799	668	633	637	655
Total Revenue from Transactions	**11,566**	**11,689**	**12,440**	**13,123**	**13,315**
Expenses from Transactions					
Employee	3,121	2,878	2,907	2,958	2,989
Superannuation					
- Superannuation Interest Cost	44	42	31	24	27
- Other Superannuation	224	206	202	213	218
Depreciation and Amortisation	3,457	3,393	3,589	3,755	3,878
Interest	1,111	1,072	1,088	1,119	1,130
Income Tax Expense	263	208	261	228	243
Other Operating	5,467	5,919	6,101	6,711	6,694
Grants, Subsidies and Other Transfer Expenses	93	134	64	64	66
Total Expenses from Transactions	**13,780**	**13,851**	**14,244**	**15,072**	**15,245**
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	**(2,214)**	**(2,162)**	**(1,803)**	**(1,949)**	**(1,930)**

Table B.4: Public non-financial corporation sector operating statement (cont)

	2019-20 Budget $m	2019-20 Revised $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m
Other Economic Flows - Included in the Operating Result					
Other Net Gains/(Losses)	198	(184)	(211)	(208)	(340)
Allowance for Impairment of Receivables	(2)	(2)	(2)	(2)	(2)
Deferred Income Tax	(15)	(15)	(25)	(35)	(31)
Other Economic Flows - included in Operating Result	**181**	**(201)**	**(238)**	**(245)**	**(373)**
Operating Result	**(2,033)**	**(2,363)**	**(2,042)**	**(2,194)**	**(2,303)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**2,709**	**2,232**	**5,364**	**3,010**	**3,458**
Revaluations	2,630	2,565	5,099	2,619	3,344
Superannuation Actuarial Gain/(Loss)	164	(261)	397	559	312
Deferred Tax Adjustment through Equity	(85)	(72)	(132)	(168)	(198)
Items that may be Reclassified Subsequently to Operating Result	**(0)**	**(4)**	**(0)**	**(0)**	**(0)**
Net Gain/(Loss) on Financial Instruments at Fair Value	...	(0)	...	...	...
Other	(0)	(3)	(0)	(0)	(0)
Other Economic Flows - Other Comprehensive Income	**2,709**	**2,229**	**5,364**	**3,010**	**3,458**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**675**	**(134)**	**3,322**	**816**	**1,154**
Dividends Distributed	(1,285)	(1,337)	(948)	(409)	(429)
Net Equity Injections	9,116	7,280	3,634	2,015	1,051
Total Change in Net Worth	**8,506**	**5,809**	**6,008**	**2,422**	**1,776**
Key Fiscal Aggregates					
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**675**	**(134)**	**3,322**	**816**	**1,154**
Less: Net Other Economic Flows	(2,890)	(2,028)	(5,125)	(2,765)	(3,085)
Equals: Budget Result - Net Operating Balance	**(2,214)**	**(2,162)**	**(1,803)**	**(1,949)**	**(1,930)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	5,338	5,115	6,519	5,293	4,147
Sales of Non-Financial Assets	(702)	(270)	(312)	(533)	(666)
Less: Depreciation	(3,457)	(3,393)	(3,589)	(3,755)	(3,878)
Plus: Change in Inventories	239	86	56	137	21
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases	56	19	85	54	58
- Other	356	320	341	347	354
Equals: Total Net Acquisition of Non-Financial Assets	**1,830**	**1,876**	**3,100**	**1,543**	**36**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(4,044)**	**(4,038)**	**(4,903)**	**(3,492)**	**(1,966)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	5,394	5,134	6,604	5,347	4,205
Dividends Accrued[(b)]	661	567	637	409	429

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising leases.
(b) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

Table B.5: Public non-financial corporation sector balance sheet

	June 2020 Budget	June 2020 Revised	June 2021 Forward Estimates	June 2022	June 2023
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,519	1,721	1,379	1,120	1,131
Receivables	1,250	1,236	1,232	1,175	1,196
Tax Equivalents Receivable	15	24	10	...	...
Investments, Loans and Placements					
Financial Assets at Fair Value	237	247	247	247	247
Other Financial Assets	429	448	457	467	482
Advances Paid	1	0	1	1	1
Deferred Tax Equivalent Assets	122	113	112	110	115
Equity					
Other Equity Investments	167	189	189	189	189
Total Financial Assets	**3,739**	**3,979**	**3,626**	**3,309**	**3,362**
Non-Financial Assets					
Inventories	659	559	614	751	771
Forestry Stock and Other Biological Assets	985	1,171	1,171	1,171	1,171
Assets Classified as Held for Sale	49	49	49	50	50
Investment Properties	603	599	599	564	565
Property, Plant and Equipment					
Land and Buildings	76,744	77,743	79,127	80,247	81,646
Plant and Equipment	6,578	6,744	7,332	7,549	7,647
Infrastructure Systems	57,971	55,285	61,252	63,808	65,476
Intangibles	1,192	1,152	1,189	1,186	1,128
Other Non-Financial Assets	222	166	170	178	182
Total Non-Financial Assets	**145,003**	**143,468**	**151,503**	**155,503**	**158,636**
Total Assets	**148,742**	**147,447**	**155,130**	**158,812**	**161,997**
Liabilities					
Deposits Held	54	47	39	39	39
Payables	2,076	2,088	2,117	2,409	2,881
Tax Equivalents Payable	20	8	10	17	20
Borrowings and Derivatives at Fair Value	2	3	3	3	3
Borrowings at Amortised Cost	27,015	27,204	29,102	30,683	31,871
Advanced Received	463	463	448	432	297
Employee Provisions	1,056	1,181	1,146	1,146	1,150
Superannuation Provision[(a)]	2,632	3,291	2,880	2,310	1,986
Deferred Tax Equivalent Provision	2,294	2,329	2,479	2,674	2,903
Other Provisions	1,194	1,168	1,201	965	979
Other Liabilities	310	289	319	327	285
Total Liabilities	**37,117**	**38,070**	**39,745**	**41,006**	**42,415**
NET ASSETS	**111,625**	**109,376**	**115,384**	**117,806**	**119,583**
NET WORTH					
Accumulated Funds	34,642	32,379	29,909	28,022	25,842
Reserves	76,983	76,997	85,475	89,784	93,740
TOTAL NET WORTH	**111,625**	**109,376**	**115,384**	**117,806**	**119,583**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**25,349**	**25,299**	**27,508**	**29,322**	**30,349**
Net Financial Liabilities[(c)]	**33,378**	**34,092**	**36,119**	**37,697**	**39,053**
Net Financial Worth[(d)]	**(33,378)**	**(34,092)**	**(36,119)**	**(37,697)**	**(39,053)**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table B.6: Public non-financial corporation sector cash flow statement

	2019-20 Budget $m	2019-20 Revised $m	2020-21 Forward Estimates $m	2021-22 $m	2022-23 $m
Cash Receipts from Operating Activities					
Receipts from Sales of Goods and Services	8,207	8,315	8,678	9,053	9,321
Grant and Subsidies Received	2,574	2,652	3,107	3,373	3,236
Interest Receipts	30	35	19	19	19
Other Receipts	1,065	892	993	1,060	995
Total Cash Receipts from Operating Activities	**11,877**	**11,894**	**12,797**	**13,505**	**13,571**
Cash Payments from Operating Activities					
Payments for Employees	(2,599)	(2,483)	(2,575)	(2,583)	(2,600)
Payments for Superannuation	(250)	(227)	(246)	(246)	(256)
Payments for Goods and Services	(6,248)	(6,453)	(6,556)	(7,251)	(7,121)
Grants and Subsidies Paid	(90)	(99)	(60)	(60)	(62)
Interest Paid	(982)	(943)	(1,012)	(959)	(1,030)
Distributions Paid	(215)	(178)	(121)	(51)	(43)
Other Payments	(647)	(684)	(745)	(325)	(203)
Total Cash Payments from Operating Activities	**(11,031)**	**(11,066)**	**(11,315)**	**(11,476)**	**(11,315)**
Net Cash Flows from Operating Activities	**846**	**827**	**1,482**	**2,029**	**2,256**
Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	702	263	312	533	666
Purchases of Non-Financial Assets	(5,275)	(5,080)	(6,418)	(5,345)	(4,144)
Net Cash Flows from Investments in Non-Financial Assets	**(4,573)**	**(4,817)**	**(6,106)**	**(4,812)**	**(3,478)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	0	0	0	0	0
Payments	(0)	(0)	(0)	0	0
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(0)**	**(0)**	**(0)**	**0**	**0**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	195	240	10	45	10
Payments for Purchase of Investments	(24)	...	...	...	(5)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**171**	**240**	**10**	**45**	**5**
Net Cash Flows from Investing Activities	**(4,402)**	**(4,577)**	**(6,097)**	**(4,767)**	**(3,474)**
Cash Flows from Financing Activities					
Advances Received	2,666	2,777	3,634	2,015	1,051
Advances Repaid	(31)	(31)	(31)	(31)	(151)
Proceeds from Borrowings	1,849	2,090	1,869	1,622	1,219
Repayment of Borrowings	(320)	(317)	(184)	(324)	(278)
Dividends Paid	(1,351)	(1,496)	(878)	(637)	(409)
Deposits Received (net)	(15)	(23)	(8)	...	...
Other Financing Receipts/(Payments)	(88)	(76)	(130)	(166)	(203)
Net Cash Flows from Financing Activities	**2,710**	**2,922**	**4,273**	**2,479**	**1,228**
Net Increase/(Decrease) in Cash Held	**(846)**	**(827)**	**(343)**	**(259)**	**11**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	846	827	1,482	2,029	2,256
Net Cash Flows from Investments in Non-Financial Assets	(4,573)	(4,817)	(6,106)	(4,812)	(3,478)
Dividends Paid	(1,351)	(1,496)	(878)	(637)	(409)
Cash Surplus/(Deficit)	**(5,078)**	**(5,486)**	**(5,502)**	**(3,419)**	**(1,631)**

Table B.7: Non-financial public sector operating statement

	2019-20 Budget	2019-20 Revised	2020-21 Forward Estimates	2021-22	2022-23
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	31,333	32,015	34,916	36,043	37,524
Grants and Subsidies					
- Commonwealth General Purpose	18,685	18,338	19,472	20,910	21,770
- Commonwealth Specific Purpose Payments	10,431	10,431	11,046	11,679	12,360
- Commonwealth National Partnership Payments	2,888	2,896	2,359	2,265	2,208
- Other Commonwealth Payments	375	400	446	441	461
- Other Grants and Subsidies	528	490	565	546	575
Sale of Goods and Services	13,778	13,932	14,427	15,060	15,621
Interest	309	368	405	394	357
Dividend and Income Tax Equivalents from Other Sectors	328	326	121	131	146
Other Dividends and Distributions	2,001	2,024	1,802	1,967	2,145
Fines, Regulatory Fees and Other	6,235	5,943	5,654	5,990	5,788
Total Revenue from Transactions	**86,891**	**87,163**	**91,212**	**95,425**	**98,955**
Expenses from Transactions					
Employee	36,724	36,675	37,503	39,458	41,414
Superannuation					
- Superannuation Interest Cost	1,123	919	699	778	927
- Other Superannuation	3,373	3,408	3,285	3,347	3,458
Depreciation and Amortisation	9,567	9,482	10,345	10,651	11,078
Interest	3,311	3,157	3,544	3,617	3,699
Other Operating	22,335	23,357	23,676	24,302	24,963
Grants, Subsidies and Other Transfer Expenses	12,972	12,990	13,572	13,061	12,872
Total Expenses from Transactions	**89,406**	**89,989**	**92,622**	**95,213**	**98,412**
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(2,514)**	**(2,826)**	**(1,410)**	**212**	**543**

Table B.7: Non-financial public sector operating statement (cont)

	2019-20 Budget $m	2019-20 Revised $m	2020-21 $m	2021-22 Forward Estimates $m	2022-23 $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	11	(339)	284	544	260
Other Net Gains/(Losses)	633	197	218	485	166
Share of Earnings from Associates (excluding Dividends)	...	3	...	...	...
Allowance for Impairment of Receivables	(40)	(54)	(39)	(38)	(38)
Others	78	78	78	78	75
Other Economic Flows - included in Operating Result	**682**	**(116)**	**541**	**1,069**	**464**
Operating Result	**(1,832)**	**(2,941)**	**(869)**	**1,281**	**1,007**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**6,853**	**3,896**	**16,274**	**16,994**	**13,493**
Revaluations	5,471	5,821	8,955	5,994	6,885
Superannuation Actuarial Gain/(Loss)	2,117	(897)	5,992	8,700	4,835
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(735)	(1,028)	1,326	2,301	1,773
Deferred Tax Adjustment through Equity	(0)	(0)	(0)	(0)	0
Items that may be Reclassified Subsequently to Operating Result	**(97)**	**(52)**	**(10)**	**(12)**	**(13)**
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	...	3	...	...	...
Other	(97)	(52)	(10)	(12)	(13)
Other Economic Flows - Other Comprehensive Income	**6,755**	**3,844**	**16,263**	**16,982**	**13,481**
Comprehensive Result - Total Change in Net Worth	**4,923**	**902**	**15,394**	**18,263**	**14,488**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**4,923**	**902**	**15,394**	**18,263**	**14,488**
Less: Net Other Economic Flows	(7,438)	(3,728)	(16,804)	(18,051)	(13,944)
Equals: Net Operating Balance	**(2,514)**	**(2,826)**	**(1,410)**	**212**	**543**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	25,193	25,701	24,720	22,844	19,029
Sales of Non-Financial Assets	(1,733)	(1,084)	(1,550)	(2,024)	(1,868)
Less: Depreciation	(9,567)	(9,482)	(10,345)	(10,651)	(11,078)
Plus: Change in Inventories	222	0	17	93	21
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases	2,546	3,121	713	634	585
- Other	655	633	732	870	883
Equals: Total Net Acquisition of Non-Financial Assets	**17,315**	**18,890**	**14,287**	**11,767**	**7,572**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(19,830)**	**(21,715)**	**(15,697)**	**(11,555)**	**(7,029)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	27,739	28,822	25,433	23,479	19,614

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising leases.

Table B.8: Non-financial public sector balance sheet

	June 2020 Budget $m	June 2020 Revised $m	June 2021 Forward Estimates $m	June 2022 Forward Estimates $m	June 2023 Forward Estimates $m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,569	2,918	2,537	2,163	2,185
Receivables	6,766	7,569	7,449	7,567	7,560
Tax Equivalents Receivable	8	9	9	10	11
Investments, Loans and Placements					
Financial Assets at Fair Value	34,855	38,339	34,716	33,536	35,018
Other Financial Assets	2,258	3,197	3,417	2,912	2,961
Advances Paid	802	991	1,268	1,376	1,398
Equity					
Investments in Other Public Sector Entities	(3,141)	(5,546)	(4,221)	(1,921)	(148)
Investments in Associates	12,689	12,082	11,222	11,180	11,098
Other Equity Investments	167	196	196	196	196
Total Financial Assets	**56,974**	**59,754**	**56,592**	**57,019**	**60,279**
Non-Financial Assets					
Inventories	957	871	889	980	1,001
Forestry Stock and Other Biological Assets	994	1,181	1,181	1,181	1,181
Assets Classified as Held for Sale	325	389	235	233	231
Investment Properties	603	599	599	564	565
Property, Plant and Equipment					
Land and Buildings	174,234	176,496	182,452	185,066	186,979
Plant and Equipment	18,270	20,021	20,770	21,051	21,123
Infrastructure Systems	187,243	182,328	198,310	212,870	224,826
Intangibles	4,638	4,875	4,708	4,437	4,070
Other Non-Financial Assets	8,668	9,061	10,289	11,292	12,308
Total Non-Financial Assets	**395,931**	**395,820**	**419,433**	**437,676**	**452,282**
Total Assets	**452,905**	**455,573**	**476,025**	**494,695**	**512,561**
Liabilities					
Deposits Held	147	55	48	48	48
Payables	8,721	8,890	9,298	9,467	9,378
Borrowings and Derivatives at Fair Value	150	263	263	263	263
Borrowings at Amortised Cost	77,102	82,515	93,639	103,875	112,937
Advanced Received	783	816	850	828	797
Employee Provisions	20,857	22,737	22,949	22,807	22,953
Superannuation Provision[(a)]	61,363	71,090	64,204	54,531	48,729
Other Provisions	10,829	11,717	11,830	11,953	12,110
Other Liabilities	6,006	6,417	6,477	6,193	6,129
Total Liabilities	**185,960**	**204,499**	**209,557**	**209,963**	**213,342**
NET ASSETS	**266,946**	**251,074**	**266,468**	**284,732**	**299,219**

Table B.8: Non-financial public sector balance sheet (cont)

	June 2020 Budget	June 2020 Revised	June 2021	June 2022 Forward Estimates	June 2023
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	116,716	102,619	104,248	112,366	117,391
Reserves	150,230	148,455	162,220	172,366	181,828
TOTAL NET WORTH	**266,946**	**251,074**	**266,468**	**284,732**	**299,219**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**37,699**	**38,204**	**52,861**	**65,026**	**72,483**
Net Financial Liabilities[(c)]	**125,845**	**139,199**	**148,744**	**151,023**	**152,915**
Net Financial Worth[(d)]	**(128,986)**	**(144,746)**	**(152,965)**	**(152,944)**	**(153,063)**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total liabilities.

Table B.9: Non-financial public sector cash flow statement

	2019-20 Budget $m	2019-20 Revised $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m
Cash Receipts from Operating Activities					
Taxes Received	31,470	32,473	35,081	36,213	37,690
Receipts from Sales of Goods and Services	14,359	14,221	15,089	15,672	15,968
Grant and Subsidies Received	32,760	32,441	34,021	35,611	37,399
Interest Receipts	204	283	293	297	273
Dividends and Income Tax Equivalents	148	146	331	123	135
Other Receipts	11,327	9,221	9,722	9,181	9,056
Total Cash Receipts from Operating Activities	**90,268**	**88,786**	**94,537**	**97,097**	**100,521**
Cash Payments from Operating Activities					
Payments for Employees	(36,255)	(36,243)	(37,047)	(39,111)	(41,067)
Payments for Superannuation	(4,817)	(4,841)	(4,863)	(5,098)	(5,353)
Payments for Goods and Services	(22,474)	(23,177)	(24,006)	(24,394)	(24,924)
Grants and Subsidies Paid	(12,367)	(12,306)	(13,046)	(12,666)	(12,479)
Interest Paid	(2,788)	(2,796)	(3,294)	(3,399)	(3,583)
Other Payments	(5,383)	(4,107)	(4,631)	(3,599)	(3,559)
Total Cash Payments from Operating Activities	**(84,083)**	**(83,470)**	**(86,886)**	**(88,267)**	**(90,966)**
Net Cash Flows from Operating Activities	**6,185**	**5,316**	**7,651**	**8,830**	**9,555**
Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	1,823	786	1,545	2,019	1,866
Purchases of Non-Financial Assets	(25,801)	(25,787)	(24,236)	(22,014)	(19,294)
Net Cash Flows from Investments in Non-Financial Assets	**(23,978)**	**(25,001)**	**(22,691)**	**(19,995)**	**(17,428)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	127	1,348	2,259	487	349
Payments	(524)	(1,697)	(1,430)	(383)	(191)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(397)**	**(350)**	**829**	**104**	**158**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	9,333	9,156	6,735	3,582	1,285
Payments for Purchase of Investments	(2,745)	(3,228)	(2,677)	(1,428)	(2,285)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**6,587**	**5,928**	**4,058**	**2,155**	**(1,001)**
Net Cash Flows from Investing Activities	**(17,787)**	**(19,423)**	**(17,804)**	**(17,736)**	**(18,271)**
Cash Flows from Financing Activities					
Advances Received	170	204	171	16	31
Advances Repaid	(203)	(222)	(169)	(51)	(67)
Proceeds from Borrowings	10,042	14,133	11,644	11,149	10,240
Repayment of Borrowings	(1,642)	(1,525)	(1,874)	(2,568)	(1,465)
Deposits Received (net)	(14)	(82)	(8)	...	...
Net Cash Flows from Financing Activities	**8,353**	**12,508**	**9,765**	**8,546**	**8,738**
Net Increase/(Decrease) in Cash Held	**(3,250)**	**(1,600)**	**(387)**	**(360)**	**22**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	6,185	5,316	7,651	8,830	9,555
Net Cash Flows from Investments in Non-Financial Assets	(23,978)	(25,001)	(22,691)	(19,995)	(17,428)
Dividends Paid	...	...	...	...	...
Cash Surplus/(Deficit)	**(17,793)**	**(19,685)**	**(15,040)**	**(11,165)**	**(7,874)**

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C. VARIATIONS ON REVISED 2019-20 BUDGET

C.1 Revised 2019-20 Budget

The revised budget result for 2019-20 is a surplus of $702 million compared to a forecast surplus of $1.0 billion at the time of the 2019-20 Budget.

Total revenue in 2019-20 is estimated to be $84.2 billion, which is $158.6 million lower than the Budget estimate of $84.3 billion.

Total expenses in 2019-20 are estimated to be $83.5 billion, which is $155.5 million higher than the Budget estimate of $83.3 billion.

C.2 Operating statement

Total revenue in 2019-20 is estimated to be $158.6 million lower than the forecast at the time of the Budget, primarily reflecting lower than expected GST revenue, sale of goods and services and other revenue.

Key decreases to estimated revenue include:

- Grants and subsidies have been revised down by $336.9 million in 2019-20 primarily due to a $352.0 million downward revision of GST revenue, resulting from a lower national GST pool than forecast at the 2019-20 Commonwealth Budget
- Sale of goods and services has been revised down by $424.6 million partially due to a $206.4 million transfer of the Sydney Metro projects into the general government sector, resulting in lower fee for service revenue paid to Sydney Metro from the public non-financial corporation sector. The residual of the revision is mainly driven by a $162.7 million reclassification by the Department of Education, which has decreased sale of goods and services revenue and increased other revenue. The reclassification is to more accurately reflect the nature of the donations and contributions to NSW government schools
- Fines, regulatory fees and other revenue have been revised down by $121.0 million. This includes a fall of $185.0 million as a result of lower-than-expected mineral royalties. Softer demand for coal across Asian markets than forecast at Budget has lowered global coal prices, which has weighed on revenue. The downward revision also takes into account reduced motor traffic and infringement fines revenue. The residual of the revision is primarily offset by the reclassification of revenue by the Department of Education above and other minor adjustments across a range of agencies.

These decreases are partially offset by:

- Taxation has been revised up by $673.2 million in 2019-20 mainly due to a stronger outlook for residential and commercial property markets than expected at the 2019-20 Budget, resulting in a $645.8 million upward revision in transfer duty revenue.

Total expenses in 2019-20 are estimated to be $155.5 million higher than the Budget estimate, primarily due to increases in out-of-home care program grants, higher workers' compensation scheme costs and a number of other minor increases across a range of agencies. These increases have been partially offset by lower superannuation costs, due to updated actuarial valuations, as well as lower Interest expenses due to a reduced unwind of the outstanding workers' compensation claims liabilities discount rate than was expected at Budget.

C.3 Balance sheet

Net debt is estimated to be $12.9 billion at June 2020, a $0.5 billion increase compared to the Budget estimate. This is primarily due to new investment decisions, movements in capital expenditure for Sydney Metro projects and a new lease extension for the NSW Police Headquarters.

The state's net worth is estimated to decrease to $251.1 billion at June 2020. This represents a decrease of $15.9 billion since Budget attributable to the lower Commonwealth Government long-term bond rate, which led to an increase in the State's superannuation liabilities, and other factors associated with lower bond rates in the public financial corporation sector.

C.4 Cash flow statement

The state's forecast cash deficit is $14.2 billion, an increase in the cash deficit of $1.5 billion since the time of the Budget. The decrease in the cash result is due to a lower budget result compared to the 2019-20 Budget and the Government's continued investment in the delivery of essential infrastructure and services across New South Wales.

Table C.1: General government sector operating statement

	2018-19	2019-20				4 Months to 31/10/2019
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Revenue from Transactions						
Taxation	31,443	31,841	32,515	673	2.1	9,836
Grants and Subsidies						
- Commonwealth General Purpose	17,907	18,685	18,338	(348)	(1.9)	6,239
- Commonwealth Specific Purpose Payments	10,224	10,431	10,431	(0)	(0.0)	3,444
- Commonwealth National Partnership Payments	2,737	2,888	2,896	8	0.3	647
- Other Commonwealth Payments	414	372	397	25	6.8	173
- Other Grants and Subsidies	567	627	604	(23)	(3.6)	291
Sale of Goods and Services	8,990	9,762	9,337	(425)	(4.3)	2,715
Interest	491	333	368	35	10.4	129
Dividend and Income Tax Equivalents from Other Sectors	1,932	1,877	1,870	(7)	(0.4)	623
Other Dividends and Distributions	1,934	2,001	2,024	23	1.2	574
Fines, Regulatory Fees and Other	5,051	5,498	5,377	(121)	(2.2)	1,644
Total Revenue from Transactions	**81,690**	**84,316**	**84,157**	**(159)**	**(0.2)**	**26,315**
Expenses from Transactions						
Employee	33,158	34,266	34,311	44	0.1	11,591
Superannuation						
- Superannuation Interest Cost	1,412	1,079	877	(202)	(18.7)	353
- Other Superannuation	3,052	3,151	3,203	53	1.7	1,075
Depreciation and Amortisation	5,192	6,110	6,079	(31)	(0.5)	1,984
Interest	1,812	2,278	2,139	(138)	(6.1)	643
Other Operating	21,146	20,815	21,152	337	1.6	6,442
Grants, Subsidies and Other Transfer Expenses	14,700	15,602	15,694	92	0.6	4,889
Total Expenses from Transactions	**80,471**	**83,300**	**83,455**	**156**	**0.2**	**26,977**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,219**	**1,016**	**702**	**(314)**	**(30.9)**	**(662)**

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

	2018-19	2019-20				4 Months to 31/10/2019
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(2,500)	11	(339)	(350)	n.a.	(83)
Other Net Gains/(Losses)	13,700	435	381	(53)	(12.2)	365
Share of Earnings from Associates (excluding Dividends)	(1)	...	3	3	...	1
Dividends from Asset Sale Proceeds	(0)	(0)	(0)	0	84.1	...
Allowance for Impairment of Receivables	(69)	(38)	(53)	(15)	40.4	(18)
Deferred Income Tax from Other Sectors	(97)	15	15	(0)	(1.6)	5
Other	84	78	78	...	...	26
Discontinuing Operations - Other Economic Flows	(0)	...	...	...	...	...
Other Economic Flows - included in Operating Result	**11,117**	**501**	**85**	**(416)**	**(83.0)**	**296**
Operating Result	**12,335**	**1,517**	**787**	**(730)**	**(48.1)**	**(366)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(13,906)**	**3,503**	**158**	**(3,345)**	**(95.5)**	**(453)**
Revaluations	7,205	2,811	3,225	414	14.7	(257)
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result	(10)	...	...	...	...	...
Superannuation Actuarial Gain/(Loss)	(13,364)	1,953	(636)	(2,589)	(132.6)	639
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(7,888)	(1,346)	(2,504)	(1,157)	86.0	(835)
Deferred Tax Adjustment through Equity	151	85	72	(13)	(14.8)	...
Items that may be Reclassified Subsequently to Operating Result	**(353)**	**(97)**	**(48)**	**48**	**(50.0)**	**(45)**
Net Gain/(Loss) on Financial Instruments at Fair Value	19	...	...	...	...	(5)
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	(538)	...	...	...	...	...
Other	166	(97)	(48)	48	(50.0)	(40)
Other Economic Flows - Other Comprehensive Income	**(14,259)**	**3,406**	**109**	**(3,297)**	**(96.8)**	**(497)**
Comprehensive Result - Total Change in Net Worth	**(1,925)**	**4,923**	**896**	**(4,027)**	**(81.8)**	**(863)**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**(1,925)**	**4,923**	**896**	**(4,027)**	**(81.8)**	**(863)**
Less: Net Other Economic Flows	3,142	(3,907)	(194)	3,713	(95.0)	201
Equals: Budget Result - Net Operating Balance	**1,219**	**1,016**	**702**	**(314)**	**(30.9)**	**(662)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets	16,464	19,855	20,586	731	3.7	5,085
Sales of Non-Financial Assets	(966)	(1,031)	(814)	217	(21.1)	(67)
Less: Depreciation	(5,192)	(6,110)	(6,079)	31	(0.5)	(1,984)
Plus: Change in Inventories	38	(17)	(85)	(68)	407.4	9
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases	159	2,490	3,096	606	24.3	232
- Other	(4)	336	349	13	4.0	162
Equals: Total Net Acquisition of Non-Financial Assets	**10,498**	**15,523**	**17,054**	**1,531**	**9.9**	**3,436**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(9,280)**	**(14,507)**	**(16,352)**	**(1,845)**	**12.7**	**(4,098)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(a)]	16,623	22,345	23,683	1,337	6.0	5,317

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising leases.

Table C.2: General government sector balance sheet

	June 2019	June 2020				4 Months to 31/10/2019
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	1,969	1,050	1,196	146	13.9	1,451
Receivables	7,491	7,069	7,731	662	9.4	7,972
Tax Equivalents Receivable	32	29	16	(13)	(46.1)	13
Investments, Loans and Placements						
Financial Assets at Fair Value	43,333	34,618	38,092	3,473	10.0	42,992
Other Financial Assets	2,591	1,827	2,793	965	52.8	2,836
Advances Paid	1,193	1,265	1,454	189	14.9	1,230
Deferred Tax Equivalent Assets	2,245	2,294	2,329	35	1.5	2,249
Equity						
Investments in Other Public Sector Entities	98,990	108,612	103,983	(4,629)	(4.3)	103,131
Investments in Associates	12,055	12,689	12,082	(607)	(4.8)	12,004
Other Equity Investments	8	0	8	7	n.a.	8
Total Financial Assets	**169,907**	**169,454**	**169,682**	**228**	**0.1**	**173,886**
Non- Financial Assets						
Inventories	399	298	312	14	4.7	414
Forestry Stock and Other Biological Assets	10	9	10	0	5.1	10
Assets Classified as Held for Sale	222	276	341	65	23.4	205
Property, Plant and Equipment						
Land and Buildings	89,963	96,897	98,093	1,196	1.2	93,326
Plant and Equipment	12,088	11,692	13,277	1,585	13.6	12,697
Infrastructure Systems	119,291	129,273	127,042	(2,231)	(1.7)	117,197
Intangibles	3,694	3,446	3,723	278	8.1	3,641
Other Non-Financial Assets	6,707	8,936	9,374	438	4.9	8,035
Total Non- Financial Assets	**232,375**	**250,826**	**252,172**	**1,345**	**0.5**	**235,524**
Total Assets	**402,282**	**420,280**	**421,853**	**1,573**	**0.4**	**409,410**
Liabilities						
Deposits Held	67	93	9	(85)	(90.7)	68
Payables	7,079	7,273	7,314	41	0.6	6,195
Tax Equivalents Payable	3	15	22	7	46.8	3
Borrowings and Derivatives at Fair Value	207	147	259	112	75.9	265
Borrowings at Amortised Cost	37,656	50,091	55,318	5,227	10.4	47,332
Advances Received	756	783	816	33	4.2	764
Employee Provisions	20,802	19,820	21,576	1,756	8.9	21,067
Superannuation Provision [(a)]	67,696	58,731	67,799	9,068	15.4	66,948
Deferred Tax Equivalent Provision	108	122	113	(9)	(7.3)	107
Other Provisions	11,604	10,556	11,406	850	8.0	11,632
Other Liabilities	6,134	5,701	6,153	452	7.9	5,722
Total Liabilities	**152,110**	**153,334**	**170,785**	**17,451**	**11.4**	**160,102**
NET ASSETS	**250,172**	**266,946**	**251,068**	**(15,878)**	**(5.9)**	**249,308**
NET WORTH						
Accumulated Funds	74,341	87,986	74,517	(13,469)	(15.3)	75,446
Reserves	174,804	178,960	176,551	(2,409)	(1.3)	173,862
TOTAL NET WORTH	**250,172**	**266,946**	**251,068**	**(15,878)**	**(5.9)**	**249,308**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**(10,401)**	**12,354**	**12,867**	**513**	**4.2**	**(81)**
Net Financial Liabilities [(c)]	**81,194**	**92,493**	**105,086**	**12,594**	**13.6**	**89,347**
Net Financial Worth [(d)]	**17,797**	**16,119**	**(1,104)**	**(17,223)**	**(106.8)**	**13,784**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.
(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.
(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(d) Net financial worth equals total financial assets minus total financial liabilities.

Table C.3: General government sector cash flow statement

	2018-19	2019-20				4 Months to 31/10/2019
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Cash Receipts from Operating Activities						
Taxes Received	31,020	31,954	32,949	995	3.1	9,513
Receipts from Sales of Goods and Services	9,360	10,249	9,764	(485)	(4.7)	2,748
Grant and Subsidies Received	31,810	32,859	32,553	(306)	(0.9)	10,473
Interest Receipts	518	235	287	52	22.1	100
Dividends and Income Tax Equivalents	1,897	1,714	1,820	106	6.2	522
Other Receipts	12,226	10,283	8,461	(1,822)	(17.7)	3,489
Total Cash Receipts from Operating Activities	**86,830**	**87,295**	**85,834**	**(1,460)**	**(1.7)**	**26,845**
Cash Payments from Operating Activities						
Payments for Employees	(31,896)	(33,794)	(33,903)	(109)	0.3	(11,457)
Payments for Superannuation	(4,325)	(4,567)	(4,614)	(47)	1.0	(1,525)
Payments for Goods and Services	(20,873)	(20,661)	(20,800)	(139)	0.7	(7,133)
Grants and Subsidies Paid	(13,739)	(14,997)	(15,010)	(13)	0.1	(4,753)
Interest Paid	(1,455)	(1,868)	(1,892)	(24)	1.3	(586)
Other Payments	(7,213)	(4,714)	(3,624)	1,090	(23.1)	(2,633)
Total Cash Payments from Operating Activities	**(79,502)**	**(80,602)**	**(79,843)**	**759**	**(0.9)**	**(28,088)**
Net Cash Flows from Operating Activities	**7,328**	**6,693**	**5,991**	**(702)**	**(10.5)**	**(1,244)**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	452	1,120	523	(597)	(53.3)	123
Purchases of Non-Financial Assets	(18,087)	(20,525)	(20,703)	(179)	0.9	(5,384)
Net Cash Flows from Investments in Non-Financial Assets	**(17,635)**	**(19,404)**	**(20,180)**	**(776)**	**4.0**	**(5,260)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	18,026	158	1,379	1,220	770.9	1,223
Payments	(2,341)	(3,190)	(4,475)	(1,285)	40.3	(1,761)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**15,685**	**(3,032)**	**(3,096)**	**(65)**	**2.1**	**(539)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	10,029	9,145	8,917	(227)	(2.5)	2,590
Payments for the Purchase of Investments	(23,904)	(2,727)	(3,234)	(507)	18.6	(1,900)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(13,875)**	**6,417**	**5,683**	**(734)**	**(11.4)**	**690**
Net Cash Flows from Investing Activities	**(15,825)**	**(16,019)**	**(17,594)**	**(1,575)**	**9.8**	**(5,109)**
Cash Flows from Financing Activities						
Advances Received	56	170	204	34	19.9	69
Advances Repaid	(125)	(203)	(222)	(19)	9.5	(41)
Proceeds from Borrowings	5,561	8,192	12,043	3,851	47.0	6,278
Repayment of Borrowings	(612)	(1,323)	(1,209)	113	(8.6)	(471)
Deposits Received - Net	19	2	(58)	(60)	n.a.	1
Other Financing Receipts/ (Payments)	151	85	72	(13)	(14.8)	(0)
Net Cash Flows from Financing Activities	**5,050**	**6,923**	**10,830**	**3,906**	**56.4**	**5,835**
Net Increase/(Decrease) in Cash Held	**(3,448)**	**(2,403)**	**(773)**	**1,630**	**(67.8)**	**(518)**
Derivation of Cash Result						
Net Cash Flows From Operating Activities	7,328	6,693	5,991	(702)	(10.5)	(1,244)
Net Cash Flows from Investments in Non-Financial Assets	(17,635)	(19,404)	(20,180)	(776)	4.0	(5,260)
Cash Surplus/(Deficit)	**(10,307)**	**(12,711)**	**(14,189)**	**(1,478)**	**11.6**	**(6,504)**

D. ECONOMIC SCENARIO ANALYSIS

The 2019-20 Half-Yearly Review relies on forecasts and judgements about the future of the economy, based on information available at the time of preparation. These forecasts are subject to some inherent uncertainties such as changes in behaviours, evolving relationships between variables and unexpected events or shocks.

This appendix explores the impact of variations in some key economic parameters on other areas of the economy, the overall macroeconomic outlook and general government tax revenues. This is intended to provide a greater insight into the interdependencies within our complex economy, that a partial sensitivity analysis does not capture.

These scenarios were selected to cover plausible economic events that could affect New South Wales over the forecast horizon. The modelling takes account of linkages between key international, Australian and New South Wales economic aggregates.

The summary of the results should be interpreted with care as economic events tend to be unique in nature, with the scenarios presented in this appendix unlikely to completely reflect any future shock on the State economy. Any departures from the specified scenario would result in different impacts on the economic and revenue outlook.

D.1 Impact of variations in key forecast assumptions

This scenario analysis is intended to complement the central economic outlook as presented in Chapter 2 by quantifying some of the key risks to the overall narrative. Two scenarios were considered: an increase in public demand; and a slowdown in China's economic growth.

The economic and revenue impact of these scenarios was modelled using the Centre of Policy Studies (CoPS), Victoria University Regional Model Tax (VURMTAX)[14] and presented as a deviation from the baseline.

[14] VURMTAX is a dynamic computable general equilibrium model of Australia's six states and two territories, with each region modelled as an economy in its own right. See Adams, Philip, Dixon, Janine and Horridge, Mark (2015), 'The Victoria University Regional Model (VURM): Technical Documentation, Version 1.0', CoPS/IMPACT Working Paper Number G-254 for more detail on the model.

Slowdown in China's economic growth

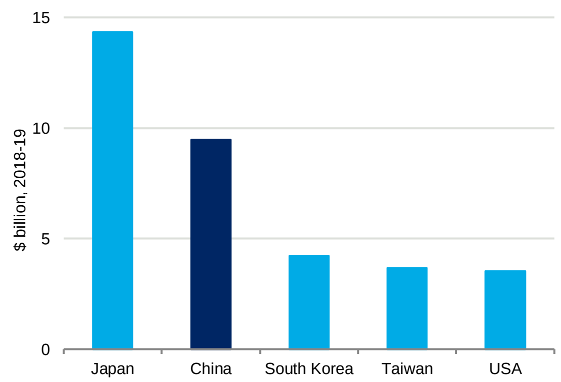
China has experienced strong economic growth over the past fifteen years, with Gross Domestic Product (GDP) growth averaging around 9 per cent per annum over this period. The rapid economic development in China has meant that it is now the second largest destination for New South Wales' goods exports (see Chart D.1) and the largest source of international visitors and international students to New South Wales (see Chart D.2).

Current forecasts assume that China's economic growth averages between 5½ to 6 per cent per annum over the next four years, consistent with the International Monetary Fund's latest *World Economic Outlook*.

This scenario assumes that China's level of real GDP declines by 5 percentage points relative to the baseline forecast due to some unspecified negative shock. Through the year economic growth in China troughs at 2 per cent after the first year, compared with a baseline forecast of around 6 per cent. Economic growth in China returns to its pre-crisis level after two years, but the level of real GDP remains permanently lower. This negative shock could stem from a downturn in the property market in China, an external demand shock, a disruption in the financial system in China, or some combination of these factors.

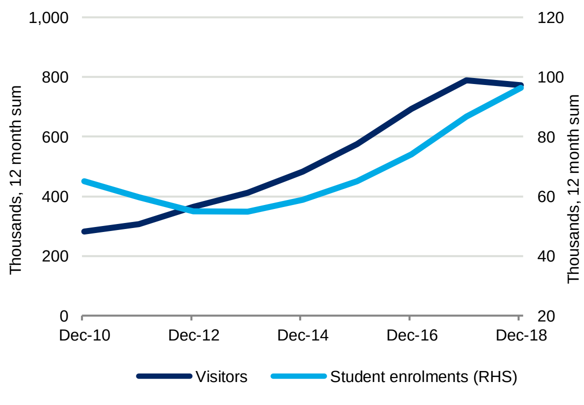
The foreign currency price of key Australian commodity exports including coal, iron ore and non-ferrous ores (e.g. copper, alumina, and aluminium) are assumed to experience large falls in response to weaker demand from China. This scenario also assumes that the volume of national resource exports remains unchanged, despite the reduction in foreign demand, as Australian commodity producers are relatively efficient, low-cost and high-quality producers – overseas competitors that are further along the cost curve are likely to be first to close down production as commodity prices decline.[15]

Chart D.1: China is a major destination for NSW goods exports



Source: ABS 5368.0 and NSW Treasury

Chart D.2: Chinese visitors and students to NSW



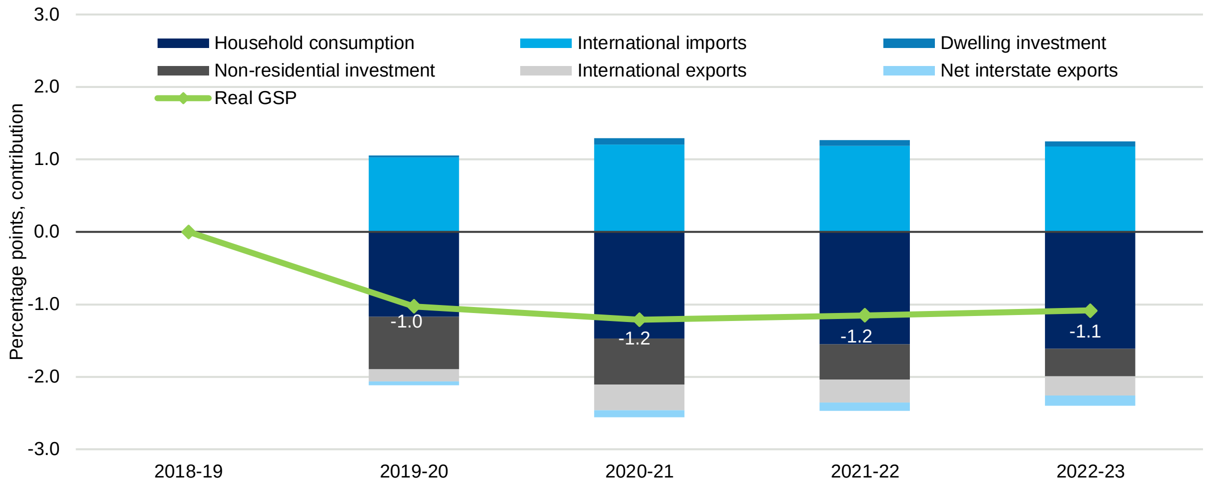
Source: Destination NSW, Commonwealth Department of Education and Training and NSW Treasury

Macroeconomic impact over the Budget and forward estimates

The assumed shock to the Chinese economy would have adverse impacts for New South Wales (see Table D.1). The results indicate that the peak impact on GSP occurs after two years, with the real economy around 1¼ per cent smaller than baseline – remaining around 1 per cent lower after four years (see Chart D.3). The deterioration mainly reflects weaker household consumption, investment and exports, although a large fall in imports provides a partial offset (details below).

15 The specification of this scenario is similar but not identical to Guttman et al (2019), *'Spillovers to Australia from the Chinese Economy'*, RBA Bulletin, June, pp 87–110.

Chart D.3: Lower household consumption, investment and exports drive the decline in gross state product



Source: CoPS, Victoria University and NSW Treasury

Slower economic growth in China translates into a negative shock to foreign demand for Australian (and New South Wales) exports, weighing on both export volumes and prices – namely commodity prices (lowering the terms of trade). The resulting depreciation of the Australian dollar helps to cushion some of the impact on foreign demand, by improving Australia's international competitiveness.

Income in New South Wales and nationally declines due to the large reduction in the terms of trade, while non-residential investment also falls given lower expected rates of return on capital – given the impact of lower commodity prices on profitability. These responses then weigh on the demand for labour, causing employment to fall by around 1½ per cent within one year (relative to baseline), with the unemployment rate rising by a similar magnitude.

Household consumption declines significantly, which is consistent with lower household income. Lower household income mainly reflects a decline in labour income from weaker employment and a decline in real wages. However, the lower rate of return on capital will also drive weaker capital income for households such as dividends.

Partially offsetting the impact of these declines on economic growth is a large fall in international imports. The fall in imports is driven by the decline in household consumption and investment, as well as a substitution away from imports as the lower Australian dollar makes them more expensive.

Table D.1: The effect of a slowdown in China on major economic parameters

Financial year estimate[a]	2019-20	2020-21	2021-22	2022-23
State final demand	(1.9)	(2.0)	(1.9)	(1.9)
Gross state product	(1.0)	(1.2)	(1.2)	(1.1)
Employment	(1.6)	(1.7)	(1.5)	(1.3)
Unemployment rate	1.4	1.3	1.0	0.7
Consumer price index	0.0	(0.1)	(0.1)	(0.1)
Nominal wages	(0.1)	(0.8)	(1.3)	(1.6)
Working age population	...	(0.1)	(0.1)	(0.1)

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

The weaker economic outlook flows through to substantially lower tax revenue (see Table D.2). Payroll tax collections fall because employment and wages decline. Land tax collections and residential transfer duty collections are lower due to falls in land values and property transactions. Coal royalties are largely unchanged, with the large depreciation of the Australian dollar offsetting the decline in the foreign currency price of coal, while coal export volumes are largely unchanged in this scenario. GST receipts fall because national household consumption is weaker.

Table D.2: The effect of a slowdown in China on major revenue parameters

Financial year estimate[(a)] ($, million)	2019-20	2020-21	2021-22	2022-23
Payroll tax	(185)	(253)	(284)	(311)
Land tax	...	(212)	(278)	(292)
Transfer duty	(144)	(197)	(214)	(221)
Coal royalties	24	24	22	22
Other tax revenues	(87)	(109)	(116)	(123)
GST revenue	(288)	(329)	(366)	(399)
Total tax revenues	(680)	(1,075)	(1,236)	(1,324)

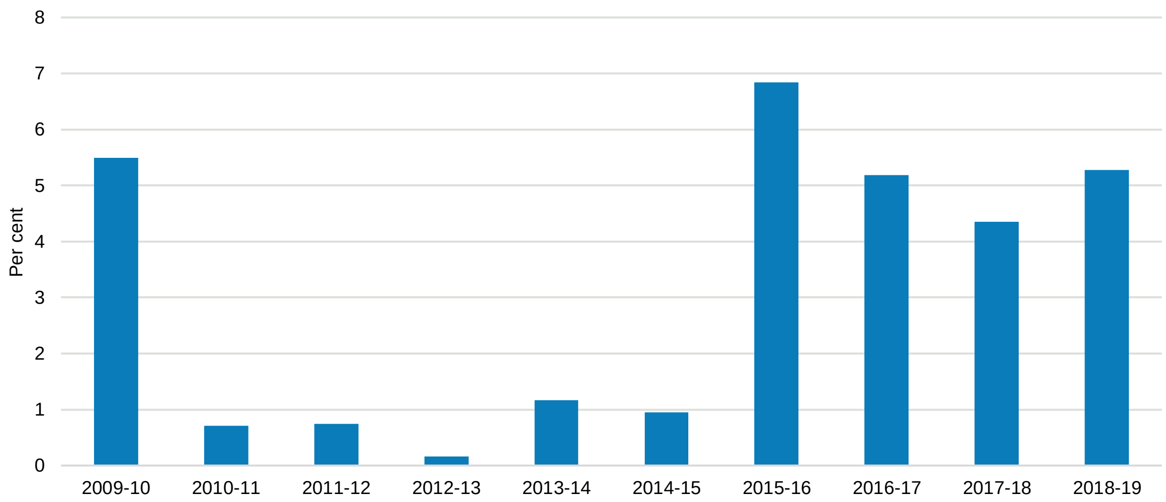
(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Increase in public demand

Public demand has been a strong contributor to economic growth in New South Wales in recent years (see Chart D.4). That has reflected the State's record public infrastructure program, while Commonwealth expenditure has also increased due to the rollout of the National Disability Insurance Scheme and the National Broadband Network.

Chart D.4: Growth in public demand has been strong in recent years[16]



Source: ABS 5220.0 and NSW Treasury

A high level of public investment, combined with strength in private investment, has led to some reports that capacity constraints are emerging in New South Wales, including skill shortages in some areas. This has raised concerns around cost escalation, and the ability to deliver additional infrastructure projects in the current environment.

[16] Underlying public demand in New South Wales, assuming all second-hand asset transfers are with the public sector.

Based on an analysis of budget papers, current forecasts assume that public demand will continue to be a strong contributor to the State's economic growth over the next two years.

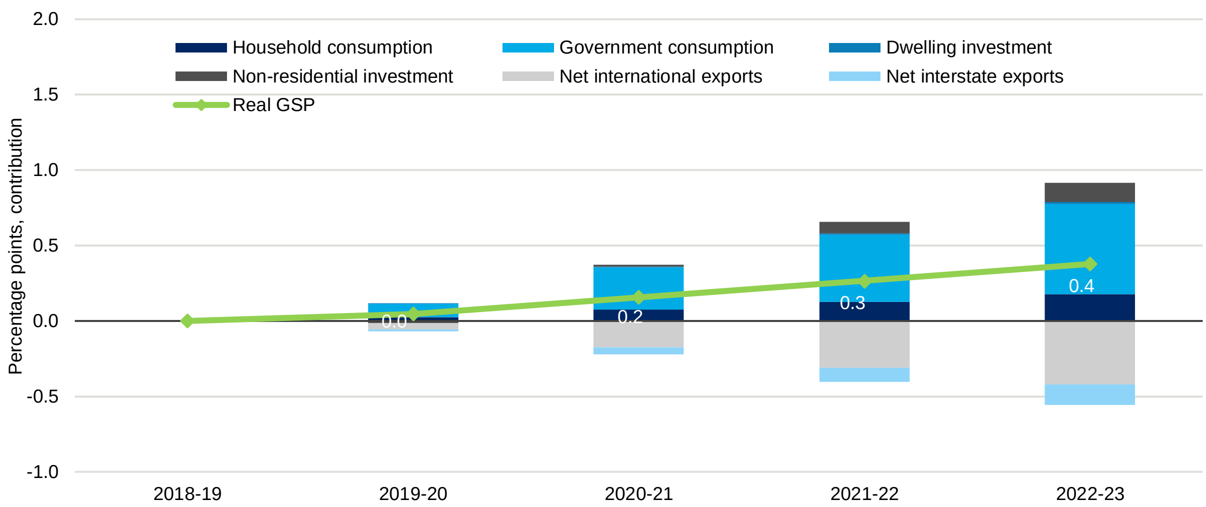
In this modelling scenario, it is assumed that there is a further increase in public demand in New South Wales of $6.0 billion over four years, equivalent to around a ¼ per cent of nominal Gross State Product (GSP) each year on average.

The scenario is modelled by assuming an increase in State Government consumption of civil engineering and non-residential construction services in New South Wales. It is also assumed that this increase in public expenditure is productivity enhancing, with each additional dollar of public expenditure providing an annuity of 0.15 dollars.[17] This rate of return is accommodated via an improvement in state-wide primary factor productivity.

Macroeconomic impact over the Budget and forward estimates

The increase in public demand has a positive impact on the New South Wales economy. The increase in real GSP is close to ½ of a per cent after four years (see Chart D.5). This is the result of increases in government consumption, household consumption, and investment, partially offset by a fall in net exports.

Chart D.5: Lower net exports partially offset the increase in gross state product



Source: CoPS, Victoria University and NSW Treasury

The increase in government consumption is the largest contributor to economic growth in this scenario. In addition, higher public spending fuels the demand for labour, which lifts employment and increases the real wage. Higher employment and real wages – meaning an increase in household income – contribute to additional household consumption, while also supporting a small increase in dwelling investment.

Non-residential investment is initially slightly lower (relative to baseline) due to a 'crowding out' effect, as the increase in government consumption competes with the private sector for scarce resources related to civil engineering and non-residential construction services. However, non-residential investment increases (relative to baseline) by the end of the four years as higher levels of productivity and employment, brought about by public spending, encourages additional private investment. The population also increases as interstate migrants move to New South Wales in response to the stronger economic performance and higher real wage in New South Wales.

[17] This is equivalent to the assumption adopted in Giesecke, J. A., P. B. Dixon, and M. T. Rimmer (2008). Regional macroeconomic outcomes under alternative arrangement for the financing of public infrastructure. Papers in Regional Science 87 (1), pp. 3 - 31.

Stronger levels of government consumption and non-residential investment lead to an increase in civil engineering and construction costs of around 0.4 per cent after four years, and broader measures of inflation are also higher in the scenario in New South Wales.

The main detractors from growth in this scenario are net international and interstate exports. The increase in the real wage pushes up the cost of production, which is reflected in higher export prices and an appreciation of the Australia dollar. In turn, there is a reduction in both international and interstate exports. Meanwhile, the strength in domestic demand is associated with a higher level of imports from both interstate and overseas, with the higher Australian dollar also driving a higher level of imports.

Table D.3: The effect of an increase in public demand on major economic parameters

Financial year estimate[(a)]	2019-20	2020-21	2021-22	2022-23
State final demand	0.1	0.4	0.7	0.9
Gross state product	0.0	0.2	0.3	0.4
Employment	0.0	0.1	0.2	0.3
Unemployment rate	(0.0)	(0.1)	(0.1)	(0.1)
Consumer price index	0.0	0.1	0.2	0.2
Nominal wages	0.0	0.1	0.3	0.4
Working age population	...	0.0	0.1	0.1

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

The stronger domestic demand profile flows through into higher tax revenue (see Table D.4). Payroll tax collections are higher because employment and nominal wages rise. Land tax collections and property transfer duty collections are higher due to rising land values and more property transactions. Coal royalties are largely unchanged in this scenario. GST receipts are higher because higher household consumption raises the national GST pool, while a higher share of the national population increases the NSW share of the national GST pool.[18]

Table D.4: The effect of an increase in public demand on major revenue parameters

Financial year estimate[(a)] ($, million)	2019-20	2020-21	2021-22	2022-23
Payroll tax	8	31	58	85
Land tax	...	6	20	32
Transfer duty	4	14	26	37
Coal royalties	(1)	(4)	(8)	(11)
Other tax revenues	2	11	21	30
GST revenue	3	10	15	20
Total tax revenues	16	67	131	192

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

[18] Note that the modelling of the state shares of the GST pool is based only on population shares and does not incorporate a more detailed modelling of state relativities. Any increase in GST revenue associated with a higher NSW population is likely to have an offsetting increase in expenditure in order to provide services to a higher population.

NSW GOVERNMENT

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