Budget Statement

2015-16

NSW

Budget Paper No. 1

Circulated by The Hon. Gladys Berejiklian MP, Treasurer,
and Minister for Industrial Relations

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Chart and Table List

About this Budget Paper

Purpose and Scope

Budget Paper No. 1 Budget Statement provides information on State finances in aggregate. The objectives of this paper are to:

- inform Parliament and the public of the State's fiscal position and the Government's fiscal strategy
- meet requirements under s. 27AA of the *Public Finance and Audit Act 1983*, which prescribes the content of Budget Papers, including providing four-year projections of all major economic and financial variables, and revised estimates for the preceding Budget year and explanations of any significant variations
- meet requirements under s.8 of the *Fiscal Responsibility Act 2012*, including providing a statement of the Government's fiscal strategy, a report on performance against the fiscal object, targets and principles contained in the Act, and a report on the impact of any budget measures on the State's long-term fiscal gap
- enable interstate comparisons by reporting within the Australian Bureau of Statistics Government Finance Statistics framework.

The scope of the Budget is the General Government Sector. However, this Budget Paper also includes information on the Total State Sector and the Estimated Financial Statements for the Public Trading Enterprise and Non-Financial Public Sector. This is to provide a comprehensive picture of the State's fiscal position and strategy, relevant not only to Parliament but also to other interested parties such as credit rating agencies.

The Government has identified a number of priority projects for which it has reserved Restart NSW funding. Funding has been reserved with a view to a future Restart NSW commitment at which time it will be included in the budget aggregates following further project development and completion of project assurance processes, including final business case approval.

Improvements in financial reporting

The NSW Government is committed to improving transparency in Budget reporting. In this Budget the Government has restructured the papers to increase the readability for the general public while still meeting the transparency and accountability requirements of the State. To further improve financial reporting, it is intended that the 2016-17 Budget will include a comprehensive statement reflecting the decisions of Government.

The Treasurer has again requested that the Auditor-General review the reasonableness of the estimates and forecasts in the 2015-16 Budget. A copy of the Independent Assurance Practitioner's Report from the review is printed within the covers of this Budget Paper.

Changes to reporting entities

The majority of changes to reporting entities included in the 2015-16 Budget are as a result of administrative change orders following the 2015 State election.

On 2 April 2015:

- the *Administrative Arrangements (Administrative Changes–Ministers) Order 2015* commenced
- the *Administrative Arrangements (Administrative Changes–Public Service Agencies) Order 2015* was introduced to take effect from 1 July 2015
- the *Allocation of the Administration of Acts* was updated to reflect the new Ministerial arrangements under the re-elected Government.

The *Administrative Arrangements (Administrative Changes-Public Service Agencies) Order (No. 2) 2015* was introduced on 27 May 2015, repealing the Order of 2 April, to take effect from 1 July 2015. The *Administrative Arrangements (Administrative Changes-Ministers) Amendment Order 2015* was also introduced on 27 May 2015, amending the previous order.

The *Allocation of the Administration of Acts* was subsequently amended on 29 May 2015 to reflect these further changes to entity and ministerial oversight arrangements.

As part of these revised arrangements the Department of Trade and Investment, Regional Infrastructure and Services will be abolished and the Department of Industry, Skills and Regional Development established. The name of the Office of Finance and Services will change to the Department of Finance, Services and Innovation and the Department will lead its own cluster. The Ministry for Police and Emergency Services will be abolished and transferred to the Department of Justice. The name of the Department of Education and Communities is changed to the Department of Education.

Further details of all function transfers and agency name changes under the revised administrative arrangements and other legislative changes are detailed in Budget Paper No 3.

Notes

- The Budget year refers to 2015-16, while the forward estimates period refers to 2016-17, 2017-18 and 2018-19. Figures in tables, charts and text have been rounded. Discrepancies between totals and the sum of components reflect rounding:
  - estimates under $100,000 are rounded to the nearest thousand
  - estimates midway between rounding points are rounded up.
  - percentages are based on the underlying unrounded values.
- For the budget result, parentheses indicate a deficit while no sign indicates a surplus.
- One billion equals one thousand million.
- The following notations are used:
  - n.a. means data is not available
  - N/A means not applicable
  - no. means number
  - 0 means not zero, but rounded to zero
  - … means zero
  - thous means thousand
  - $m means millions of dollars
  - $b means billions of dollars.
- Differences between harmonised Government Finance Statistics (GFS) Generally Accepted Accounting Principles (GAAP) information, as shown in the Budget Papers, and pure GFS information, as reported by the Australian Bureau of Statistics, are known as convergence differences. Such differences are not departures from Accounting Standards but merely variations in measurement or treatments between GAAP and GFS frameworks. Details of these main convergence differences, between GAAP and GFS, are explained in Appendix B.
- Unless otherwise indicated, the data source for tables and charts is Treasury.

Chapter 1: Overview

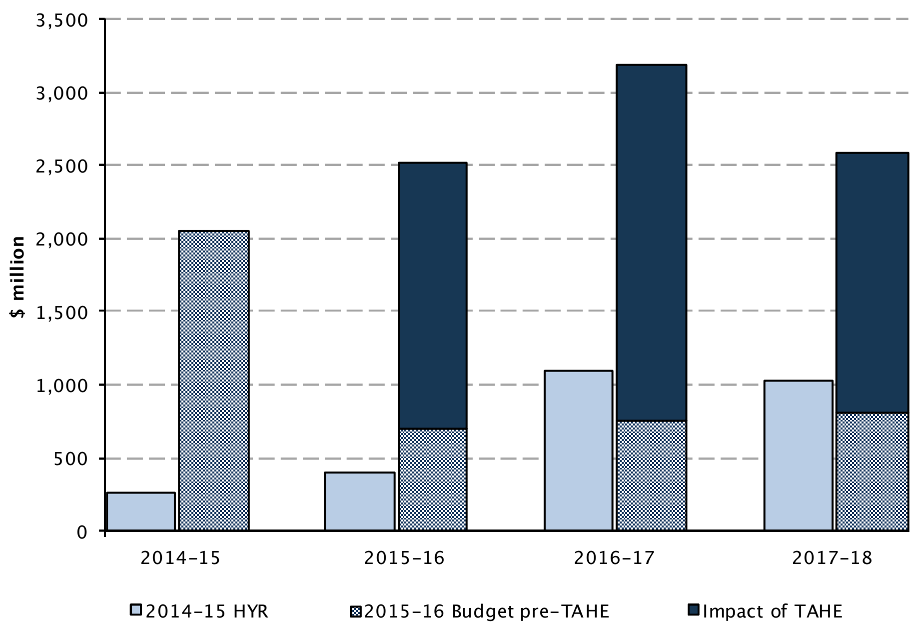
1.1 Introduction

The Government is committed to building a better future for New South Wales. A future built on record investment in infrastructure and services, sound financial management and building strong communities by taking care of the State's most vulnerable. This Budget delivers these commitments against the background of a growing economy and a strengthening fiscal position. The national shift away from mining towards more diversified, broader-based growth has benefited the NSW economy allowing it to outperform the Australian economy over the past year, and putting it on track for above trend growth over the next couple of years.

The Government's hard work of recent years is reflected in an enviably strong fiscal position. The budget is back in surplus, and further surpluses are projected over the forward estimates. The State's triple-A credit rating has been affirmed. This strong fiscal position enables the Government to focus on delivering better services and infrastructure that will support jobs and lock in future prosperity taking New South Wales to the next level.

This Budget forecasts a $2.5 billion surplus in 2015-16, with continuing surpluses over the forward estimates. From 1 July 2015, a new Transport Asset Holding Entity (TAHE) will be established to streamline the delivery of public transport asset management (see Box 1.1). This results in changes to funding arrangements with positive budget result impacts. Before the TAHE impact, the 2015-16 surplus is estimated at $712.6 million with rising surpluses over the forward estimates. Chart 1.1 sets out changes in the budget result since the 2014-15 Half-Yearly Review.

Chart 1.1: Change in Budget Result since 2014-15 Half-Yearly Review



Box 1.1 Transport Asset Holding Entity

Since November 2011, the Government has undertaken reforms to the delivery of public transport services. These reforms include the establishment of Transport for New South Wales (TfNSW), Sydney Trains and NSW TrainLink for the delivery of transport services to customers. The 2015-16 Budget builds on these reforms with the creation of a dedicated asset manager, the TAHE, from 1 July 2015. TAHE will eventually hold all of the public transport assets for the State. The Government first flagged its intention to create a TAHE in the 2013-14 Half-Yearly Review. In accordance with Government Finance Statistics (GFS) classification, the Australian Bureau of Statistics has classified TAHE as a commercial Public Non-Financial Corporation (PNFC). This GFS framework applies to all State governments and the ABS independently determines in which sector a government entity belongs. Queensland and Victoria have similar entities.

TAHE will procure and sell assets consistent with Government requirements and lease those assets to the operators (both Government and non-Government) under negotiated leases and other contracts. As a result, public transport assets will, in time, be managed on a portfolio basis, generating greater efficiencies and synergies.

Until now, the Government has paid recurrent grants to Rail Corporation to deliver its capital program. From 1 July 2015, new funding for capital projects will be provided by equity injections, as TAHE will over time provide a commercial return. TAHE will use these funds to purchase services from TfNSW and this will result in the recognition of increased revenue in the General Government Sector (GGS) and a reduction in GGS capital expenditure. Table 1.1 provides a detailed reconciliation of the impact of this arrangement across the forward estimates.

Table 1.1: Reconciliation of TAHE Impact

	2015-16	2016-17	2017-18	2018-19
	Budget	Forward Estimates		
	$m	$m	$m	$m
Budget Result Prior to TAHE	713	756	811	895
Impact of TAHE on budget result				
Revenue				
Sale of Goods and Services	1,865	2,254	1,643	1,177
Total Impact on Revenue	1,865	2,254	1,643	1,177
Expenses				
Other Operating Expenses	1,865	2,256	1,645	1,178
Current Grants and subsidies	(1,807)	(2,440)	(1,780)	(1,363)
Total Impact on Expenses	58	(184)	(136)	(185)
Total Impact on Budget Result	1,807	2,438	1,778	1,362
Budget Result	2,520	3,194	2,590	2,257
Other Impacts				
Capital Expenditure	(1,865)	(2,196)	(1,562)	(1,091)
Investment in Other Public Sector Entities	1,865	2,196	1,562	1,091
Reserves	(1,865)	(2,196)	(1,562)	(1,091)

Over the longer term, the delivery of new projects can also be directly contracted between TAHE and the private sector and TAHE will commence paying dividends to the Government. Projected revenues are expected to return close to pre-TAHE levels and expenses will reduce as the costs will be contained in the PNFC sector. This allows for greater transparency of procurement and project management costs.

The 2015-16 Budget delivers on the Government's priorities of rebuilding New South Wales and making the State a better place to live and work. This Budget fully delivers the Government's election commitments including additional frontline staff. Supported by the Government's highly effective asset recycling strategy of recent years, this Budget addresses the State's significant infrastructure backlog through a record level of capital expenditure of $36 billion in the GGS. In total, this Budget provides capital investment of $68.6 billion committed in the four years to 2018-19 spread across the GGS and PNFCs.

This will address congestion and, by getting the State moving, will unlock future productivity improvements. Infrastructure spending will be further boosted in the future by the $20 billion Rebuilding NSW package, made possible through the partial lease of the State's electricity network. Under standard budgeting conventions, proceeds from the partial lease will not be accounted for until the transaction contract has been signed. While the Rebuilding NSW capital program is not included in this Budget, the 2015-16 Budget does fund the acceleration of a number of key Rebuilding NSW initiatives so work can be progressed and contribute to a strong and vibrant NSW economy.

1.2 Fiscal Outlook

The fiscal outlook for New South Wales remains strong as evidenced through Standard & Poor's upgrade of the State's triple-A outlook from negative to stable in October 2014. Table 1.2 shows the 2015-16 Budget Result pre- and post-TAHE.

Table 1.2: 2015-16 Budget Result

	2015-16	2016-17	2017-18	2018-19
	Budget	Forward Estimates		
	$m	$m	$m	$m
Budget Result (Post-TAHE)	2,520	3,194	2,590	2,257
Budget Result (Pre-TAHE)	713	756	811	895

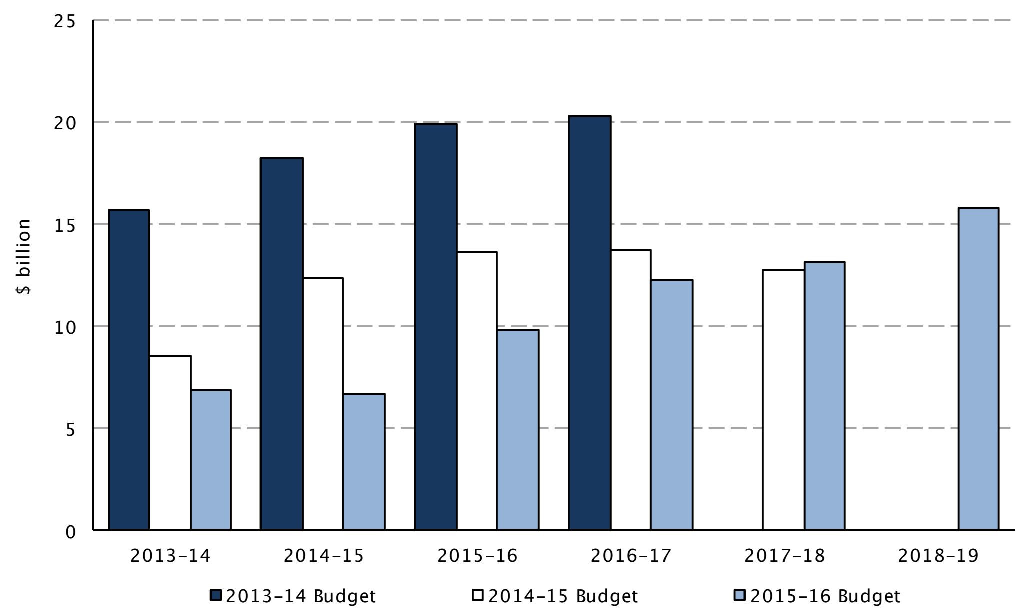
A key driver in delivering these strong results continues to be effective expense growth management. Over the five years to 2014-15, expense growth has been constrained to 3.5 per cent, with an average 2.8 per cent projected over the four years to 2018-19. While tightly managing expenses, the Government has nonetheless committed to a number of new initiatives in this Budget including increasing frontline staff in police, hospitals and schools.

With the resilience provided by a budget in surplus and expenses under control, the Government is well-placed to tackle any headwinds in future revenues. Stronger revenues in 2014-15 were boosted by higher-than-expected transfer duty receipts associated with the buoyant property market, some re-profiling of Commonwealth grants, as well as distributions from government businesses. From 2015-16, growth in revenues is expected to be more subdued, with current projections for revenues to grow by only 2.8 per cent on average over the budget and forward estimates period.

Revenues are being weighed down by a substantial loss in dividends from government businesses following the Australian Energy Regulator (AER) determinations, and a loss in Goods and Services Tax (GST) revenues, following a reduction in New South Wales's GST relativity. The lower relativity has been driven by the relative strength of the NSW economy and weaknesses in the mining states of Western Australia and Queensland. While transfer duties are still expected to make a contribution to revenue growth, uncertainty remains around the length of the current housing cycle and the influence of historically low interest rates. Revenues from 2015-16 onwards will also be impacted by the establishment of TAHE (see Box 1.1).

Continuing surpluses and the Government's asset recycling strategy have enabled increased investment in infrastructure while keeping net debt at manageable levels (see Chart 1.2). Net debt levels at the end of June 2015 are expected to be $6.7 billion or 1.3 per cent of Gross State Product (GSP). The level of net debt is considerably lower than forecast in last year's Budget, and has benefitted from asset sale proceeds over the past year and a better-than-expected budget result in 2014-15. Consistent with the unfolding of the asset recycling strategy, as the asset sale proceeds are reinvested into capital expenditure, net debt over the forward estimates will increase to 2.6 per cent of GSP at the end of June 2019. This is in the absence of recognising the proceeds from the partial lease of the State's electricity network. Proceeds of the partial lease of the electricity network will reduce net debt when the transaction is recognised in the budget before being used to fund the $20 billion Rebuilding NSW program.

Chart 1.2: General Government Net Debt



1.3 Economic Outlook

The recent strength of the NSW economy has been supported by strong housing consumption and private dwelling investment. Household consumption has been supported by the buoyant property market which has enhanced household wealth. Strong demand for housing, driven in part by stronger population flows into the State, has also supported private dwelling investment.

Going forward, NSW GSP growth is expected to rise to an above-trend rate of 3 per cent in 2015-16 and 2016-17. The outlook is supported by historically low interest rates, strong population growth and the recent depreciation in the Australian dollar. A large pipeline of public infrastructure investment, coupled with a solid recovery in non-mining business investment, will join continued robust dwelling investment and a solid household sector in driving broad-based growth. Household consumption will continue to make a strong contribution, underpinned by a stronger outlook for labour income growth associated with employment and wages growth. These factors should see State Final Demand (SFD) growth significantly above trend at 3½ per cent per annum over the next two years.

The robust economic outlook is forecast to result in strengthening labour market outcomes. Employment growth is expected to rise to an above-trend rate of 1¾ per cent in each of the next two years. However, strong population growth, in part due to the relative strength of the NSW economy, will moderate the pace of the decline in the unemployment rate. The unemployment rate is forecast to drop to around 5¾ per cent through 2015-16 and fall to 5½ per cent by the June quarter 2017.

Chapter 2: Fiscal Strategy and Budget Priorities

- The Government is committed to responsible financial management while delivering high quality services to the people of New South Wales and investing in infrastructure to support future growth and prosperity.
- Returning the budget to a strong financial position and maintaining the State's triple-A credit rating is a key focus of the Government's fiscal strategy. For the first time in five years, budget surpluses are projected in the budget year and across all years of the forward estimates. A surplus of $2.5 billion is forecast in 2015-16 with further surpluses projected for all years to 2018-19.
- The budget results from 2015-16 onwards include the impact of restructuring the governance of public transport assets. From 1 July 2015, the Government's public transport assets will be managed through a commercial Public Trading Enterprise, Transport Asset Holding Entity (TAHE). This will increase the efficiency and reliability of rail delivery in New South Wales (see Box 1.1 in Chapter 1 Overview). Funding for future capital projects will be provided through equity injections from the Government to TAHE, replacing grants previously provided to RailCorp. Excluding TAHE, the budget is in surplus in 2015-16 by $712.6 million with moderately increasing surpluses across the forward estimates to 2018-19.
- The Government's 2015 election commitments will be delivered in full, and costs met from reprioritisation of existing resources and savings. These commitments include funding for an additional 2,100 nurses and midwives, 700 doctors and 310 police officers, boosting frontline services for the people of New South Wales.
- This Budget delivers major investments in new infrastructure that will promote the State's economic growth and productivity. Capital spending in the Non-Financial Public Sector totals $68.6 billion over the four years to 2018-19, including $36 billion in the General Government Sector (GGS). The 2015-16 Budget includes $590.6 million for the acceleration of Rebuilding NSW initiatives.
- In the absence of recognising proceeds from the partial lease of the State's electricity network, net debt is projected to be 2.6 per cent of Gross State Product (GSP) at 30 June 2019. While net debt at 30 June 2015 is forecast to be lower at 1.3 per cent of GSP, it should be recognised that the 2015 estimate is unusually low as it reflects the proceeds of prior asset sales being held as cash, ahead of being recycled to meet capital expenditure needs, consistent with the Government's asset recycling strategy. Similarly, proceeds from the partial lease of the electricity network will reduce net debt when the transaction is recognised in the budget before being used to fund the $20 billion Rebuilding NSW program.

2.1 Introduction

Rebuilding the State's finances has been a priority for the Government over the last four years. The Government achieved a $1.2 billion budget surplus in 2013-14 and looks set to deliver a $2.1 billion surplus for 2014-15. Surpluses are projected for the budget year and every year of the forward estimates. This strong fiscal outlook is reflected in New South Wales' credit rating. Both Moody's and Standard & Poor's reaffirmed the State's triple-A credit rating in 2014, with the latter upgrading the outlook from negative to stable in October 2014.

Responsible management of the State's finances has enabled the Government to fund initiatives that will make New South Wales a better place to live and work. This Budget delivers a record $36 billion investment in general government infrastructure over four years, with a further $32.6 billion spent by the State's Public Trading Enterprises.

2.2 Fiscal Strategy and Outlook

This Budget projects surpluses in 2015-16 and across the forward estimates. The Government's hard work in rebuilding the State's finances since 2011 is reflected in a revised forecast $2.1 billion surplus in 2014-15, a forecast surplus in 2015-16 of $2.5 billion, and surpluses across the forward estimates. Table 2.1 sets out the key budget aggregates for the GGS from 2013-14 to 2018-19.

Table 2.1: Budget Aggregates[(a)]

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Revised	Budget	Forward Estimates		
Revenue ($m)	66,005	69,143	72,143	75,663	76,157	77,315
Revenue growth (per cent pa)	9.8	4.8	4.3	4.9	0.7	1.5
Expenses ($m)	64,757	67,085	69,624	72,469	73,567	75,058
Expense growth (per cent pa)	4.6	3.6	3.8	4.1	1.5	2.0
Budget Result ($m)	1,247	2,058	2,520	3,194	2,590	2,257
Per cent of GSP	0.3	0.4	0.5	0.6	0.4	0.4
Net Capital Expenditure ($m)	2,484	3,254	4,302	3,347	2,591	5,003
Per cent of GSP	0.5	0.6	0.8	0.6	0.4	0.8
Net Lending/(Borrowing) Result ($m)	(1,236)	(1,196)	(1,783)	(153)	(1)	(2,747)
Per cent of GSP	(0.3)	(0.2)	(0.3)	(0.0)	(0.0)	(0.4)
Net Debt ($m)	6,869	6,655	9,875	12,270	13,112	15,799
Per cent of GSP	1.4	1.3	1.9	2.2	2.2	2.6

(a) The impacts of electricity network lease transactions are not included until contracts are signed. The impacts of infrastructure investment under Rebuilding NSW are also not included.

These budget results include the impact of TAHE (see Box 1.1 in Chapter 1 Overview). Excluding TAHE, the budget remains in surplus in 2015-16 by $712.6 million, with modestly increasing surpluses projected across the forward estimates. Table 2.2 sets out the key budget aggregates for the GGS excluding TAHE from 2013-14 to 2018-19.

Table 2.2: Budget Aggregates pre-TAHE

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Revised	Budget	Forward Estimates		
Revenue ($m)	66,005	69,143	70,279	73,409	74,514	76,138
Revenue growth (per cent pa)	9.8	4.8	1.6	4.5	1.5	2.2
Expenses ($m)	64,757	67,085	69,566	72,653	73,703	75,243
Expense growth (per cent pa)	4.6	3.6	3.7	4.4	1.4	2.1
Budget Result ($m)	1,247	2,058	713	756	811	895
Per cent of GSP	0.3	0.4	0.1	0.1	0.1	0.1
Net Capital Expenditure ($m)	2,483	3,254	4,388	3,347	2,591	5,003
Per cent of GSP	0.5	0.6	0.8	0.6	0.4	0.8
Net Lending/(Borrowing) Result ($m)	(1,236)	(1,196)	(3,675)	(2,591)	(1,780)	(4,109)
Per cent of GSP	(0.3)	(0.2)	(0.7)	(0.5)	(0.3)	(0.7)
Net Debt ($m)	6,869	6,655	9,875	12,268	13,108	15,793
Per cent of GSP	1.4	1.3	1.9	2.2	2.2	2.6

Table 2.3 provides a reconciliation of changes in the budget estimates between the 2014-15 Budget, 2014-15 Half-Yearly Review and the 2015-16 Budget, as well as the adjustment for TAHE. Changes in policy arise from Government decisions, while parameter and other variations reflect the impact of changing economic conditions, budget assumptions, grants from the Australian Government and other accounting adjustments.

The budget surpluses forecast in 2014-15 and 2015-16 (pre-TAHE) are stronger than anticipated in the 2014-15 Budget.

Table 2.3: Reconciliation of 2015-16 Budget to 2014-15 Budget[a]

	2014-15	2015-16	2016-17	2017-18
	Revised	Budget	Forward Estimates	
	$m	$m	$m	$m
2014-15 Budget	**(283)**	**660**	**2,155**	**1,666**
Changes from 2014-15 Budget to 2014-15 Half-Yearly Review				
Effect of Policy Decisions				
Revenues	1	3	5	6
Expenses	(134)	(128)	(175)	(92)
Total Policy Decisions	(133)	(125)	(170)	(86)
Effect of Parameter and Other Variations				
Revenues	744	113	(176)	(374)
Expenses	(56)	(246)	(713)	(167)
Total of Parameter and Other Variations	688	(133)	(889)	(541)
Total Policy Decisions and Parameter and Other Variations	555	(258)	(1,059)	(627)
2014-15 Half-Yearly Review	**272**	**402**	**1,096**	**1,038**
Changes from 2014-15 Half-Yearly Review to 2015-16 Budget				
Effect of Policy Decisions				
Revenues	(5)	108	94	85
Expenses	(157)	(674)	(478)	(509)
Total Policy Decisions	(162)	(566)	(384)	(424)
Effect of Parameter and Other Variations				
Revenues	1,290	130	(244)	(513)
Expenses	658	747	288	710
Total of Parameter and Other Variations	1,948	877	44	197
Total Policy Decisions and Parameter and Other Variations	1,786	311	(340)	(227)
2015-16 Budget Prior to TAHE	**2,058**	**713**	**756**	**812**
Policy Decision - Implementation of TAHE				
Revenues	...	1,865	2,254	1,643
Expenses	...	(58)	184	136
Impact of TAHE	**...**	**1,807**	**2,438**	**1,779**
2015-16 Budget Result	**2,058**	**2,520**	**3,194**	**2,590**

(a) A positive number indicates an improvement in the Budget result.

The estimated budget result for 2014-15 of a $2.1 billion surplus is around $1.8 billion stronger than the surplus of $272.4 million forecast in the 2014-15 Half-Yearly Review. This is largely driven by an increase in forecast revenues of $1.3 billion, primarily reflecting the re-profiling of Commonwealth grants, stronger tax revenues and higher distributions from government businesses. Expenses for 2014-15 have been revised down by $500.8 million from the 2014-15 Half-Yearly Review, mainly driven by changes in timing and costs for transport and education projects.

The 2015-16 budget surplus prior to the impact of TAHE is $311 million stronger than the forecast in the 2014-15 Half-Yearly Review. This is largely driven by higher revenues of around $238 million reflecting both policy decisions and stronger transfer duties. Forecast expenses for 2015-16 are slightly lower than the 2014-15 Half-Yearly Review. The softer surpluses from 2016-17 relative to 2014-15 Half-Yearly Review reflect downwards revisions to forecast revenues.

Fiscal strategy

The State's fiscal strategy is to deliver strong budget results and sustainable levels of debt that support a strong financial position and maintenance of the State's triple-A credit rating, consistent with the requirements of the *Fiscal Responsibility Act 2012* (FRA).

The 2015-16 Budget has delivered on this strategy, adhering to the principles of sound financial management outlined in the FRA including:

- responsible spending, taxation and infrastructure investment
- effective financial and asset management
- achieving inter generational equity by ensuring policy decisions have regard to the impacts on current and future generations.

Surpluses are now projected across the budget and forward estimates. Both Moody's and Standard & Poor's reaffirmed the State's triple-A credit rating in 2014, with the latter upgrading the outlook from negative to stable in October 2014.

The 2015-16 Budget delivers on the Government's fiscal strategy by:

- delivering budget surpluses and ensuring annual expense growth remains below long-term average revenue growth
- ensuring expense growth is kept under control while improving the delivery of frontline services to the community
- delivering much-needed infrastructure funded by operating surpluses and asset recycling strategies to maintain debt at sustainable levels, while enhancing the productive capacity of the State to support economic growth and job creation
- maintaining a fiscal position that will not shift the State's fiscal burden to future generations.

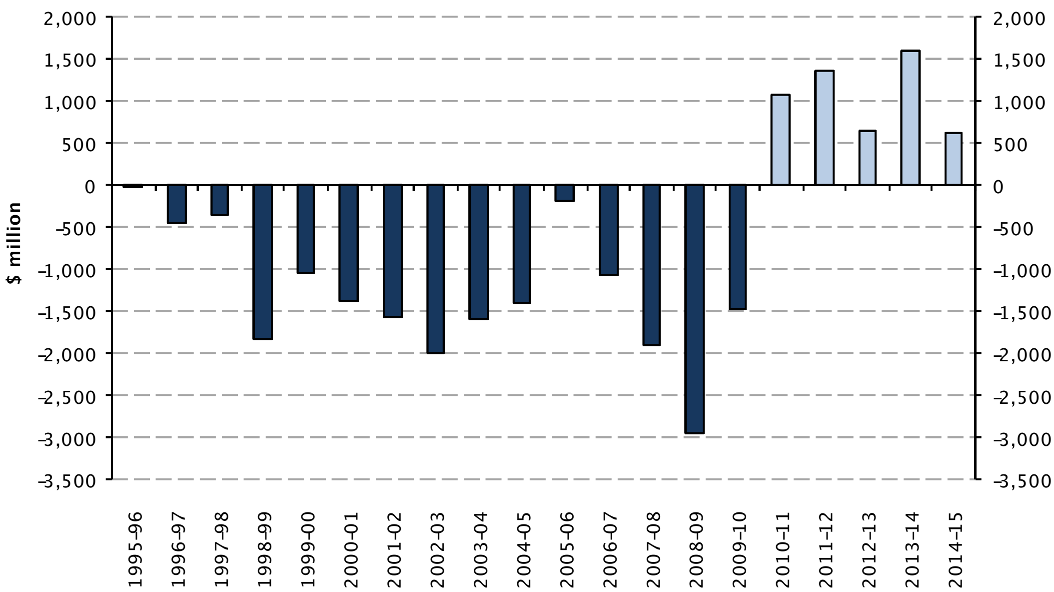
The fiscal strategy also targets the elimination of the State's unfunded superannuation liability by 2030. As a result of the Government's prudent management of the State's finances and on-going contributions, the State's unfunded superannuation liability is now projected to be eliminated by 2026.

Expense and revenue growth

Recognising that the inherited rate of expense growth in 2011 was unsustainable, the Government undertook the task of getting the State's expenses under control. The Government committed to careful fiscal discipline with a focus on keeping the annual expense growth rate under the long-term average revenue growth rate.

The result of the Government's hard work has exceeded expectations. In 2014-15 expenses are forecast to be $311 million below the 2014-15 Budget estimate. Moreover in the past five years, the Government has consistently delivered total expenses (when adjusted for AASB 119 *Employee Benefits*) within the original budget estimates, averaging $1.1 billion under budget. Chart 2.1 shows the variation between budgeted and actual expenses from 1995-96.

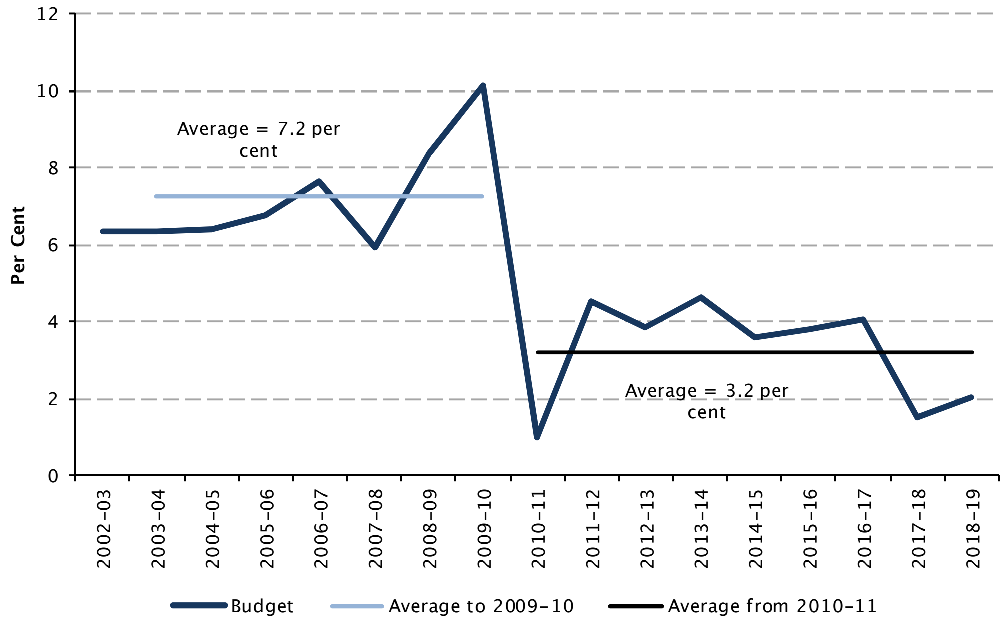
Chart 2.1: Total Underlying Expenses: Budget less Actual 1995-96 to 2014-15[(a)]



(a) Adjusted to reflect the impact of AASB 119 to ensure consistency between budgeted and actual outcomes.

The Government's commitment to expense restraint is reflected in the decline in the average expense growth rate. From 2002-03 to 2009-10, the rate of expense growth averaged 7.2 per cent. This fell to 3.5 per cent in the five years to 2014-15 and is expected to fall further, averaging an estimated 3.2 per cent in the nine years to 2018-19 (see Chart 2.2).

Chart 2.2: Annual Average Expense Growth



The Government's success in reducing expense growth reflects a number of measures it has implemented over recent years to restrain wage growth, other labour expenses and improve the efficiency of service delivery. The key policy measures used to deliver these reductions include:

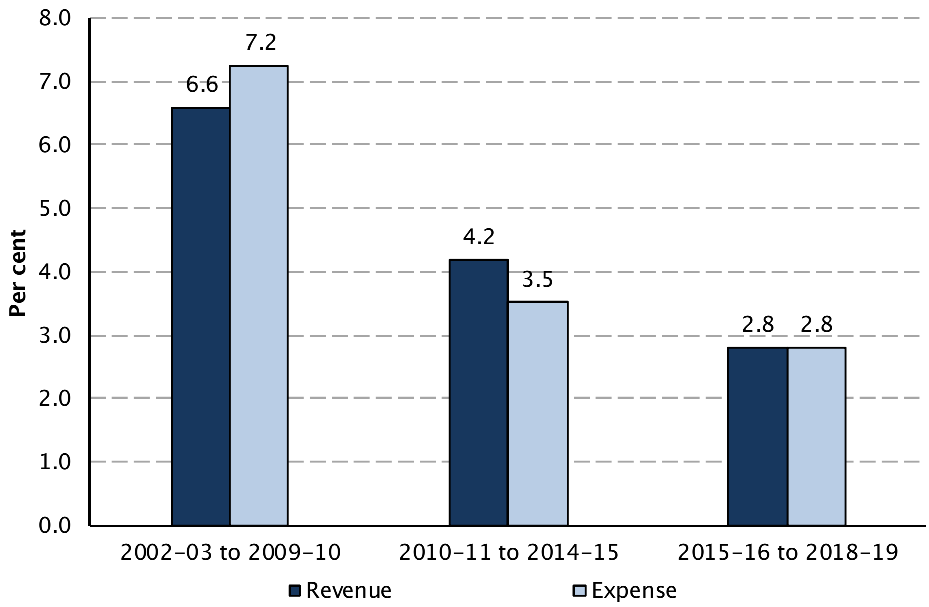
- the NSW Public Sector Wages Policy introduced in 2011 with wages growth being restrained to less than 2.5 per cent per annum
- application of the labour expense cap
- a program of savings delivering $5.1 billion in improvements to the budget result by 2018-19
- the funding of new initiatives through the reprioritisation of existing expenditure.

In the 2015-16 Budget, the Government has committed to deliver savings by implementing further efficiency and savings measures as well as policies to eliminate duplication in government operations and reduce procurement costs. The impact of savings measures in this Budget total $1.1 billion over the four years to 2018-19.

The Government's success in controlling expense growth has been pivotal to delivering budget surpluses, particularly given the relatively subdued revenue growth it has faced. As Chart 2.3 indicates, at the same time as expense growth was averaging 7.2 per cent per annum, revenues were growing by an average of 6.6 per cent per annum. Even as the Government took action to halve the expense growth rate, it found itself faced with revenue growth which moderated to around 4.2 per cent per annum.

Revenue growth is expected to moderate further to 2.8 per cent per annum going forward. The relatively subdued revenue growth in prospect is largely the result of weaker GST receipts, the significant loss of dividends following the AER determinations and declining National Partnership Payments. Taxation revenue is forecast to grow by around an average 4.7 per cent per annum over the budget and forward estimates, more or less keeping pace with nominal growth in the economy.

Chart 2.3: Average Rates of Revenue and Expense Growth



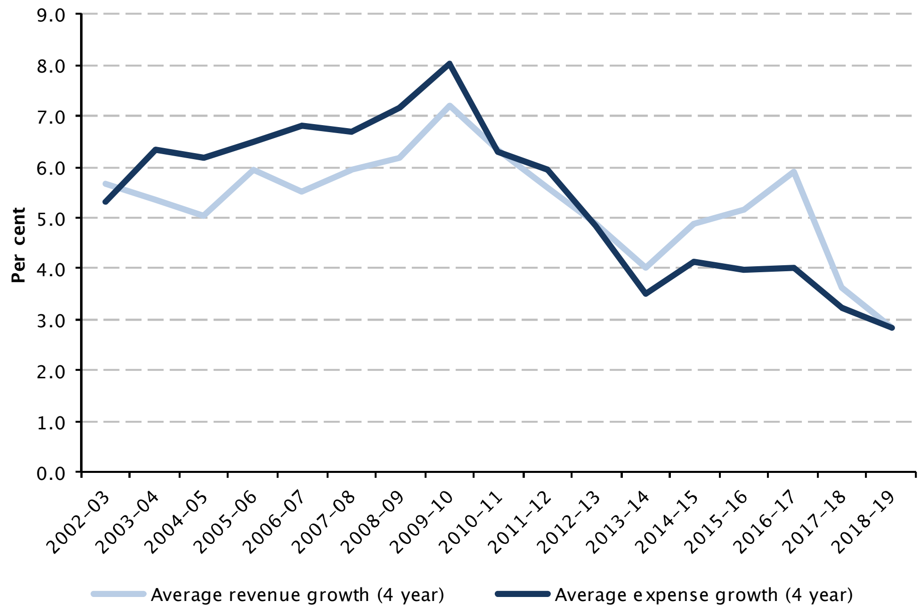
The booming property market in recent years has significantly increased the level of transfer duties, with residential transfer duties growing at around 25 per cent per annum since 2012-13. Relative to the past few years, growth rates in transfer duty are forecast to be relatively modest averaging 4.2 per cent over the budget and forward estimates, with activity supported by low interest rates and population growth. However, given the cyclical nature of the property market, transfer duties are inherently volatile and the potential for sharp corrections is a risk to the State's revenue outlook.

Transfer duty is one of a number of volatile revenue sources. The 2014-15 and 2015-16 Budgets highlight the adverse impacts on budget outcomes caused by both sharp reductions and re-profiling of Commonwealth grants. Significant amounts have been shifted out of the budget years by the Commonwealth at short notice. The substantial reduction in the growth of Commonwealth health grants in prospect from 2017 and the change in GST relativities reduce the 2018-19 revenues.

Revenue volatility poses a significant challenge to the Government in the delivery of strong budget outcomes. It also highlights the critical importance of maintaining expense discipline in the delivery of budget surpluses. This is reflected in the emphasis that the fiscal strategy places on the Government keeping annual expense growth below long-term average revenue growth of 5.6 per cent, which is enshrined in the FRA. Indeed, in recent years the Government has sought to keep expense growth below four year average revenue growth (see Chart 2.4).

The Government's reliance on a range of volatile revenue sources also highlights the importance of engaging in a constructive dialogue with the Australian Government on roles and responsibilities and tax reform as part of the White Paper processes on Reform of the Federation and Taxation.

Chart 2.4: Four Year Average Revenue and Expense Growth



Further details on revenue and expenses can be found in Chapter 5 Budget Position and Outlook.

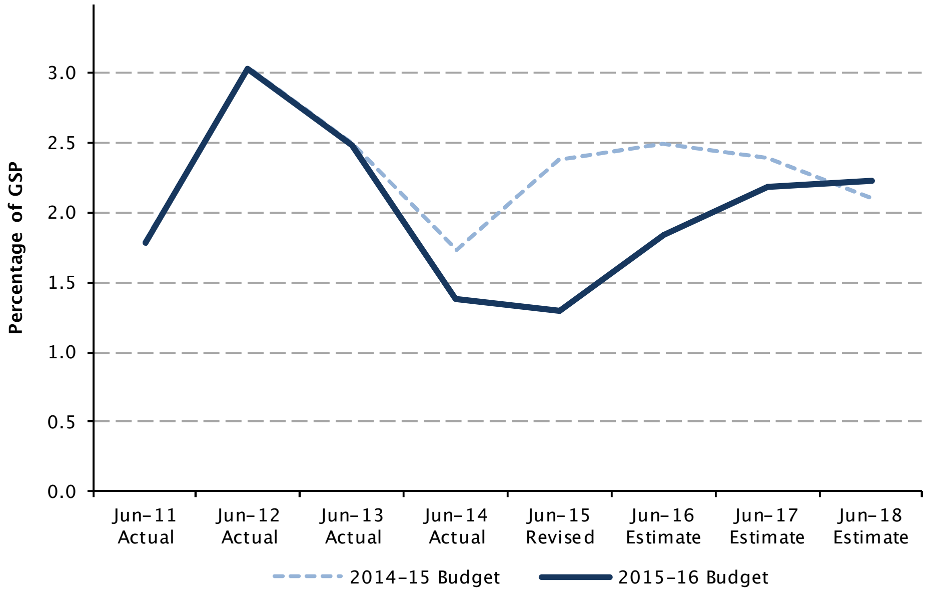
Fiscal sustainability

An important aim of the Government's fiscal policies is to ensure that future generations are not bearing the cost of today's decisions.

Net debt is a commonly used indicator of fiscal sustainability.

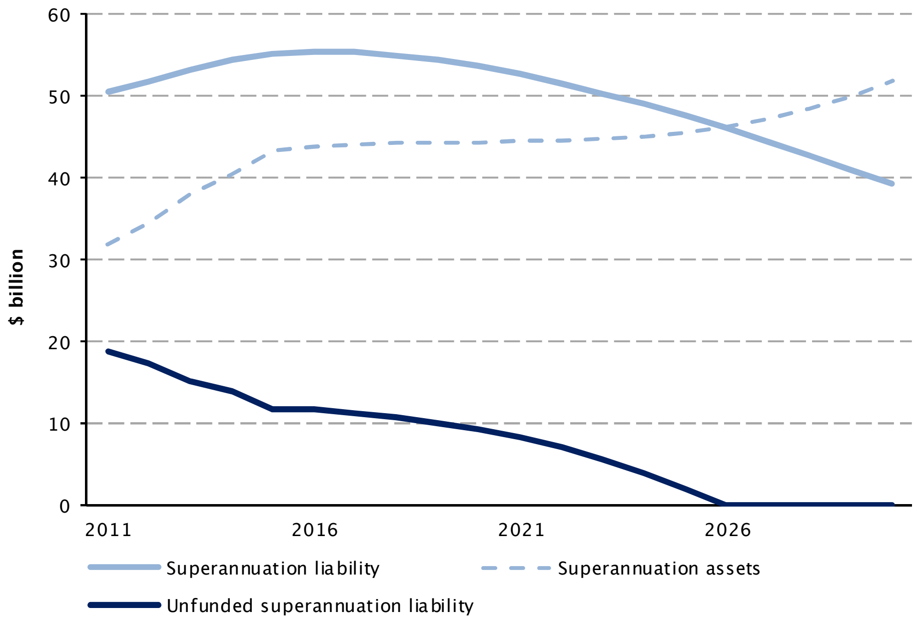
Since 2011, the Government has successfully reduced GGS net debt from $14.1 billion at 30 June 2012 (3.0 per cent of GSP) to a forecast $6.7 billion (1.3 per cent of GSP) at 30 June 2015 (see Chart 2.5). The low net debt forecast for 30 June 2015 reflects high levels of cash generated from the proceeds of asset sales and leases in recent years, primarily the State's port assets. Consistent with the Government's asset recycling strategy, these funds will be used over the forward estimates to deliver the significant capital expenditure program (see Chapter 5, Box 5.9). As a result, net debt is forecast to reach $15.8 billion (2.6 per cent of GSP) by 30 June 2019. However, these estimates do not include the proceeds from the partial lease of the State's electricity network.

Chart 2.5: Net Debt as a Percentage of Gross State Product



The Government is also committed to fully funding the State's superannuation liability by 2030, as outlined in the FRA. Establishing financial assets and increasing investments in these assets over time to fund superannuation liabilities, assists in reducing the longer-term cost of superannuation to taxpayers. Based on the last triennial review completed in 2012 and updated for subsequent performance, the State's unfunded superannuation liability is now projected to be eliminated by 2026 (see Chart 2.6).

Chart 2.6: Total State Sector superannuation liability and funding forecast(a)(b)



(a) Superannuation liability estimates are subject to a detailed actuarial review every three years. The review estimates the ongoing impact of changes in demographic factors, assesses funding levels and contribution rates and estimates the underlying level of unfunded liabilities. Crown funding levels are to be revised in the next Triennial Actuarial Review for State Super, due to commence later in 2015. With current funding rates and an assumed long-term State Super Fund earnings rate of 8.6 per cent, a surplus by 2026 is currently forecast.

(b) The liability for funding purposes is calculated using the actuarial funding basis under the accounting standard AAS25 *Financial Reporting by Superannuation Plans*, which uses the forecast long-term fund earning rate as the discount rate for the superannuation liability. The liability for reporting purposes as presented in the balance sheet is calculated in accordance with AASB 119 *Employee Benefits*, and is based on Commonwealth 10-year bond yield forecasts.

2.3 Budget Priorities

This Budget is about building infrastructure, creating jobs and giving the people of New South Wales access to improved services and affordable housing. Addressing these priorities will boost the State's economic growth and prosperity and make New South Wales a better place to live and work.

Accelerating Rebuilding NSW

Beyond the record infrastructure spend in this Budget, the Government's key priority is the delivery of the $20 billion Rebuilding NSW initiative. Rebuilding NSW is a plan to promote economic growth and productivity by funding the delivery of major infrastructure projects. Funds from the partial lease of the State's electricity network will be used to increase investment in New South Wales' critical infrastructure. Rebuilding NSW will fund projects including public transport, urban and regional roads, water, hospitals, schools, and cultural and sporting infrastructure. The 2015-16 Budget provides $590.6 million to accelerate the planning and commencement of certain projects.

Planning has commenced for public transport projects to be funded from Rebuilding NSW. This includes the Sydney Metro City and SouthWest (formerly called Sydney Rapid Transit), which will extend Sydney Metro NorthWest (formerly called the North West Rail Link) services under Sydney Harbour and through the Sydney CBD and then out to Bankstown. This project will create new capacity for the whole Sydney rail network.

Other priority public transport projects with planning underway include the Parramatta Light Rail, which will help to promote Parramatta as Sydney's second CBD, and Bus Rapid Transit, which will facilitate connections on some of Sydney's existing road corridors. Planning will progress on the Western Harbour Tunnel, which will be Sydney's third harbour road crossing and will relieve traffic congestion on the Harbour Bridge and ANZAC Bridge.

Rebuilding NSW accelerated road infrastructure projects that will commence in 2015-16 include projects on Mitchell, Newell and Pacific Highways. These projects along with other Rebuilding NSW projects are intended to better connect regional centres and allow for more efficient interstate freight road movements.

More jobs for New South Wales

The Government has committed around $397 million over four years to help create 150,000 jobs, grow local businesses and attract new businesses to New South Wales.

In the 2011-12 Budget, the Government introduced the Jobs Action Plan which now provides a $5,000 payroll tax rebate to businesses that employ new workers. The Government has extended the scheme until 30 June 2019 due to its success with over 106,000 payroll rebate applications made over the past four years.

The Government will spend around $27 million to create a new Small Business Employment Incentive Scheme for non-payroll tax paying small businesses that create new jobs. From 1 July 2015, businesses in New South Wales with wages below the current payroll tax threshold of $750,000 may apply for a grant of up to $2,000 when they hire new employees.

A $25 million Jobs of Tomorrow Scholarship Fund will be established to provide 25,000 scholarships for students undertaking qualifications for technology and growth jobs.

The Government will also provide $32 million to encourage interstate and international businesses to relocate to New South Wales.

Election commitments

The Government is delivering all of its 2015 election commitments with offsetting savings that result in a positive impact on the budget result over the budget and forward estimates. By limiting commitments to those that could be delivered within existing resources, the Government is not burdened with an expenditure overhang.

The election commitments are improving frontline services for the people of New South Wales, with increased spending for health, education, transport, infrastructure, tourism and police. These commitments will result in an additional 3,500 full-time equivalent health positions, including 2,100 nurses and midwives and 700 doctors. In addition, 310 police will be employed through these initiatives.

Further information on election commitments is in Chapter 5 Budget Position and Outlook.

Housing Acceleration Fund

The Government will reserve an additional $400 million in Restart NSW for the Housing Acceleration Fund (HAF) to support new housing supply and address the challenge of housing affordability. This is the largest commitment since the fund's inception in 2012.

The HAF provides funding for critical growth infrastructure projects to significantly accelerate housing supply in priority growth areas. The delivery of key infrastructure such as roads and wastewater is one of the most critical factors to turn development opportunities into new housing. To date, $566.5 million has been allocated or reserved to support 161,100 new dwellings and 1,200 hectares of employment lands.

Rather than continuing unsustainable levels of expenditure, the Government has allocated windfall tax revenue received from the current property boom to HAF (through Restart NSW) in order to productively impact the State's housing supply.

2.4 The Long Term Fiscal Gap

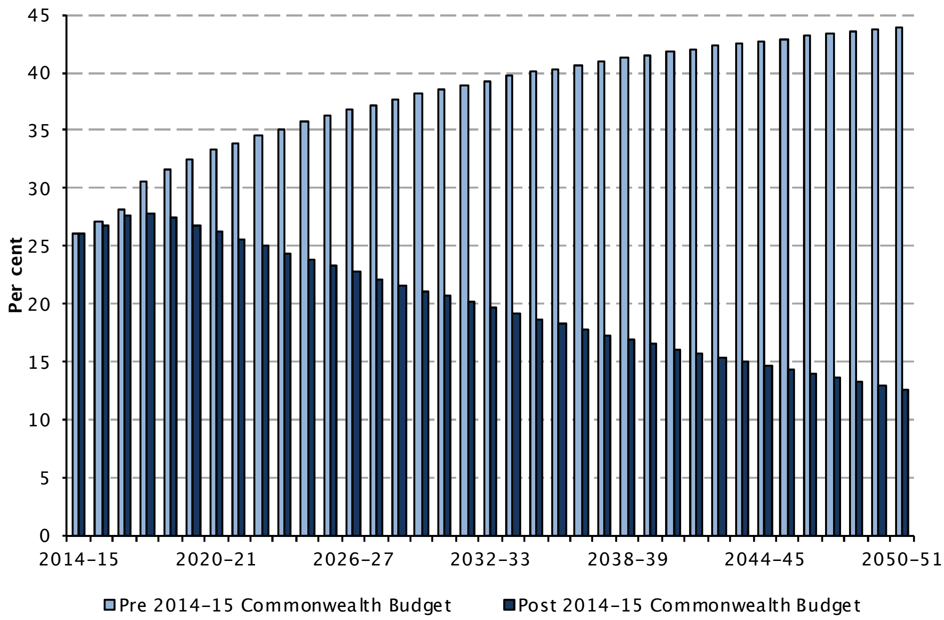
The FRA requires the Government to assess the long-term fiscal gap for the NSW GGS every five years and to report the impact of new measures on the fiscal gap in each annual budget.

The fiscal gap is the change in the GGS primary balance as a share of GSP, currently over the period 2009-10 to 2050-51. The primary balance is revenues less expenditures, including net capital expenditure, but excluding interest transactions.

The requirement to annually report the long-term fiscal impact of expenditure and revenue measures considerably increases budget transparency. This is because in addition to the usual reporting on the immediate effects of policy initiatives, the Government is required to provide an assessment as to whether policy changes will widen or narrow the fiscal gap.

Last year's NSW fiscal gap analysis reflected the 2014-15 Commonwealth Budget decision to significantly reduce hospital funding growth and shift a significant share of the intergenerational burden onto the states. This unilateral decision increased the NSW fiscal gap by 1.3 percentage points, from 1.5 per cent to 2.9 per cent of GSP by 2050-51, and reduced the Commonwealth fiscal gap by a similar amount[1]. Despite State calls for a reversal, the significant cuts to Commonwealth hospital funding continue to exert downward pressure on the State's long-term fiscal outlook (see Chart 2.7).

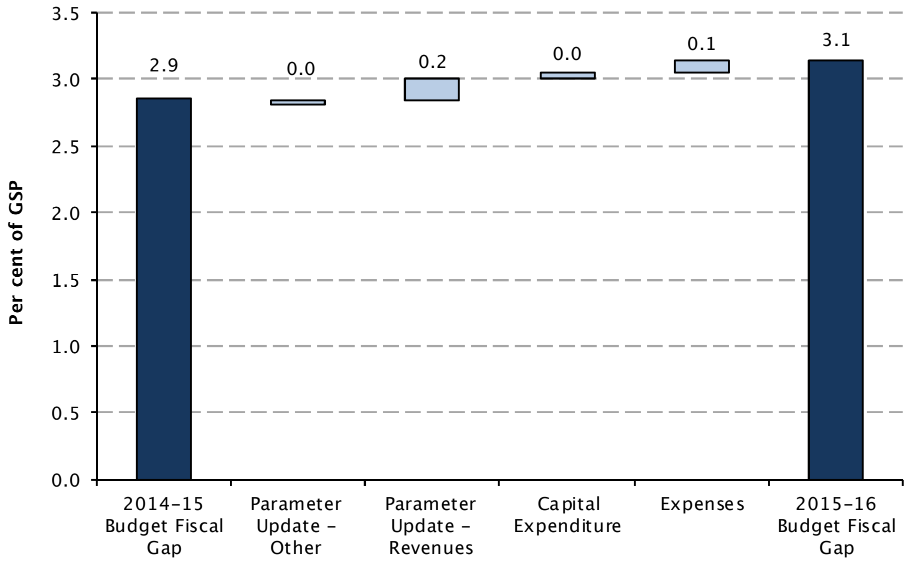
Chart 2.7: Commonwealth Share of NSW Health Funding



[1] NSW Treasury analysis based on information contained in 2015 Intergenerational Report, *Australia in 2055*, Commonwealth of Australia 2015 (ISBN 978-1-925220-41-4), pp 60.

In this Budget, the NSW fiscal gap has increased from 2.9 per cent in the 2014-15 Budget to 3.1 per cent of GSP by 2050-51. The change since last year is primarily attributable to lower revenues (see Chart 2.8).

Chart 2.8: Changes in the Fiscal Gap Since the 2014-15 Budget



Source: Treasury; Note - rounding

The update of demographic factors, economic parameters and expense history had a negligible impact on the fiscal gap. Changes in capital expenditure, while large in certain years, are mostly due to re-profiling of existing projects and had an overall negligible impact. Projects funded from Restart NSW through asset sales were excluded, as these represent a reallocation of capital rather than additional spending.

The update of revenue parameters has lowered projected revenues, increasing the fiscal gap by 0.2 percentage points. Compared to the 2014-15 Budget the outlook for taxation revenue is somewhat stronger, although this is more than offset by lower projected dividends and tax equivalents following the Australian Energy Regulator’s NSW electricity network determinations.

Since the 2014-15 Budget, the impact of expenses, including savings measures and election commitments, is to increase the fiscal gap by 0.1 percentage points. Key election commitments include additional police resources and the extension of the Jobs Action Plan. Other significant expense measures include additional funding for out of home care, increasing correctional centre capacity and the commencement of Sydney Metro Northwest operating expenses from 2018-19.

Chapter 3: The Economy

- The NSW economy is expected to grow strongly over the next two years, well above long-run trend. Growth in Gross State Product (GSP) of around 3 per cent is forecast for both 2015-16 and 2016-17.
- The national transition away from mining investment towards more diversified economic growth will play to New South Wales' strengths. Low interest rates, a falling Australian dollar and strong population growth will all support strong growth, coupled with a solid pipeline of public infrastructure projects and positive wealth effects from rising house prices.
- Strong domestic demand in New South Wales should see State Final Demand (SFD) grow by 3½ per cent over the next two years, with subdued conditions in the rest of Australia weighing somewhat on interstate exports.
- Recent NSW economic growth has been supported by the household sector. Household consumption has been buoyed by positive wealth effects associated with the strength of the property market. Consumer sentiment in New South Wales is well above the national average. Dwelling investment has been fuelled by low interest rates and pent-up demand.
- Going forward, economic growth is expected to become more broadly based. Improving labour income growth is expected to underpin continuing solid household consumption growth. Dwelling investment is forecast to remain high, based on a large pipeline of work and strong population growth. The substantial pipeline of public infrastructure and an emerging recovery in non-mining business investment are also expected to support growth.
- The State's strong domestic demand growth is helping propel an improving labour market, with employment growth strengthening in 2014-15. Over the next two years, employment is forecast to grow by 1¾ per cent, supported by strong activity in employment intensive sectors such as construction, retail and tourism. While this strong employment growth will see the unemployment rate improve, its effects will be moderated by strong population growth.
- The outlook for the Australian economy is for relatively modest growth in 2014-15 and 2015-16, before rising to above-trend growth in 2016-17. The 2016-17 forecast is driven by a large anticipated rise in liquefied natural gas exports, with domestic demand growth expected to remain below trend.
- The international outlook remains soft against an improved outlook for the United States but still relatively weak outlook for Europe and Asia. Growth in Australia's major trading partners is expected to be at, or only slightly above, its long-run average in 2015 and 2016 before falling to below its long-run average in 2017 as growth in the Chinese economy eases.
- The risks around the economic outlook for New South Wales are evenly balanced. Considerable uncertainty remains around the timing and extent of the pick-up in non-mining business investment. The recent strong rise in business confidence is a positive sign. If sustained, and if economic conditions in the rest of the nation improve, non-mining investment could increase more quickly than expected. Another risk is that recent strength in household demand appears to have been largely driven by wealth effects from rising house prices. Weaker-than-expected labour income growth or higher-than-expected interest rates could reduce the impetus for household consumption and dwelling investment.

3.1 New South Wales Economic Outlook[1]

The NSW economy strengthened in 2014-15, reflecting strong household consumption and dwelling investment. Activity has been fuelled by low interest rates and the wealth effect from rising house prices. Looking ahead, the economy is well placed to build on this momentum as business investment and public infrastructure investment also provide strong support to growth. Gross State Product (GSP) growth is forecast to pick up to an above-trend rate of 3 per cent in 2015-16 and 2016-17 (see Table 3.1). Growth is expected to be supported by low interest rates, solid population growth, wealth from the strength of the property market, and the depreciation of the Australian dollar.

The next two years should see economic growth become more broadly based. Robust employment growth is expected to support continued solid growth in household consumption. The large pipeline of private sector building work yet to be done in both residential and non-residential building, combined with ongoing positive trends in building approvals, suggests that further increases in private building investment are in prospect. The contribution to growth from public final demand is expected to increase strongly as the record pipeline of planned infrastructure projects flows into increased public spending and construction activity.

Table 3.1: Economic Performance and Outlook [(a)]

	2013–14 Outcomes	2014–15 Forecasts	2015–16 Forecasts	2016–17 Forecasts	2017–18 and 2018–19 Projections[(b)]
New South Wales					
Real state final demand	2.7	3¼	3½	3½	
Real gross state product	2.1	2½	3	3	2¾
Employment	0.6	1¼	1¾	1¾	1¼
Unemployment rate [(c)]	5.7	6	5¾	5¾	
Sydney CPI[(d)]	2.5	1¾	2½	2¾	2½
– through the year to June quarter[(d)]	2.8	1¾	2½	2¾	
Wage price index	2.5	2¼	2½	2¾	3½
Nominal Gross State Product[(e)]	3.1	4	4	4¾	

(a) Per cent change, year average, unless otherwise indicated.

(b) Average across 2017–18 and 2018–19.

(c) Year average, per cent.

(d) 2014–15 includes a ¾ of a percentage point detraction from the abolition of the carbon tax. 2014–15 to 2016–17 include a ¼ of a percentage point contribution from tobacco excise increases.

(e) Nominal GSP measures the *value* of production whereas real GSP measures the *volume* of production. The difference is a measure of the average change in prices for goods and services produced.

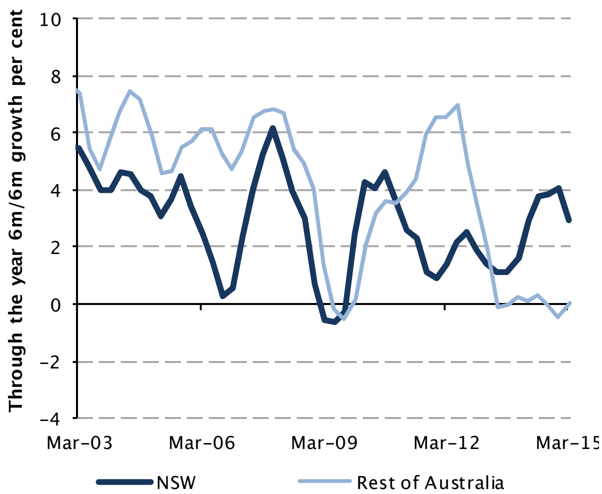
Source: ABS 5206.0, 5220.0, 6202.0, 6401.0, 6345.0 and Treasury

[1] Economic forecasts are based on data available at June 2015, including results to June 2014 for Gross State Product, to the March quarter 2015 for State Final Demand, the Wage Price Index, and Consumer Price Index, to the September quarter 2014 for population and to May 2015 for the labour force.

For economic recovery to be sustained, the outlook for non-mining business investment will be critical. To date, subdued confidence and weak demand from the rest of Australia and internationally have had a dampening effect on the recovery in non-mining business investment. Business confidence is driven not just by conditions within the State, but also by global and national economic conditions. These feed through to the large number of NSW businesses that export internationally and to the rest of Australia. Nonetheless, supportive conditions are in place and confidence has recently begun to improve. NSW business investment is expected to continue a modest recovery in 2015-16 before accelerating in 2016-17 as demand growth starts to improve in the rest of Australia. Mining investment is expected to continue to fall sharply in 2015-16, reflecting the impact of recent falls in commodity prices, before stabilising in 2016-17.

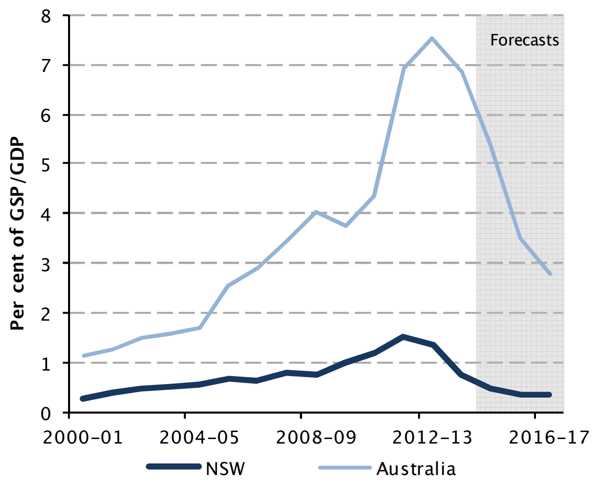
Over the last few years, New South Wales has had reasonably strong final demand growth while for the rest of Australia it has barely risen (see Chart 3.1). Over the next two years, NSW State Final Demand (SFD) is expected to continue to grow more quickly than the rest of Australia. One reason is that NSW households tend to be more sensitive to interest rates and should therefore receive a greater benefit from recent interest rate cuts. Also, as New South Wales is less dependent on mining than the national economy, it is better placed to avoid the direct effects of the large unwinding of mining investment that is currently underway nationally (see Chart 3.2). At the same time, falls in the exchange rate caused by lower mining commodity prices will support NSW tourism, education and manufacturing sectors. NSW SFD will also be supported by a stronger outlook for public investment given the large pipeline of infrastructure investment in the State.

Chart 3.1: State Final Demand Growth



Source: ABS 5206.0 and Treasury

Chart 3.2: Mining Investment Share of Output

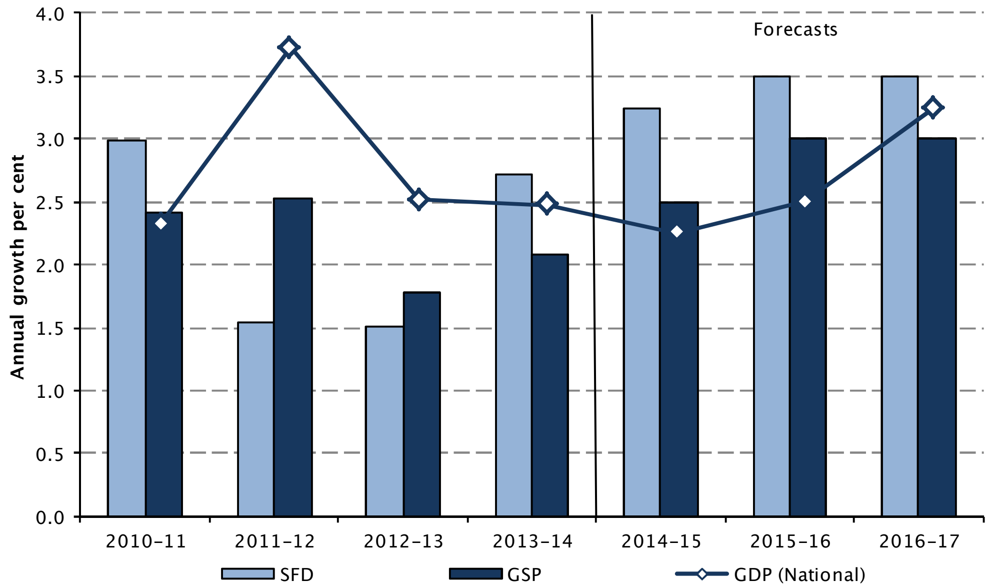


Source: ABS 5206.0, ABS 5204.0, ABS 5625.0 and Treasury

Recent weakness in national growth has driven a large wedge between NSW SFD and GSP from 2013-14 (see Chart 3.3). In particular, growth in interstate exports from New South Wales is being weighed down by relatively subdued income growth in the rest of Australia, as the national economy adjusts to sharply lower commodity prices and the associated unwinding of the largest terms of trade shock and mining investment boom in Australia's history. At the same time, strong domestic demand in New South Wales has increased our own import growth.

These impacts are expected to moderate somewhat over the next two years. Domestic demand growth in the rest of Australia is expected to improve through 2016-17 (albeit remaining below trend) as the national transition to broader-based economic growth progresses. Over time, this is expected to lift demand for NSW exports.

Chart 3.3: NSW SFD and GSP Growth v National GDP Growth



Source: ABS 5220.0, ABS 5206.0 and Treasury

Strong economic growth is expected to propel further improvements in the labour market. Employment growth has picked up and broader labour market indicators such as workforce participation have firmed. Strong growth in domestic demand and leading indicators (such as job vacancies and hiring intentions) point to the recent strength in employment growth being maintained. Employment in New South Wales is expected to grow at an above-trend rate of 1¾ per cent in both 2015-16 and 2016-17, consistent with above-trend economic growth and strong activity in labour intensive sectors, such as construction, retail and tourism.

The relative strength of the NSW economy is helping to pull labour and capital into the State. NSW net interstate departures have fallen to their lowest level since the late 1970s and population growth is just 0.1 per cent below national growth, the lowest gap since the late 1990s (pre-Olympics period). Strong population growth of 1½ per cent per annum forecast over the next two years is expected to contribute to strong labour force growth over the forecast period but will also act to moderate the pace of the decline in the unemployment rate. The unemployment rate is expected to fall to average around 5¾ per cent through 2015-16 before easing to 5½ per cent by the June quarter 2017.

The risks around the economic outlook are evenly balanced. A stronger-than-expected national economy would support an earlier recovery in business confidence in New South Wales and a stronger pick-up in non-mining business investment. On the downside, the recent strength in household demand appears to have been largely driven by wealth effects from rising house prices, as household income growth is otherwise subdued. A levelling off in house prices could reduce the impetus for household consumption and dwelling investment. Section 3.4 contains a more detailed discussion of these risks.

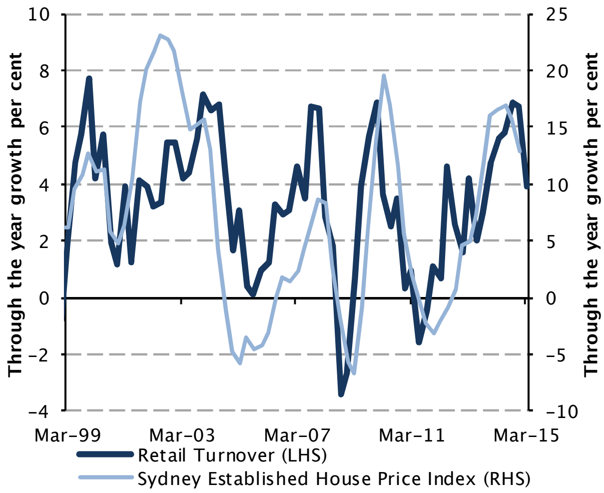
3.2 Detailed Economic Outlook

Households and housing

The household sector has been the main contributor to economic growth over 2014-15. This support has primarily been provided by wealth effects associated with housing (see Chart 3.4) and has occurred despite labour income growth being persistently weak. Looking forward, household consumption is expected to grow at around trend in 2015-16 and 2016-17. The forecast is underpinned by an expected improvement in labour income growth as employment strengthens and wages begin to recover, albeit modestly. Strong growth in new housing supply (which requires furnishing), the boost to disposable income from lower petrol prices, above-average consumer confidence, and low interest rates are also adding impetus to household consumption growth.

Dwelling investment has also benefited from low interest rates. Strong pent-up demand and investor interest in residential property has driven up prices and laid the foundation for continued strong growth in dwelling investment over the next two years. There is a large and growing pipeline of work yet to be done which supports the robust outlook.

Chart 3.4: NSW Wealth Effect



Source: ABS 8501.0 , ABS 6416.0

Chart 3.5: NSW Multi-Unit Building Approvals

Source: ABS 8731.0 and Treasury

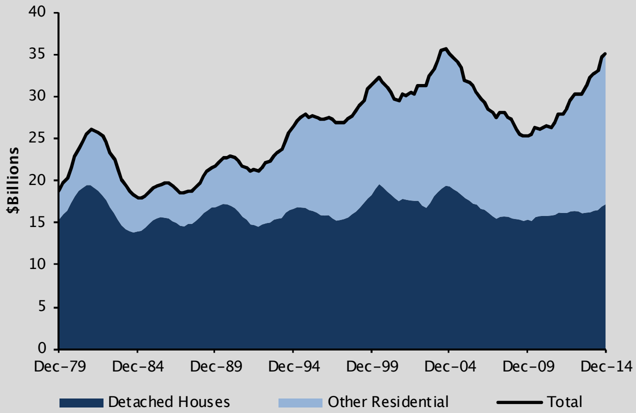
Box 3.1: Housing Acceleration

Dwelling investment in New South Wales has picked up significantly over the last two years. This follows a protracted period of weakness from around 2004 to 2012, where dwelling investment fell by an average rate of 3½ per cent per year. Leading indicators of activity point to a resurgence in residential construction to levels not seen in New South Wales for more than a decade (see Chart 3.6).

Dwelling investment grew by a strong 7.8 per cent over the year to the March quarter 2015. This strong growth was driven primarily by new dwellings, though renovation activity has also picked up. Completions increased by 20.1 per cent over the year to the December quarter 2014.

Forward indicators point to further increases in dwelling investment over the period ahead. The pipeline of work still to be done on residential construction projects already underway is at record levels. Residential building approvals, which are at around decade highs, are continuing to add to this pipeline.

Chart 3.6: Value of Residential Work Commenced



Source: ABS 8752.0

Looking ahead, dwelling investment is expected to be underpinned by strong population growth, low interest rates and pent-up demand.

Although annual production has increased substantially to around 50,000 dwellings, housing construction has struggled to keep up with higher population growth, driven in part by interstate migration. A significant undersupply of dwellings relative to demand is expected to continue for some time yet.

This challenge and low interest rates are key factors contributing to the very strong house price growth in Sydney in recent years, with cumulative growth of around 30 per cent over the last two years.

If this undersupply is to be reduced, while the population continues to grow strongly, further increases in dwelling construction will be needed.

The Government's targeting of its first home owner assistance (grants and transfer duty concessions) to support the purchase or construction of new homes is helping increase the supply of new housing in New South Wales. In 2014, the Government provided 7,955 First Home Owner Grants for new homes, a 25 per cent increase on the previous year.

The *Plan for Growing Sydney* recognises the need for an additional 664,000 dwellings in Greater Sydney between 2011 and 2031, and commits the Government to accelerating the supply of housing in infill and greenfield areas to achieve this. The Government has also created the Greater Sydney Commission which has been tasked with ensuring the targets from the *Plan for Growing Sydney* are met. The Housing Acceleration Fund (HAF) is funding infrastructure projects to drive housing growth. Since 2012, a total of $566.5 million has been allocated or reserved from the HAF for projects to support land for 161,100 new dwellings. An additional reservation of $400 million from Restart NSW will be transferred to the HAF in 2015-16, the biggest ever such contribution.

Further reforms to local government and the planning system are critical to ensuring that these ambitious plans are met. Larger local government areas are likely to be better able to deliver on their planning targets. Local governments are due to report on their preferred arrangements under *Fit for the Future* targets on 30 June 2015. These reforms will complement a range of other initiatives to reduce red tape in planning and approval processes and reduce delay costs, which unnecessarily add to construction costs. The Department of Planning and Environment has been allocated $89.1 million over the four years to 2018-19 to speed up processing times.

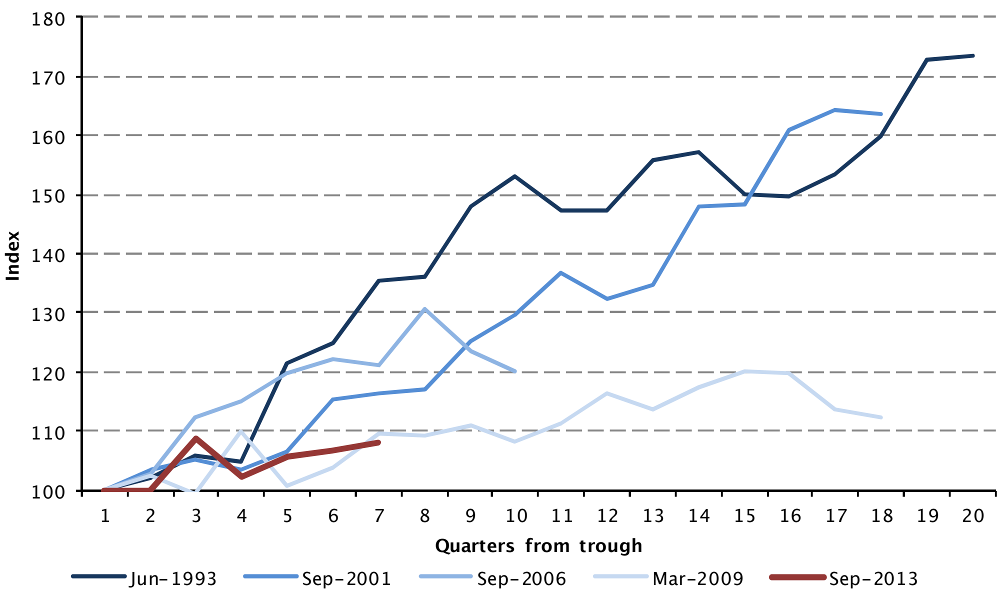
Congestion can also inhibit the effective housing supply by making commute times and access to services prohibitive from some areas. This is why the Government has an ambitious infrastructure agenda including WestConnex, Sydney Metro Northwest and the CBD and South East Light Rail. The integrated delivery of the complete program will allow Sydney to grow as a strong global city by lifting urban productivity and supporting housing supply while limiting the impact of congestion.

The current dwelling investment cycle is expected to be more prolonged than some previous cycles given the concentration of activity in high density dwellings, which have made up around 40 per cent of recent approvals (see Chart 3.5). These buildings have longer lead and construction times compared to detached housing and will help drive a sustained period of high construction activity. Further, interest rates are expected to remain at stimulatory levels for longer, given the weakness in other sectors of the economy as the mining boom unwinds. Finally, the anticipated pick-up in renovation activity, which typically accompanies a period of strong activity in the established housing market, has only recently strengthened.

Business investment

The key to maintaining strong and sustainable growth over the forecast period is to increase non-mining business investment, which will help drive broader-based economic activity and employment. However, to date, the pick-up in business investment has been more subdued than during most other recent investment cycles (see Chart 3.7). In part, this reflects falling mining investment. However, until recently, business confidence remained weak, reflecting weakness in global and national economic conditions, as many businesses export either internationally or nationally (see Box 3.2), and subdued demand has an impact on business confidence and investment intentions.

Chart 3.7: Comparing Recoveries in NSW Business Investment

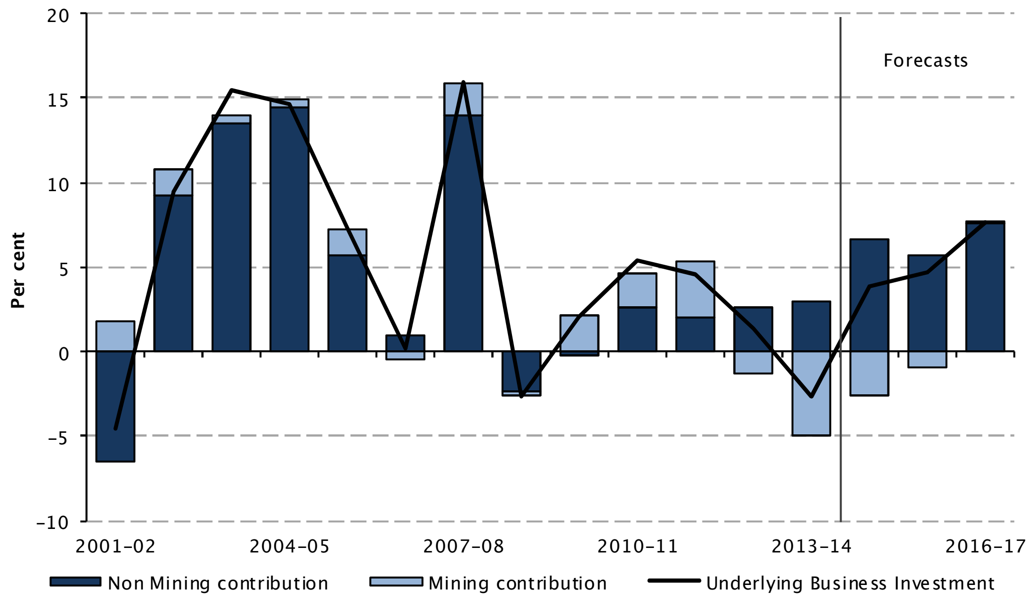


Source: ABS 5206.0 and Treasury

Forward indicators suggest that non-mining business investment will grow solidly over the next few years. Business conditions are strong. Capacity utilisation and SFD growth are both above their averages over the last decade and gaining momentum. Business confidence has also started to improve. The non-mining business investment recovery is forecast to strengthen further in 2016-17 associated with stronger domestic demand at the national level. However, the timing and extent of the recovery in non-mining business investment is a risk to the forecasts.

Mining investment is expected to fall further in 2015-16, as recent sharp falls in coal prices reduce the impetus for investment (see Chart 3.8). However, mining investment is relatively less important to NSW economic growth than it is in some other states. Mining investment is expected to stabilise at its historical share of the NSW economy.

Chart 3.8: NSW Business Investment Growth



Source: ABS 5206.0, ABS 5204.0, ABS 5625.0 and Treasury

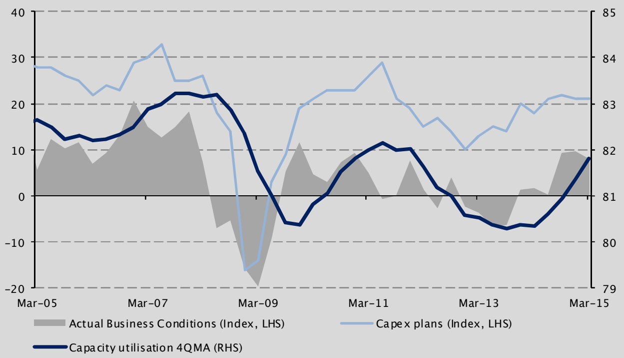
A range of Government policies will support NSW businesses as they invest and expand. These include major infrastructure projects to reduce freight and passenger transport costs and reducing red tape (including through the Council of Australian Governments process currently underway). The extension of the Jobs Action Plan rebate for a further four years, coupled with the Small Business Employment Incentive Scheme, will help support growing businesses to increase employment.

Box 3.2: Business Confidence and Conditions

Strong state domestic demand is evident in robust business conditions, which remain higher in New South Wales than in any other state. However, national and international economic weakness has, until recently, been weighing on overall business confidence, and impacting on business investment decisions (see Chart 3.9).

NSW businesses are reporting positive business conditions. This is consistent with New South Wales' recent strong growth in retail sales, high levels of residential construction and resilient consumer confidence.

Chart 3.9: NSW Business Climate



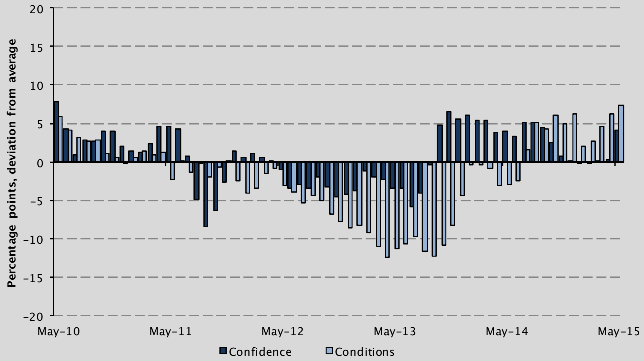
Source: NAB, Quaterly Business Survey ABS 5206.0, ABS 5625.0 and Treasury

For many NSW businesses, confidence is affected by national and international economic developments, as well as business conditions in New South Wales. Many NSW businesses are directly exposed to economic conditions outside New South Wales because they export to interstate and international markets. Others will be indirectly affected.

In late 2014, national economic growth was subdued, global commodity prices were falling and concerns about the international economy were rising. Unsurprisingly, in this environment, business surveys showed falling confidence nationally. In New South Wales, business confidence fell back to around the average level over the last decade (see Chart 3.10).

The most recent surveys show that business confidence rebounded in May. However, if this is to flow through to stronger business investment, it will need to be sustained and national economic conditions will also need to improve.

Chart 3.10: NSW Business Confidence and Conditions



Source: NAB Monthly Business Survey and Treasury

Three month moving average, difference from decade average

The Sensis survey shows that, in the non-mining states of New South Wales, Victoria and Tasmania, small businesses are more confident than the business population as a whole as measured by the NAB survey. This is consistent with smaller businesses being more likely to serve local rather than interstate or national markets.

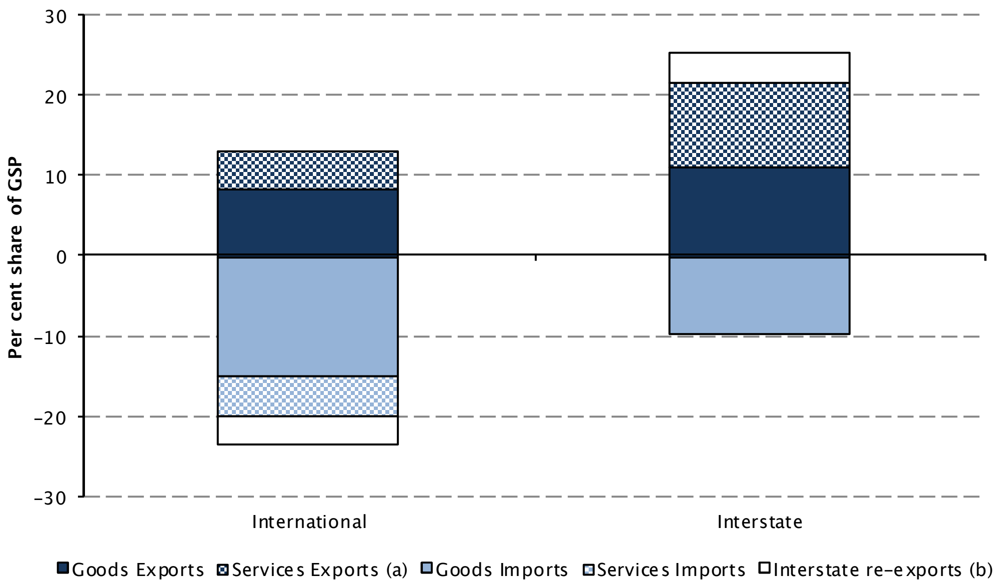
Public sector

In aggregate, NSW public demand is expected to grow solidly over the next two years and provide a strong contribution to economic growth. The State's public infrastructure projects underway or in the pipeline, including projects such as WestConnex, NorthConnex, the Sydney Metro Northwest and major hospital upgrades and redevelopments, are expected to provide strong support for NSW economic activity. Continued expense discipline, as part of the Government's fiscal strategy, will work to moderate some of this impact on public final demand. In addition, fiscal consolidation by the Australian Government will also weigh on the national component of NSW public final demand.

Trade

Both interstate and international trade contribute to the overall performance of the NSW economy. Interstate exports (goods and services produced in New South Wales and sold interstate) account for a large share of NSW GSP (see Chart 3.11). This reflects the relatively high concentration of business and financial services in New South Wales, which service other parts of the country. As a result, conditions at the national level are important to NSW exports and overall economic performance. Weak domestic demand growth at the national level has been detracting from NSW GSP growth over the last two years via interstate trade. As national conditions improve over the forecast period, this should lift demand for NSW exports and moderate this effect.

Chart 3.11: NSW Trade by Component Share of Output (2013-14)



Source: ABS 5220.0, ABS 5302.0, ABS unpublished and Treasury

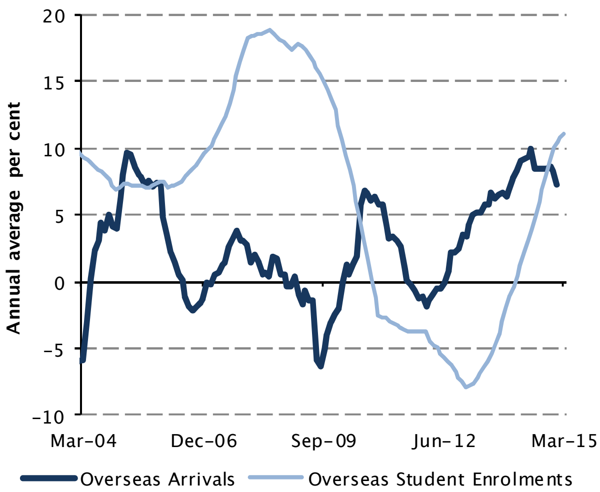
(a) Interstate services trade can only be inferred on a net basis.

(b) Re-exports are goods that are imported into New South Wales from overseas and then exported interstate with no, or only minor, alterations.

NSW overseas export growth has improved over 2014-15. Overseas exports have benefited from a lower Australian dollar, with growth in non-rural commodities and services contributing significantly to recent NSW export growth. Following a large decline in 2013-14, agricultural commodity exports are estimated to have fallen again in 2014-15, as poor growing conditions led to reduced crop production.

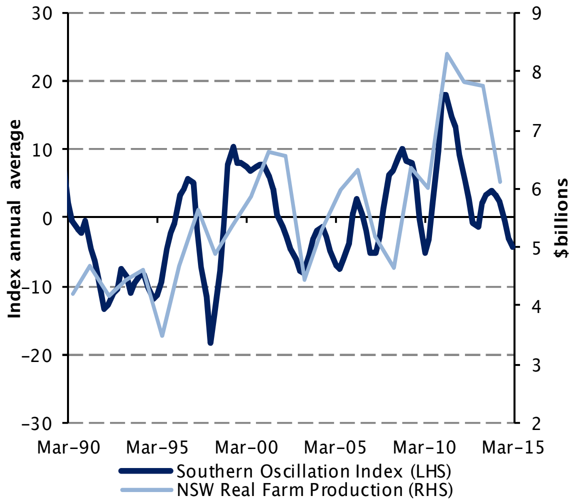
Over the next two years, overseas exports are expected to grow at around their average rate of the last five years. Australia's major trading partner growth remains around its long-run average, which will help support growth, and the lower exchange rate will boost businesses competitiveness. This is expected to drive strong growth in service exports (see Chart 3.12) and a modest recovery in manufactured exports. Strong growth is expected for non-rural commodity exports, driven by the ongoing expansion in coal export volumes and an expected gradual recovery in mineral and energy prices from recent lows. However, the recently declared El Niño phase, which increases the likelihood of drought, may constrain farm production and exports (see Chart 3.13).

Chart 3.12: NSW Services Export Indicators



Source: ABS 3401.0, Australian Trade Commission and Treasury

Chart 3.13: NSW Farm Sector



Source: Bureau of Meteorology, ABS 5220.0 and Treasury

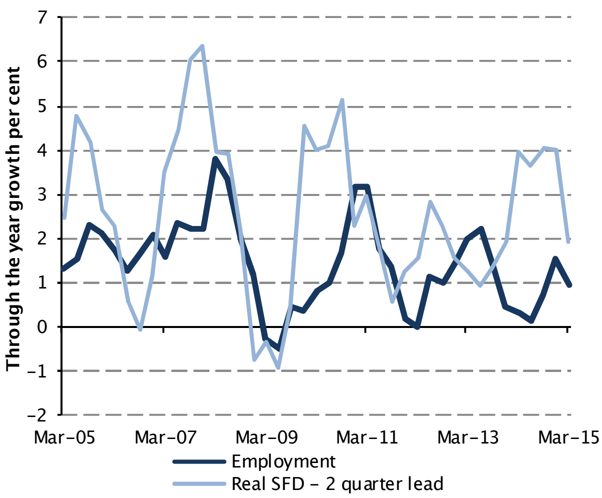
NSW import growth is expected to be higher than in recent years. Forecast growth in NSW non-mining business investment is expected to promote spending on imported capital goods, despite a lower Australian dollar making spending on overseas goods and services relatively more expensive.

Labour market

The second half of 2014-15 has seen a modest strengthening in labour market conditions. Employment growth has picked-up (driven by full-time employment), the participation rate has risen and the unemployment rate has fallen to below 6 per cent. The NSW unemployment rate has been at or below the national average for 18 of the last 19 months.

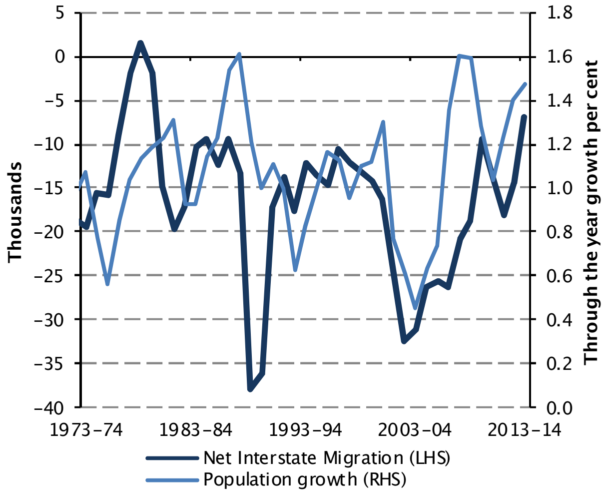
Strong economic conditions in New South Wales are expected to see employment growth gather momentum over the forecast period (see Chart 3.14). Economic growth, underpinned by an improvement in household spending, dwelling investment and non-mining business investment, will support demand in labour intensive sectors such as retail, tourism, construction and manufacturing. As a result, employment growth in 2015-16 and 2016-17 is expected to pick up to an above-trend rate of 1¾ per cent, following growth of around 1¼ per cent in 2014-15.

Chart 3.14: NSW Employment and SFD



Source: ABS 6202.0, ABS 5206.0 and Treasury

Chart 3.15: NSW Population Growth and Net Interstate Migration



Source: ABS 3101.0, ABS 3105.0.65.001 and Treasury

Strong population growth, driven in part by the relative economic strength of New South Wales compared with other states, is expected to result in increasing labour force participation and labour supply (see Chart 3.15). This will moderate the pace of the decline in the unemployment rate, despite strong employment growth. The unemployment rate is forecast to drop to an average of around 5¾ per cent in 2015-16 and fall to 5½ per cent by the June quarter 2017.

Wage growth (as measured by the Wage Price Index) has been subdued. At 2.1 per cent growth through the year to the March quarter 2015, it is at its lowest rate since the series began in 1997. Wage growth is expected to increase only modestly over the forecast period, rising to 2½ and 2¾ per cent in 2015-16 and 2016-17, respectively. Subdued wage growth is reflective of the spare capacity in the labour market. Wage growth is subdued across most industries, though growth has picked up slightly in the manufacturing, education, wholesale trade and professional services industries. The Government's wages policy is expected to contain wage pressures across the NSW public sector.

Inflation

Recent inflation outcomes have been lower than expected. Headline inflation has moved below the lower end of the Reserve Bank of Australia's (RBA) target band, reflecting ongoing subdued wage growth, a large fall in the price of oil and the one-off impact of the abolition of the carbon tax. These factors are offsetting the impacts from a lower exchange rate. Looking forward, inflation is forecast to return to, and then remain within, the RBA's target band as any inflationary pressures from the depreciation in the exchange rate are expected to be offset by subdued wages growth and weak demand.

Sydney Consumer Price Index (CPI) growth is expected to be a low 1¾ per cent in 2014-15 reflecting the impact of lower fuel prices and the repeal of the carbon tax, partially offset by the impact of staged increases in the tobacco excise. Sydney CPI growth is then forecast to return to 2½ per cent in 2015-16.

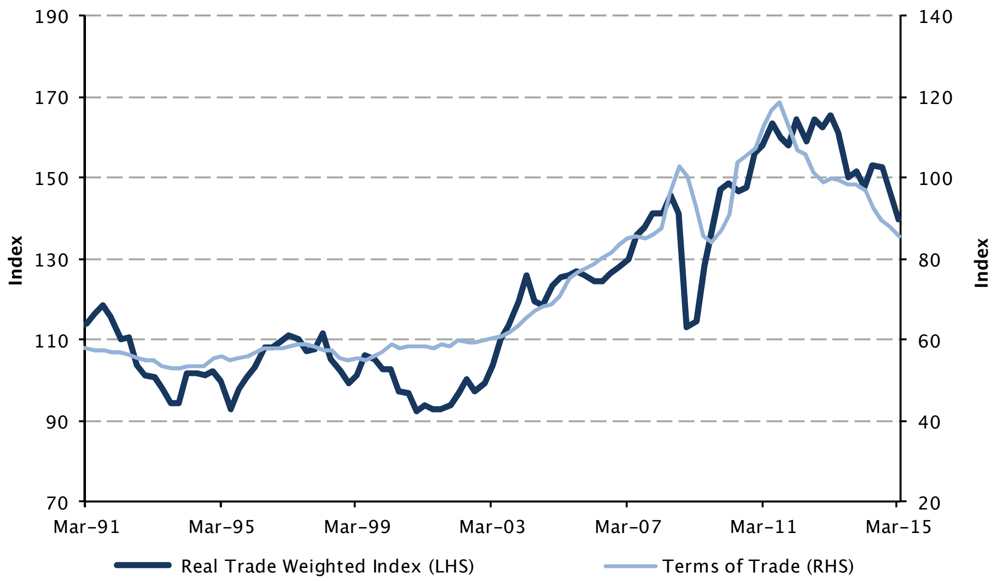
3.3 National and Global Economic Outlook

Australian economy

The Australian economy is currently adjusting to the unwinding of the largest terms of trade shock and mining investment boom in its history. Sharp falls in commodity prices and the resulting decline in the terms of trade have placed downward pressure on national income growth, and this has led to subdued economic activity at a national level. Emerging signs of transition to broader-based growth, led by household consumption, dwelling investment and increasing export growth, have not occurred at a fast enough pace to offset the continuing impact of declining mining investment, the fiscal consolidation efforts at a national level and falling commodity prices. In particular, non-mining business investment has remained persistently weak and subdued income growth has limited the pace of the recovery in household consumption. These factors resulted in below-trend national economic growth over the last year.

Reflecting this weak momentum, a slow recovery is now expected in Gross Domestic Product (GDP), with GDP growth in 2015-16 forecast to remain below trend. The expected improvement to above-trend growth in 2016-17 is significantly driven by a forecast spike in liquefied natural gas exports in that year. Domestic demand growth is expected to increase, but remain below trend.

Chart 3.16: Australian Terms of Trade and the Exchange Rate



Source: ABS 5302.0 and RBA F15

Further falls in commodity prices have intensified the expected decline in mining investment, which is expected to fall significantly in both 2015-16 and 2016-17. The outlook for non-mining business investment is uncertain, with a significant recovery not expected until 2016-17. While some of the pre-conditions are in place (low cost of capital, a falling exchange rate and solid household demand), there is little indication that any near-term significant improvement is likely, with business confidence and investment intentions persistently weak at the national level.

As commodity prices stabilise, this should ease the drag on economic growth from weak income growth. With the labour market strengthening, household consumption growth is expected to improve to around trend.

The national labour market has remained relatively firm through 2014-15 despite weaker than anticipated domestic demand growth. Employment growth, supported by a moderation in wages growth, has improved to a pace that has stabilised the national unemployment rate at slightly above 6 per cent. Nevertheless, with economic growth expected to take longer to strengthen, the national unemployment rate is expected to increase through 2015-16 to 6½ per cent before declining gradually through 2016-17 to 6¼ per cent. Spare capacity in the national labour market is forecast to result in wages growth remaining subdued and inflationary pressures remaining well-contained.

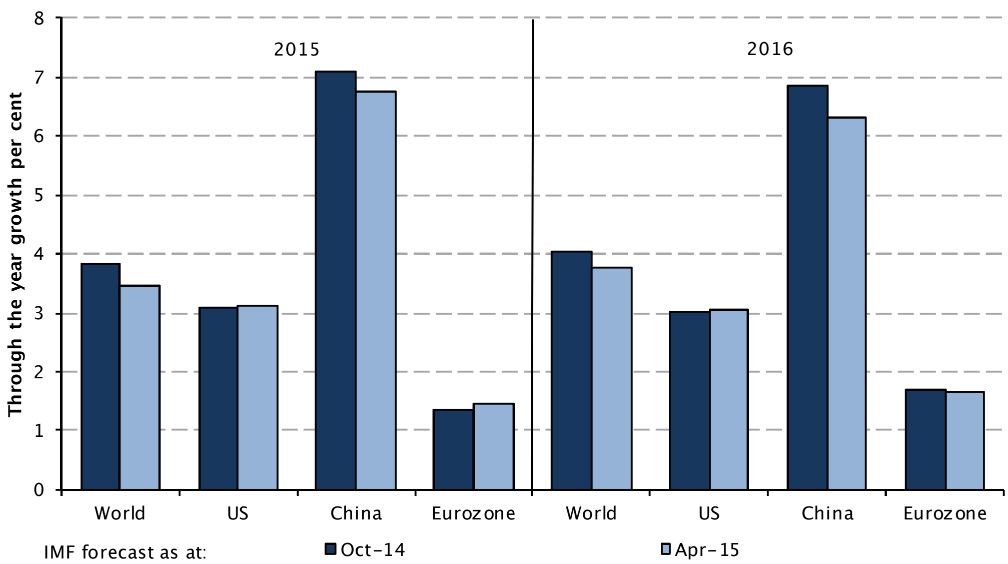
Risks to the domestic outlook are balanced. Downside risks largely relate to a further weakening in demand for Australia's key commodity exports and drought impacting the farm sector. The onset of an El Niño cycle may lead to further downward revisions to farm production forecasts.

Considerable uncertainty remains around the path of the exchange rate. A further depreciation of the exchange rate seems likely given the significant declines in the terms of trade (see Chart 3.16) and falling mining investment (with its related large capital flows), the effect of quantitative easing by central banks in the major economies and subdued inflation.

Global economy

Global growth remained moderate at 3.4 per cent in 2014, in line with growth over the previous two years. Global growth in the second half of 2014 was broadly in line with expectations, but has become more uneven among the major economies. Although United States growth has been robust, the recoveries in the Euro zone and Japan remain weak. Reflecting this, monetary policy expectations have become more divergent across the major economies, increasing the risk of disruptive financial market shifts. Although growth in China has slowed broadly in line with expectations, a significant downturn in the property market has weakened the outlook for growth.

Chart 3.17: World Economic Growth Prospects



Source: IMF World Economic Outlook October 2014 and April 2015

Looking ahead, the outlook remains subdued and somewhat softer than anticipated (see Chart 3.17). The International Monetary Fund (IMF) is forecasting global growth to remain modest in 2015 at 3½ per cent before picking up to 3¾ per cent in 2016 (see Table 3.2). This represents a downward revision of ¼ percentage point in both years compared with its October 2014 forecasts. The downgrade reflects lower growth prospects in emerging economies, particularly in China where authorities are reining in credit growth and rebalancing activity away from investment to consumption. Lower commodity prices are weighing on a number of other major emerging economies while some countries, such as Russia, also face increasing geopolitical tensions.

Table 3.2: World Economic Prospects

	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast
United States	2.4	3¼	3	2¾
Euro zone	0.9	1½	1¾	1½
Japan	−0.1	1	1¼	½
Korea	3.3	3¼	3½	3¾
China	7.4	6¾	6¼	6
India	7.2	7½	7½	7½
World Output	**3.4**	**3½**	**3¾**	**3¾**
Major Trading Partners – Australia	**4.2**	**4½**	**4¼**	**4**

Note: Major Trading Partners growth rates are calculated using national merchandise export weights of top 26 export destinations.
Source: IMF World Economic Outlook April 2015 and Treasury

Advanced economies, led by above-trend growth in the United States, are expected to increase their contribution to global growth in 2015 and 2016 with lower oil prices supporting consumers and energy-intensive industries. Growth in the Euro zone and Japan is expected to improve on the back of weaker exchange rates and additional monetary policy easing, albeit remaining relatively weak.

Risks to the global economic outlook remain significant and tilted to the downside.

Growth in Australia's major trading partners is expected to remain at, or be slightly above, its long-run average in 2015 and 2016 before easing to slightly below its long-run average in 2017, reflecting China's transition to a more sustainable rate of economic growth. The transition towards stronger consumption growth in China should benefit New South Wales by increasing demand for services exports.

3.4 Risks to the Economic Outlook

Overall, the risks to the economic forecasts are balanced but significant. The most significant uncertainties relate to the timing and extent of the recovery in non-mining business investment, house price growth and the impact of national and international economic developments on business and consumer sentiment.

Considerable uncertainty remains around the timing of the pick-up in non-mining business investment. Until very recently, the weak national economy was dampening business confidence in New South Wales. Other pre-conditions for a recovery in business investment have been in place for some time. If the recent improvement in business confidence is sustained, business investment could recover sooner or more quickly than forecast. Conversely, if it takes longer for the national economy to improve, then the recovery in NSW non-mining investment might be more subdued than currently expected. For the farm sector, the developing El Niño cycle increases the risk of above-average temperatures and below-average rainfall over south eastern Australia. This may lead to further downward revisions of agricultural output forecasts.

Another risk to the outlook stems from the timing and impact of further interest rate movements on the housing sector. A prolonged period of low interest rates may lead to higher-than-expected house price growth. While this is likely to result in increased economic activity in the short term, it increases the risk of a disorderly correction in the property market in the medium term. Additionally, higher than expected population flows to New South Wales from the mining states as the national economy rebalances has upside potential for NSW domestic activity and employment growth. However, it is likely that the NSW unemployment rate would remain at a more elevated level than otherwise, particularly if this occurred in conjunction with weaker growth in the rest of Australia. Some of this effect may be mitigated as house price differentials widen between Sydney and other capital cities.

Risks to the global outlook remain significant. Ongoing weakness in the Chinese property market may cause a further downward revision to forecasts for Chinese economic growth and commodities demand. Adverse commodity price and export developments place risk to Australia's terms of trade forecasts and the path of the exchange rate. Additionally, recent uncertainty over the pace of the United States economic recovery raises doubts over the timing of their monetary policy normalisation, currently expected in the latter half of 2015. This, in conjunction with the Greek debt restructuring, may lead to increased volatility on international financial markets, with flow-on effects for credit availability and pricing in New South Wales, as well as for business confidence.

Chapter 4: Rebuilding NSW – Transforming the State Through New Infrastructure

- The Government is committed to delivering infrastructure to support a growing NSW population and underpin growth and prosperity, while maintaining the State's triple-A credit rating.
- Under Rebuilding NSW, the Government will invest a further $20 billion to meet the current and future needs of the people of New South Wales. This plan will significantly boost economic growth, lift productivity, attract people and businesses to the State, and strengthen access in the regions and cities. It will make New South Wales a better place to live and work.
- Proceeds from the long-term lease of 49 per cent of the State's electricity network assets, and approximately $2 billion in expected incentive payments from the Australian Government under the Asset Recycling Initiative, will go towards funding Rebuilding NSW.
- The partial lease will also benefit consumers and the business sector by increasing efficiency and putting downward pressure on electricity prices.
- The proceeds from Rebuilding NSW will be placed in Restart NSW. Allocations out of Restart NSW must be assessed by Infrastructure NSW (INSW), the Government's infrastructure advisory body, to ensure projects promote the purposes of the fund and deliver maximum benefit to the State. The Rebuilding NSW plan itself is built upon the *State Infrastructure Strategy Update 2014* developed by INSW.
- Rebuilding NSW adds to the Government's proven track record of funding new infrastructure through asset recycling, following the successful long-term lease of Ports Kembla and Botany and the Port of Newcastle. The proceeds from these transactions have been previously placed in Restart NSW, which has funded a number of regional and metropolitan infrastructure projects.
- Independent economic modelling prepared for the Government estimates that Rebuilding NSW will lead to a cumulative increase in Gross State Product of almost $300 billion over the next two decades. By 2035-36, the plan will support over 120,000 additional full-time jobs in that year.
- Funding the investments through asset recycling will keep the State's debt low and reduce risk to the State's balance sheet. The implementation of the transaction will be managed in line with the *Fiscal Responsibility Act 2012*.
- Under NSW budget conventions, the proceeds generated and reinvested from the electricity network transaction are not accounted for until the transaction contract has been signed. As a result, the 2015-16 Budget does not reflect the impact of the transactions.
- However, in this Budget the Government has decided to accelerate a number of projects from the Rebuilding NSW plan and consequently $590.6 million has been approved from the Consolidated Fund and Restart NSW for inclusion in the 2015-16 Budget to enable the immediate commencement of planning and construction of some projects.

4.1 Introduction

By 2035-36, it is projected there will be an additional 2.2 million people living in New South Wales compared to 2013-14. This includes an extra 1.8 million people living in Sydney.[1] This population growth across the State provides opportunities for economic development and growing prosperity, but also brings the challenges of increased demand for public services and supporting infrastructure.

[1] NSW Department of Planning and Environment population projections (2013) used in the baseline model (without Rebuilding NSW) found in Deloitte Access Economics, *Economic Impact of State Infrastructure Strategy – Rebuilding NSW*, Deloitte Australia, Sydney, 2014.

Rebuilding NSW provides a $20 billion boost to funding to ensure the Government's infrastructure program provides for the current and future infrastructure needs of the people of New South Wales and supports economic growth.

Rebuilding NSW will be funded from the proceeds of the long-term lease of 49 per cent of the State's electricity network assets, approximately $2 billion in associated incentive payments expected from the Australian Government and interest earnings from funds accumulated prior to expenditure.

Rebuilding NSW will provide a strong foundation for economic growth and will improve living standards for NSW residents by improving and expanding public transport and roads, improving access to education and health facilities, and providing for regional communities. Leasing the network businesses will also increase efficiency and provide benefits to consumers by putting further downward pressure on electricity prices.

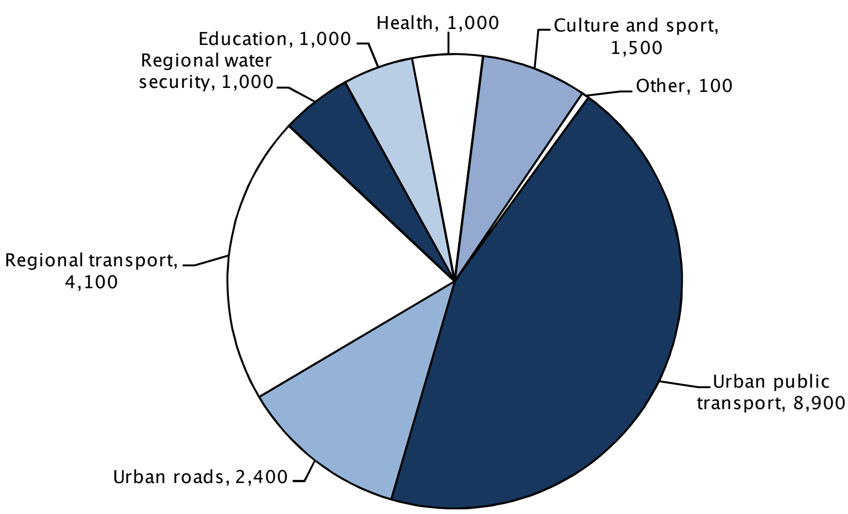
4.2 Rebuilding NSW and the State Infrastructure Strategy

To assist in determining investment priorities for the proceeds of the long-term lease of 49 per cent of the State's electricity network, the Government requested a 2014 update to the *State Infrastructure Strategy 2012* (*SIS 2012*) from Infrastructure NSW (INSW). INSW is a statutory agency established under the *Infrastructure NSW Act 2011* to independently advise the Government on infrastructure issues. Rebuilding NSW is underpinned by the *State Infrastructure Strategy Update 2014* (*SIS Update 2014*).

Following extensive analysis and community consultation, the Government adopted the recommendations made in the *SIS Update 2014*. The recommendations reflect the importance of sustaining productivity growth in the major centres and regional communities of New South Wales, as well as supporting the needs of a growing population.

Rebuilding NSW provides benefits right across the State as shown in Chart 4.1 below and builds upon the State's asset recycling program. Further information about specific Rebuilding NSW projects is set out in Budget Paper No. 2, Chapter 3.

Chart 4.1: Rebuilding NSW Infrastructure Investments ($ million)



4.3 Restart NSW and Project Assessment by Infrastructure NSW

The proceeds from the long-term lease of 49 per cent of the State's electricity network assets and the incentive payments expected under the National Partnership Agreement on Asset Recycling with the Australian Government will be deposited in the Restart NSW Fund, a special deposit account established under the terms of the *Restart NSW Fund Act 2011.* Restart NSW funds are designated for the delivery of infrastructure with the purpose of promoting economic growth and productivity. Restart NSW is the repository of all net proceeds from asset transactions, including the long-term lease of Ports Kembla and Botany and the Port of Newcastle. Other sources of Restart NSW funds include windfall tax revenues and Waratah bonds. Rebuilding NSW priorities will be subject to the normal INSW assessment process that precedes the release of funds from Restart NSW.

This process includes a specific recommendation by INSW to the Treasurer, based on a three part test for assessing and recommending projects:

- Strategic assessment – the project's consistency with Restart objectives and themes and NSW Government policy
- Business case and independent assurance – whether the project has successfully completed the appropriate business case development and independent review processes
- Economic assessment – the economic merit of the project demonstrated through a benefit-cost ratio greater than 1.

Box 4.1 summarises the performance of Restart NSW to date and key programs and projects already committed.

Box 4.1: Rebuilding NSW Adds to the Foundation Laid by Restart NSW

The Government established Restart NSW in September 2011 to fund a range of high priority infrastructure projects in New South Wales designed to improve economic growth and the productivity of the State.

By 30 June 2015, total receipts into Restart NSW, including from asset sales, windfall taxation revenues and interest earnings, are estimated to be $9.2 billion. Of this amount $4.9 billion has already been committed to specific projects or programs, with the balance reserved by the Government for other programs.

The WestConnex motorway, which was recommended by INSW in the *SIS 2012,* is a key commitment that has received an allocation of $1.8 billion from Restart NSW. WestConnex will support economic growth by tackling congestion in Western Sydney.

Restart NSW funds have also been committed to a number of other metropolitan infrastructure projects, including the following expenditure commitments in the Budget:

- $103.3 million for the Western Sydney Infrastructure Plan
- $402 million for the New Intercity Fleet
- $57.4 million for additional support for tourism infrastructure at Taronga Zoo
- $14 million for the Newcastle Inner City Bypass Missing Link planning.

Importantly, Restart NSW benefits the entire State. Restart NSW targets 30 per cent of total allocations to regional and rural projects. This has been reflected in the distribution of projects under Rebuilding NSW.

There are eleven programs funded by Restart NSW targeting regional development, including the following expenditure commitments in the Budget:

- $39.3 million for Fixing Country Roads
- $44.7 million for the Western NSW Freight Productivity Program
- $85 million for the Regional Freight Pinch Point and Safety Program
- $127.4 million for Water Security for Regions
- $8 million for Resources for Regions further investments
- $15.3 million for Regional Health Infrastructure.

Full details of the infrastructure already funded by Restart NSW are set out in Budget Paper No. 2, Chapter 2.

The projects outlined in Rebuilding NSW[2] and reservations for future investment from Restart NSW are in addition to the $68.6 billion investment program for capital projects over the four years to 2018-19 (as set out in Budget Paper No. 2). This is the largest four-year investment program for infrastructure provided in a NSW budget, and Rebuilding NSW will provide a further boost.

4.4 Accelerating Rebuilding NSW Investments

The 2015-16 Budget makes specific allocations to prepare for the delivery of major projects identified in Rebuilding NSW and to commence specific critical works. These allocations will form part of the Government's $20 billion Rebuilding NSW commitment. This will allow key projects to be ready for construction and implementation when the proceeds from the electricity network transaction are realised. In total this Budget allocates $590.6 million to accelerate Rebuilding NSW.

2 Excluding $590.6 million already committed for accelerating Rebuilding NSW initiatives.

To progress key Rebuilding NSW projects, the 2015-16 Budget allocates the following funding to support project planning and development:

- $116 million to public transport projects and programs
- $71 million to road projects and programs
- $21 million to culture and arts projects.

Early planning will save time once the required Rebuilding NSW funding is available and ensure the projects selected are the best value for money to achieve the objectives of Rebuilding NSW.

The 2015-16 Budget also makes specific provision to fund the delivery of key critical projects:

- Initial funding of $160 million is to be advanced towards funding education projects commencing in 2015-16 as part of the $1 billion identified in the *Rebuilding NSW SIS Update 2014* for regional and metropolitan schools.
- Funding of $77 million is to be advanced for health projects commencing in 2015-16 as part of the $300 million identified in the *Rebuilding NSW SIS Update 2014* for the Regional Multipurpose Services (MPS) Strategy.

Finally, on the recommendation of INSW, $130 million from Restart NSW is to be advanced to commence construction work on three nominated Rebuilding NSW road projects that are ready to proceed:

- $65 million for the Pacific Highway, Ourimbah to Glen Road, Ourimbah – Stage 3A
- $38 million for the Mitchell Highway, Guanna Hill Realignment
- $27 million for the Newell Highway, Trewilga Realignment.

An additional $16 million will be provided from Restart NSW for planning the transport priorities under Rebuilding NSW.

More information on these projects can be found in Budget Paper No. 2, Chapter 3.

Box 4.2: Accounting for Asset Transactions

Established NSW budget practice is for business asset transactions not to be reflected in the budget until the transaction contract has been signed. Consequently, the expected proceeds from the electricity network partial lease and the consequent impacts on dividends, guarantee fees and tax equivalent payments are not reflected in the 2015-16 Budget. Similarly, the Budget does not include the expected receipts under the National Partnership Agreement on Asset Recycling.

Rebuilding NSW infrastructure reservations to be funded from Restart NSW are also not reflected in the budget until the Treasurer has received a recommendation from INSW and the Government has made a decision to accept this recommendation. The Rebuilding NSW projects highlighted in Section 4.4 are reflected in the 2015-16 Budget as the Government has committed to accelerating the planning or delivery of these projects and to fund them from the Consolidated Fund and Restart NSW. Full details of Restart NSW investments are explained in Budget Paper No. 2, Chapter 2.

The expected fiscal impact of Rebuilding NSW is outlined in Box 4.3.

4.5 The Benefits of New Infrastructure in Rebuilding NSW

Investing $20 billion in the future infrastructure needs of New South Wales using the proceeds from the long-term lease of 49 per cent of the State electricity network will deliver a variety of benefits.

Reducing congestion and boosting urban productivity

Without investment in transport infrastructure, the amount of time NSW residents spend commuting is likely to increase as roads and public transport become increasingly congested. This could damage the performance of the State's economy and detract from the standard of living of NSW residents.

The transport infrastructure investments under Rebuilding NSW aim to tackle the challenge of congestion. Congestion already costs Sydney, Newcastle and Wollongong around $5.6 billion per year, and is expected to cost $14.8 billion per year by 2031 if no action is taken.[3] These infrastructure investments will allow Sydney to grow as a strong global city by lifting urban productivity, better connecting residential housing to employment opportunities and targeting issues of congestion for the benefit of the entire State.

Around three-quarters of Rebuilding NSW has been reserved for road, rail and other public transport projects. Under this plan, the Government will reserve $8.9 billion for urban public transport and $2.4 billion for urban roads. This investment will save travel time for commuters every day and will enable them to spend time more productively.

Supporting the regions and moving freight

Rebuilding NSW will meet the transport needs of regional New South Wales with $3.7 billion reserved for regional roads and $400 million reserved for regional rail. Improved road and rail transport in regional New South Wales will facilitate more efficient passenger and freight transport between existing markets, as well as open up access to new markets and support regional population growth. In turn, this will help foster economic growth by increasing the productive capacity of the NSW economy.

Rebuilding NSW will allocate a total of $6 billion towards regional infrastructure to address a wide range of needs, as seen in Table 4.1. A $1 billion reservation has been made for regional water security and $300 million has been reserved for regional tourism and the environment. Water security is key to enabling regional communities and economies to prepare for future drought conditions. Combined with tourism and environmental activities, this will support broad-based economic growth in regional New South Wales.

[3] Infrastructure Australia, *Australian Infrastructure Audit – Our Infrastructure Challenges*, Infrastructure Australia, Sydney, 2015.

Table 4.1: Rebuilding NSW Regional Infrastructure Investments

Priority areas	Project/Program	Rebuilding NSW reservation
Regional transport	Regional Road Freight Corridors	$2,000 million
	Regional Growth Roads	$1,000 million
	Fixing Country Roads	$500 million
	Fixing Country Rail	$400 million
	Bridges for the Bush	$200 million
Water Security	Regional Water Security and Supply Fund	$1,000 million
Education	Regional Schools Renewal program	$300 million
Health	Regional Multipurpose Services (MPS) Facilities	$300 million
Culture and Sport	Regional Environment and Tourism Fund	$300 million
Total		**$6 billion**

Boosting health and education

The $2 billion reserved for investment in schools and hospitals as part of the Rebuilding NSW package will help improve NSW residents' standard of living by increasing health and educational infrastructure and services. This $2 billion reservation includes $300 million for regional education projects and $300 million for regional health projects. Improved access to health and education services will enhance the capacity of people to work productively and ultimately enjoy a better quality of life.

Growing the economy

Deloitte Access Economics estimates that by 2035-36, Rebuilding NSW will support over 120,000 additional full-time jobs, with a cumulative increase in economic output over the period to 2035-36 estimated to be almost $300 billion[4].

Rebuilding NSW is expected to stimulate engineering construction activity without creating significant cost pressures in the NSW economy. The Productivity Commission (PC) estimates that there is a high level of labour mobility in the mining and construction industries.[5] The relatively high labour mobility in these two industries should help to minimise any labour supply constraints. New South Wales should also benefit from the return of skilled workers in these areas from other states as the mining construction boom experienced in recent years subsides.

As well as improving economic infrastructure, Rebuilding NSW will improve social infrastructure for the people of New South Wales. A $1.2 billion reservation has been made under the plan for sports and cultural infrastructure, providing NSW residents with high-quality entertainment facilities.

[4] Deloitte Access Economics, *Economic Impact of State Infrastructure Strategy – Rebuilding NSW*, Deloitte Australia, Sydney, 2014.

[5] Productivity Commission, *Geographic Labour Mobility Report,* PC, Canberra, 2014.

4.6 The Benefits of Asset Recycling

Maintaining the State's triple-A credit rating

Releasing capital locked up in the physical assets of the electricity network businesses allows the Government to fund the infrastructure needs of New South Wales. This will assist the Government to fulfil its commitments articulated in Rebuilding NSW while also maintaining the State's triple-A credit rating, consistent with the *Fiscal Responsibility Act 2012*.

The long-term partial lease will also benefit the State as it will no longer have to support the current and future borrowings of the electricity network businesses to fund electricity network investment and operating and maintenance costs. The long-term lease will provide funds for the Government to invest in new productive infrastructure while retaining ownership of 51 per cent of the electricity network assets.

The long-term lease can also reduce the State's fiscal risks in a number of other ways. For example, it reduces the State's exposure to a risky commercial earnings stream. The current income stream to the State from the electricity network businesses depends on Australian Energy Regulator (AER) revenue caps and the most recent determinations highlight the risky nature of these returns. AER benchmarking against privately-owned networks found the NSW networks to be relatively inefficient compared to privately-owned counterparts and the latest AER determinations will require job reductions.

The network businesses have faced risks associated with declining total electricity demand in New South Wales since 2009, despite peak demand being forecast to increase marginally over the short term. Peak demand is the driver for capital expenditure in network businesses.

Private sector investment provides network businesses with the opportunity to take advantage of the changing operating environment and to facilitate innovative responses to future challenges. The private sector will be able to take the network businesses forward with greater flexibility and efficiency. This is in the best interests of NSW electricity consumers who will benefit from the efficiency gains.

To the extent that Essential Energy, which remains in government ownership, can achieve the benchmark performance and profitability of an efficient operator, the Government could receive future dividends from the business. It will also be able to receive dividends from the State's retained interests in Ausgrid and Endeavour.

Funding Rebuilding NSW through asset recycling leads to a stronger and more fiscally sustainable outcome for the State compared to a debt financing strategy. This will assist the Government to maintain the State's triple-A credit rating; in turn helping to maintain investor confidence in New South Wales.

Australian Government incentive payment

All Australian jurisdictions committed to the National Partnership Agreement on Asset Recycling in May 2014. Through this agreement, the Australian Government is supporting states committed to divesting specific assets and reinvesting the proceeds in additional infrastructure. To be eligible for funding, state infrastructure projects must enhance the long-term productive capacity of the economy and, where possible, enhance private sector involvement in the funding and financing of new infrastructure.

In March 2015, the NSW Government signed a bilateral agreement with the Australian Government that reserves incentive payments of $1,965 million in Australian Government funding for New South Wales.

Box 4.3: Expected Fiscal Impact of the Electricity Network Transaction

As described in Box 4.2, the budget impact of the long-term lease of 49 per cent of the electricity network businesses is not included in the 2015-16 Budget. When it is reflected, the transaction is expected to lead to a significant improvement in the State's financial position over the forward estimates period and a reduction in Total State Sector net debt of around $30 billion.

The lease is also expected to lead to an improvement in the budget result over the forward estimates. In particular, the budget result will benefit from the Australian Government incentive payments and earnings on the investment of the proceeds. These revenues more than offset the reduction in revenue from distributions and government guarantee fees of the businesses.

The State will also no longer have to support the borrowing required to fund the future capital investments of the businesses.

For competitive neutrality and transparent risk recognition, network businesses currently pay a fee associated with debt financing that accounts for the benefits of the State guaranteeing their debt. On completion of the lease transactions, the State will no longer carry that financial risk so government guarantee fees will no longer be received. This de-risking of the State's balance sheet can contribute to lower borrowing costs for the State.

Over the longer term, as the full Rebuilding NSW infrastructure investment program is rolled out, the reduction in distributions from the network businesses will be managed within the context of a growing economy and the Government's fiscal strategy and track record for responsible fiscal management. The implementation of the transaction will be managed in line with the *Fiscal Responsibility Act 2012*.

Economic efficiency gains and downward pressure on energy bills

In addition to improving the State's fiscal position, the network partial lease transaction continues the process of microeconomic reform and transformation of the energy sector. This will improve the living standards of NSW residents by placing downward pressure on electricity prices, helping both households and businesses.

Ernst & Young reported that real network prices for government-owned networks in New South Wales and Queensland rose by 122 per cent and 140 per cent respectively between 1996-97 and 2012-13, compared to reductions of 18 per cent and 17 per cent respectively for the privately-owned networks in Victoria and South Australia over a similar period. Ernst & Young also noted that evidence from the AER suggests that 'since 2000-01 the average duration of outages per customer tended to be lower in Victoria and South Australia than other jurisdictions'[6]. This evidence suggests that there is an efficiency gain associated with the private sector operating electricity networks without compromising the quality of service provision.

4.7 Way Forward

With the passing of the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* by the NSW Parliament, the Government will proceed with the transactions. This will enable the Government to deliver infrastructure investments under Rebuilding NSW, support economic growth and maintain sound fiscal management in line with the *Fiscal Responsibility Act 2012*.

[6] Ernst & Young, *Electricity Network Services – Long-term trends in prices and costs*, EY Australia, Sydney, 2014.

Chapter 5: Budget Position and Outlook

- The budget result for 2015-16 is expected to be in surplus by $2.5 billion, with surpluses exceeding $2 billion in each year of the forward estimates. For 2014-15, revised expectations are now for a surplus of $2.1 billion.
- The establishment of the Transport Asset Holding Entity (TAHE) from 1 July 2015 improves the budget result by an estimated $1.8 billion in 2015-16 and $1.9 billion per annum, on average, over the forward estimates.
- The budget result for 2015-16, excluding the impact of TAHE, is a surplus of $712.6 million, with moderately rising surpluses expected over the forward estimates.
- Revenue in 2014-15 is forecast to grow by 4.8 per cent driven by higher-than-expected residential transfer duty, the re-profiling of Commonwealth grants, and higher distributions from the Public Non-Financial Corporation sector. Revenue growth from 2015-16 onwards is expected to be relatively subdued, reflecting lower dividends as a result of the Australian Energy Regulator's determinations, a change in NSW relativities for GST and falling Commonwealth National Partnership Payments.
- Reflecting the continued focus on expense restraint, expenses are expected to come in under budget by $311 million in 2014-15. Expenses are forecast to grow by an average 2.8 per cent over the budget and forward estimates period.
- This Budget delivers on the Government's election commitments, which are fully offset by new savings measures.
- A significant General Government Sector capital expenditure program of $36 billion is forecast over the budget and forward estimates. This includes accelerated funding to progress the planning for key Rebuilding NSW road, public transport and cultural and arts projects. These capital initiatives will work to address the State's infrastructure backlog, support job creation and contribute to economic growth. Capital expenditure increases substantially in 2018-19 as Public Private Partnerships are brought online.
- Net debt is forecast to be $15.8 billion by the end of the forward estimates period, and will improve significantly when the electricity network's lease proceeds are recognised in the Budget. It should be recognised that the June 2015 net debt estimate is unusually low, as it reflects the proceeds of prior assets sales being held as cash, ahead of capital spending planned as part of the Government's asset recycling strategy.
- Net financial liabilities are forecast to be higher at $76.0 billion by June 2016 compared with $69.7 billion at 2014, reflecting the impact of lower discount rates on superannuation liabilities. They are expected to fall to $64.7 billion by June 2019.

5.1 Introduction

This chapter sets out the budget position and aggregates for the General Government Sector (GGS). It includes information that was previously provided in Chapter 4: Budget Position, Chapter 5: General Government Expenses, Chapter 6: General Government Revenues, Chapter 7: Federal Financial Relations and Chapter 8: Liability and Asset Management of the 2014-15 Budget Statement: Budget Paper No. 2.

Additional detail on revenue and expenses are outlined in the Supplementary Revenue and Expense Analysis – Appendix B4.

This chapter contains an analysis of general government financial performance in the operating statement and financial position in the balance sheet. Collectively, these inform the stability, flexibility and sustainability of the Government's finances.

A significant initiative in this Budget is the establishment on 1 July 2015 of TAHE which will result in rail assets being funded through equity injections rather than grants, as has occurred up to 30 June 2015. This has a material impact on the GGS budget result and net lending from 2015-16. For more information, refer to Chapter 1: Overview.

The budget estimates do not include the impact of the partial lease of the electricity networks businesses until they are finalised. To maintain symmetry, the impact of reinvesting the proceeds is also not included. As a result, Rebuilding NSW is not included in the budget aggregates. This is consistent with previous NSW budget practice.

The annual budget is framed by government policy and priorities as well as economic and other parameters. This Budget paper takes into account the financial impacts of all policy decisions taken by the Government up to and including 18 June 2015, as well as Australian Government funding revisions, and economic and other information that affects the financial statements, unless otherwise stated.

The Government has identified a number of priority projects for which it has reserved Restart NSW funding. Funding has been reserved with a view to a future Restart NSW commitment being included in the budget aggregates following further project development and completion of project assurance processes, including final business cases. After a Government decision on the basis of all of this information, the commitment of funds will be included in future budget aggregates. For more information, refer to Budget Paper No. 2: Infrastructure Statement.

5.2 Budget Aggregates

The Budget is in a strong position. Revised forecasts for 2014-15 show a surplus of $2.1 billion or 0.4 per cent of Gross State Product (GSP). The improvement in 2014-15 reflects a $2.3 billion turnaround on the $283 million deficit estimated in the 2014-15 Budget. A surplus of $2.5 billion (0.5 per cent of GSP) for 2015-16, followed by an even stronger budget surplus of $3.2 billion (0.6 per cent of GSP) for 2016-17, is forecast in this Budget. Surpluses exceeding $2 billion (around 0.4 per cent of GSP) are forecast for the remainder of the forward estimates. The key budget aggregates are presented in Table 5.1.

These results include TAHE. However, excluding the impacts of TAHE still leaves the budget in surplus in 2015-16 with moderately rising surpluses over the forward estimates.

Table 5.1: Budget Aggregates [(a)]

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Budget result	1,247	2,058	2,520	3,194	2,590	2,257
Per cent of GSP	0.3	0.4	0.5	0.6	0.4	0.4
Net lending/(borrowing)	(1,236)	(1,196)	(1,783)	(153)	(1)	(2,747)
Per cent of GSP	(0.3)	(0.2)	(0.3)	(0.0)	(0.0)	(0.4)
Net debt	6,869	6,655	9,875	12,270	13,112	15,799
Per cent of GSP	1.4	1.3	1.9	2.2	2.2	2.6

(a) The impacts of electricity networks lease transactions are not included until contracts are signed. The impacts of infrastructure investment under Rebuilding NSW are also not included.

The Budget delivers a record $36 billion capital expenditure program for 2015-16 and across the forward estimates including $1.5 billion in Restart NSW projects which will provide a boost to jobs and drive economic growth.

Net lending adjusts the budget result for net capital expenditure. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Net lending is forecast to be a deficit of $1.2 billion in 2014-15 (0.2 per cent of GSP), a substantial improvement on the $3.7 billion projected in the 2014-15 Budget. This improvement reflects the significantly stronger budget result now in prospect. For 2015-16, net lending is forecast to be a deficit of $1.8 billion (0.3 per cent of GSP) and is then projected to be eliminated by 2017-18. The $2.8 billion net lending deficit in 2018-19 is associated with the significant increase in capital expenditure in that year.

Net debt is forecast to be $9.9 billion (1.9 per cent of GSP) by June 2016, rising to $15.8 billion (2.6 per cent of GSP) by the end of the forward estimates period. Net debt at the end of the forward estimates reflects cash from prior assets sales being recycled to meet capital expenditure needs consistent with the Government’s asset recycling strategy.

5.3 General Government Revenue

Revenue in 2014-15 is expected to be considerably stronger than estimated in the 2014-15 Budget. Revenues are estimated to increase by 4.8 per cent in 2014-15, compared to 2.6 per cent forecast in the 2014-15 Budget.

Transfer duty has significantly exceeded expectations in 2014-15 reflecting the continuing boom in the property market supported by historically low interest rates and unprecedented investor demand. Payroll tax has been lower than expected due to softer growth in employment and average compensation of employees while lower coal prices led to lower-than-expected royalties. Commonwealth grants were higher than expected in 2014-15, boosted by an adjustment for GST underpayment in 2013-14 and the re-profiling of National Partnership Payments for infrastructure (see Chart 5.1).

The windfall gains above originally forecast taxation revenue are transferred into Restart NSW and used to finance critical infrastructure, such as projects from the Housing Acceleration Fund, NorthConnex, Parramatta Light Rail and Bridges for the Bush.

Table 5.2 provides a reconciliation of revenue estimates between the 2014-15 Budget and the 2015-16 Budget. The table shows that most of the movement in revenues reflects the impact of parameter and other budget variations.

Table 5.2: Revenue Reconciliation

	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m
Revenues - 2014-15 Budget	**67,113**	**69,925**	**73,730**	**75,310**
Election Commitments	...	76	73	60
Other New Policy Measures	(4)	35	26	32
Total Policy	(4)	**111**	**99**	**91**
Parameters and Other Budget Variations				
- Transfer duty	1,195	1,345	1,148	1,019
- Payroll tax	(291)	(477)	(549)	(637)
- Other State Taxes	(350)	83	0	39
- Commonwealth Grants incl GST	696	(105)	(126)	(534)
- Royalties	(319)	(312)	(275)	(230)
- Other	1,102	(290)	(618)	(544)
Revenues - 2015-16 Budget (Pre TAHE)	**69,143**	**70,278**	**73,409**	**74,514**
Impact of TAHE	...	1,865	2,254	1,643
Revenues - 2015-16 Budget	**69,143**	**72,143**	**75,663**	**76,157**

Chart 5.1: Influences on 2014-15 Total Revenue Budget Forecast versus 2014-15 Revised Estimate

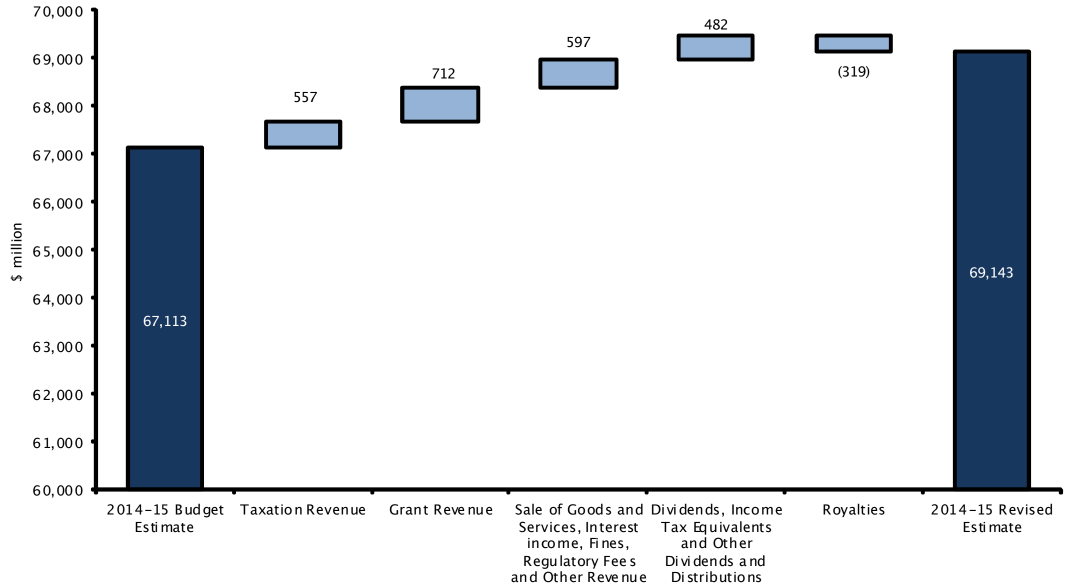


Table 5.3 provides a summary of GGS revenue.

Table 5.3: General Government Sector Summary of Revenue

	2013-14 Actual $m	2014-15 Budget $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	% Average Growth p.a. 2014-15 to 2018-19
Revenue from Transactions								
Taxation	24,295	25,489	26,046	27,855	28,678	30,085	31,343	4.7
Grant revenue	28,332	28,301	29,013	29,775	31,982	31,265	31,334	1.9
Sale of goods and services	5,677	6,094	6,352	8,212	8,856	8,496	8,256	6.8
Interest Income	609	543	651	508	482	481	479	-7.4
Dividends and income tax equivalents from other sectors	2,260	2,336	2,410	1,468	1,081	946	831	-23.4
Other dividends and distributions	700	370	779	424	452	472	505	-10.3
Royalties	1,338	1,592	1,273	1,431	1,616	1,816	2,008	12.1
Fines, regulatory fees and other revenues	2,795	2,389	2,619	2,470	2,516	2,595	2,558	-0.6
Total Revenue	**66,005**	**67,113**	**69,143**	**72,143**	**75,663**	**76,157**	**77,315**	**2.8**
Annual change	*9.8%*		*4.8%*	*4.3%*	*4.9%*	*0.7%*	*1.5%*	
Revenue without NPs	**62,042**	**64,481**	**66,314**	**69,431**	**71,869**	**73,570**	**75,693**	**3.4**
Annual change	*7.7%*		*6.9%*	*4.7%*	*3.5%*	*2.4%*	*2.9%*	

General government revenue is forecast to increase by 4.3 per cent in 2015-16 to $72.1 billion. Excluding the impact of TAHE, revenue growth would be 1.6 per cent.

Revenue growth is forecast to average 2.8 per cent per annum over the four years to 2018-19. The relatively subdued growth reflects a number of one-off factors, including the re-profiling of National Partnership Payments and the abolition of the remaining Intergovernmental Agreement (IGA) taxes (non-real business asset transfer duty, mortgage duty on business transactions and stamp duty on the transfer of unquoted marketable securities) from 1 July 2016 as previously committed by the Government.

The softer revenue growth in prospect is also affected by lower growth in GST, and falling dividend payments and National Partnership Payments.

Lower GST revenue reflects the ongoing impact of lower GST relativities following the Commonwealth Grants Commission's 2015 Methodology Review. This is partly offset by increases in the GST pool due to additional ATO compliance measures and the introduction of GST on digital products and services (e.g. e-books). The net impact of these factors has reduced GST revenue by $1.2 billion over the four years to 2017-18 compared to the 2014-15 Budget, and lowered the growth rate of GST to 2.5 per cent per annum over the four years to 2018-19.

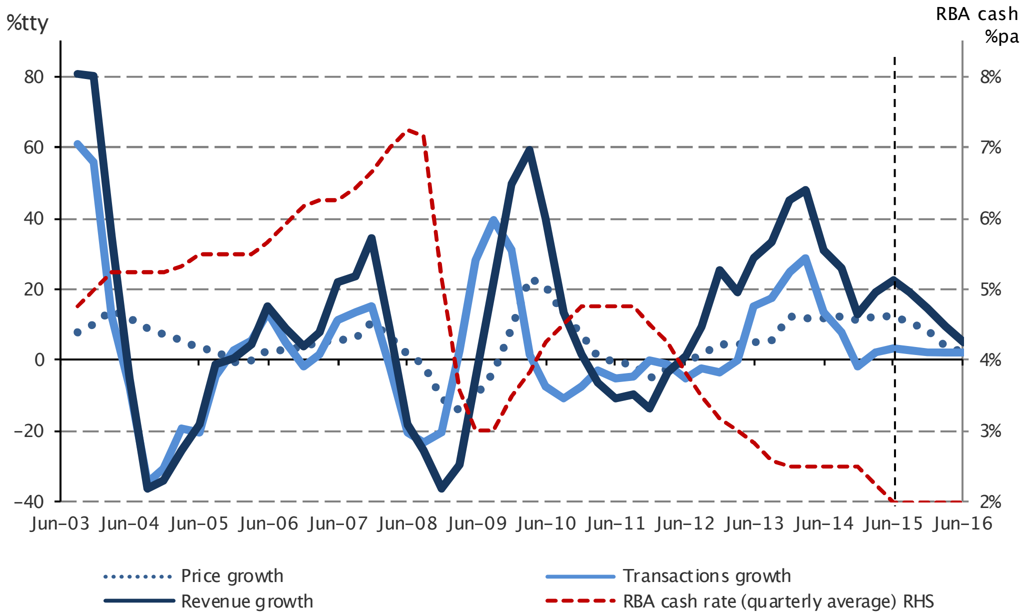
The AER determinations have substantially reduced dividend payments from the electricity networks from 2015-16. See Chapter 6 for further details.

Forecast royalties in the four years to 2017-18 are now expected to be around $1.1 billion less than in the 2014-15 Budget, mainly due to lower coal prices. However, royalties are still forecast to increase by 12.1 per cent per annum over the four years to 2018-19 as a result of the lower Australian dollar (which increases the Australian dollar price of contracts priced in US dollars) and some increase in coal volumes.

Within total revenue, taxation revenue is forecast to increase by 6.9 per cent in 2015-16, slightly below the 7.2 per cent growth projected for 2014-15. Tax revenue growth is forecast to average 4.7 per cent per annum over the four years to 2018-19.

Transfer duty is forecast to grow at 4.2 per cent per annum over the budget and forward estimates period, which is markedly more subdued than the pace seen in recent years (see Chart 5.2).

Chart 5.2: Residential Transfer Duty, Housing Transactions and Interest Rates



Residential transfer duty growth is expected to moderate to 11.8 per cent in 2015-16 following growth rates of 21 per cent in 2012-13, 39 per cent in 2013-14 and an estimated 20 per cent in 2014-15. The current upswing in residential transfer duty has been supported by interest rate declines, strong population growth and pent-up demand following a long period of under-supply. Growth is expected to be supported over the forward estimates by the continuation of historically low interest rates, growing population and the high level of investor demand.

While the current housing cycle is the longest in the post-GST period, its extension has been due to a number of atypical factors. Typically, interest rates would have started to increase by this stage in a normal property cycle. Instead, the RBA has reduced the cash rate twice since the beginning of 2015 and has indicated that monetary policy is likely to remain accommodative (see Chart 5.2). Moreover, increases in population growth in New South Wales, in part driven by the relative strength of the NSW economy as the mining investment boom unwinds, has meant that housing demand has been rising even as housing supply has increased. Investor demand for housing has added further support.

However, transfer duty is a large and highly cyclical revenue source which is inherently volatile and can be subject to sharp corrections. While there are a number of factors supporting growth, there are some risks. Growth in transfer duty is now more narrowly based than at the beginning of the cycle. Recent strength in the property cycle is driven by activity in properties valued over $1.2 million, which accounted for only a relatively small proportion of properties but made a large contribution to the growth in revenue.

Recent moves by the Australian Prudential Regulation Authority outlining steps it plans to take to reinforce sound residential mortgage lending practices may also see a slowdown in activity.

Payroll tax is forecast to grow by 5.7 per cent per annum over 2015-16 and the forward estimates, slightly stronger than in 2014-15. Growth in both employment and wages is forecast to strengthen as the pace of economic growth increases over the forward estimates, underpinning firmer payroll tax receipts. Full-time employment is expected to be relatively stronger than part-time employment growth in 2015-16, providing further support to payroll tax (see Chart 5.3).

Chart 5.3: Growth of Payroll Tax, Employment and Hours Worked

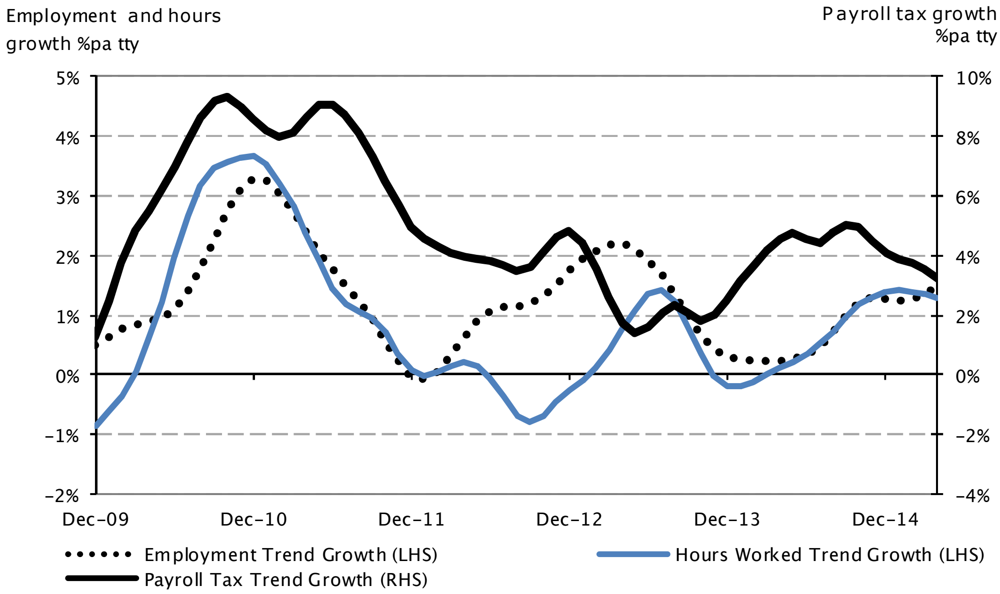
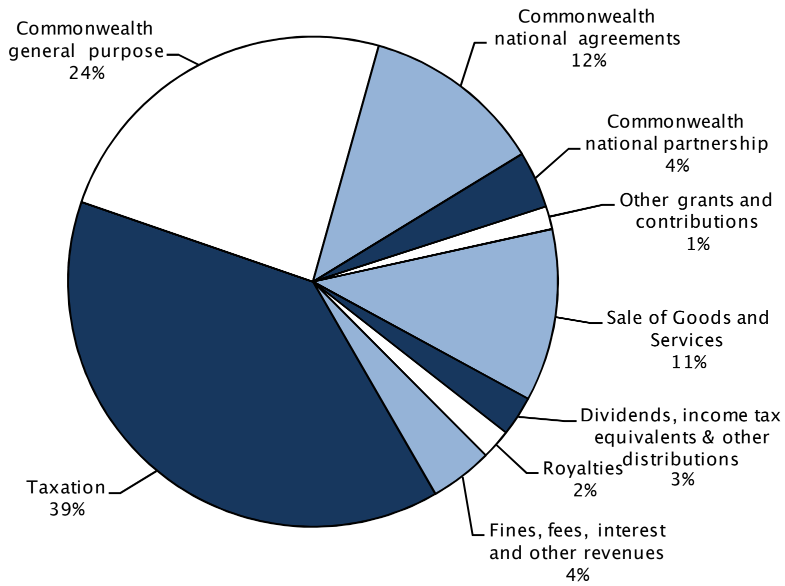


Chart 5.4 shows the composition of total revenue in 2015-16. Commonwealth grants make the largest contribution to NSW revenue, accounting for 40 per cent of the total, while taxes account for 39 per cent.

Chart 5.4: Composition of Total Revenue, 2015-16



Taxation revenue

The three largest state taxes are payroll tax, stamp duty on property transfers (transfer duty) and land tax, together providing around 65.9 per cent of taxation revenue in 2015-16. The forecasts for tax revenues are set out in Table 5.4. Tax revenue is expected to grow by an average of 4.7 per cent per annum over the four years to 2018-19. Further detail is provided in Appendix B4: Supplementary Revenue and Expense Analysis.

Table 5.4: Taxation Revenue

	2013-14 Actual $m	2014-15 Budget $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward estimates $m	2017-18 Forward estimates $m	2018-19 Forward estimates $m	% Average Growth p.a. 2014-15 to 2018-19
Stamp Duties								
Transfer Duty	6,045	6,095	7,290	7,841	7,930	8,275	8,608	4.2
Insurance	894	945	901	934	982	1,036	1,088	4.8
Mortgages	179	159	208	201	...	...	...	-100.0
Marketable Securities	72	60	50	59	...	...	...	-100.0
Motor Vehicles	663	711	696	738	779	827	878	6.0
Other	(0)	0	0	0	0	0	0	0.0
	7,853	**7,970**	**9,145**	**9,773**	**9,691**	**10,138**	**10,574**	**3.7**
Payroll Tax	**7,083**	**7,745**	**7,454**	**7,854**	**8,345**	**8,874**	**9,302**	**5.7**
Land Tax	**2,335**	**2,497**	**2,497**	**2,660**	**2,854**	**3,004**	**3,111**	**5.7**
Taxes on Motor Vehicle Ownership and Operation								
Weight Tax	1,769	1,849	1,867	1,946	2,033	2,131	2,235	4.6
Vehicle Registration and Transfer Fees	367	388	388	403	419	443	467	4.7
Other Motor Vehicle Taxes	34	35	37	39	41	43	45	5.0
	2,169	**2,272**	**2,292**	**2,388**	**2,493**	**2,617**	**2,747**	**4.6**
Gambling and Betting Taxes								
Racing	156	156	156	161	165	168	171	2.4
Club Gaming Devices	684	708	716	741	767	793	820	3.4
Hotel Gaming Devices	533	560	593	623	655	687	722	5.0
Lotteries and Lotto	326	365	341	364	374	385	395	3.7
Casino	197	286	239	341	264	281	299	5.8
Other Gambling & Betting	13	15	15	15	16	16	17	3.7
	1,910	**2,090**	**2,059**	**2,245**	**2,240**	**2,330**	**2,424**	**4.2**
Other Revenues								
Health Insurance Levy	177	184	180	194	203	213	226	5.9
Parking Space Levy	102	106	105	107	109	112	115	2.3
Emergency Services Contributions	716	729	720	762	777	781	792	2.4
Waste and Environment Levy	518	584	587	634	641	579	526	-2.7
Government Guarantee Fee	470	551	450	509	573	663	729	12.8
Private Transport Operators Levy	32	33	36	37	37	37	37	0.6
Pollution Control Licences	27	34	32	31	32	33	34	1.8
Other Taxes	904	692	487	660	681	704	727	10.6
	2,946	**2,912**	**2,596**	**2,934**	**3,054**	**3,123**	**3,186**	**5.3**
Total Tax Revenue	**24,295**	**25,489**	**26,046**	**27,855**	**28,678**	**30,085**	**31,343**	**4.7**
Annual change	*10.5%*		*7.2%*	*6.9%*	*3.0%*	*4.9%*	*4.2%*	

Grant revenue

In 2015-16, New South Wales is expected to receive $28.7 billion (40 per cent of total revenue) in Commonwealth untied payments for General Purposes (primarily GST), and tied grants for National Agreements (NAs) and National Partnerships (NPs) which need to be used for particular purposes.

As a result of re-profiling from 2015-16 into 2014-15, lower GST relativities, and the Australian Government's decision last year to reduce hospital and education funding, total Commonwealth grant revenue is expected to fall in the last two years of the forward estimates (see Table 5.5).

Table 5.5: Grant Revenue

	2013-14	2014-15		2015-16	2016-17	2017-18	2018-19	% Average growth p.a 2014-15 to 2018-19
	Actual	Budget	Revised	Budget	Forward estimates			
	$m	$m	$m	$m	$m	$m	$m	
Commonwealth - general purpose	15,894	16,810	17,065	17,346	17,864	18,214	18,828	2.5
Commonwealth - national agreements	7,449	7,829	8,073	8,619	9,262	9,681	9,997	5.5
Commonwealth - national partnership	3,963	2,632	2,829	2,712	3,794	2,587	1,622	(13.0)
Total Commonwealth grants	**27,306**	**27,272**	**27,967**	**28,678**	**30,920**	**30,482**	**30,447**	2.1
Annual change in Commonwealth Grants	*11.6%*		*2.4%*	*2.5%*	*7.8%*	*-1.4%*	*-0.1%*	
Other grants	1,026	1,029	1,045	1,098	1,062	783	887	(4.0)
Total grant revenue	**28,332**	**28,301**	**29,013**	**29,775**	**31,982**	**31,265**	**31,334**	**1.9**

NSW GST payments have been revised down by $1.2 billion over the four years to 2017-18 relative to the 2014-15 Budget. Upward revisions to the total GST pool and an increase in the population share of New South Wales are outweighed by downward revisions to the NSW relativity.

The State's relativity is expected to continue to decline over the forward estimates due to above-average economic performance and weaker commodity prices (particularly iron ore), which will increase relativities in Queensland and Western Australia.

Box 5.1 shows the drivers of the revisions to the NSW GST relativity in 2015-16.

Box 5.1: GST Relativity – Horizontal Fiscal Equalisation at Work

GST is distributed unequally amongst States according to the principle of horizontal fiscal equalisation (HFE) using relativities calculated by the Commonwealth Grants Commission (CGC). The relativities are a weighting, assigned to each state, based on an equalisation of each state's fiscal capacity to provide the same standard of services and same standard of infrastructure. The NSW relativity declines in 2015-16.

Table 5.6: 2015 Review – Impact of Major Changes to NSW GST Relativity in 2015-16

Assessment	$ million	Reasons for change
Urban transport investment	310	The effect of city size and urban population growth on the need for urban transport infrastructure increased NSW GST.
Transfer (conveyance) duty)	(293)	Above average property market growth in NSW (2010-11 to 2013-14).
Schools education expenses	(221)	Change in method, including the calculation of high cost student loadings using Australian Curriculum Assessment and Reporting Authority school data.
Roads investment	(177)	Data changes increased the proportion of total state assets that are roads and the proportion of state road investment devoted to rural roads, reducing NSW assessed road investment needs.
Natural disaster relief expenses	(167)	A sharp increase in natural disaster relief expenses for Queensland in 2013-14 compared with 2010-11.
Other assessments	31	
Total relativity change	(517)	

NSW GST relativity is expected to decline further over the forward estimates to 2018-19 reflecting stronger than average growth in NSW transfer duty and weaker royalties in Western Australia and Queensland.

The NSW Government has long-called for reform of the current HFE system. Our submissions to the CGC's 2015 Methodology Review argued that the current system of HFE is complex, non-transparent, subject to decisions based on the CGC's judgement and discourages state initiative and tax reform.

New South Wales continues to believe that the current system of HFE should be replaced by a distribution based on an equal per capita share of the GST pool, with the Australian Government providing separate equalising payments to the fiscally weaker states.

National Partnerships

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

Table 5.7 summarises the payments for NPs by key service delivery area. New South Wales will receive just over $10.7 billion in NP payments over the four years to 2018-19. This will decline at an average annual rate of 13 per cent per annum over the four years to 2018-19.

NP payments for roads and rail and environment service areas decline over the forward estimates due to the profile of funding for major projects such as the WestConnex and NorthConnex motorways, the Pacific Highway and State Priority Projects under the Sustainable Rural Water Use and Infrastructure Projects NP.

The decline in payments under the education and skills category reflects the expiry of NP agreements and the inclusion of some school NPs into the National Education Reform Agreement (NERA), from 1 January 2014.

Table 5.7: National Partnership Payments to New South Wales

	2013-14	2014-15		2015-16	2016-17	2017-18	2018-19	% Average growth p.a. 2014-15 to 2018-19
	Actual	Budget	Revised	Budget	Forward Estimates			
	$m	$m	$m	$m	$m	$m	$m	
Roads and Rail	2,060	1,417	1,582	1,853	3,048	2,157	1,282	(5.1)
Education and Skills	280	304	383	186	252	38	...	(100.0)
Nation Building Plan for the Future	178	214	311	2	14	...	...	(100.0)
Health	497	218	212	153	92	88	87	(20.0)
Housing	79	91	98	46	46	20	...	(100.0)
Environment	86	139	92	152	112	49	9	(43.4)
Other	783	249	152	320	231	236	244	12.6
Total National Partnership Payments	**3,963**	**2,632**	**2,829**	**2,712**	**3,794**	**2,587**	**1,622**	**(13.0)**

National Agreements

Table 5.8 summarises the National Agreement payments by key service delivery area. National Agreements are forecast to total $8.6 billion in 2015-16, an increase of 6.8 per cent on 2014-15, and are expected to increase at an annual average rate of 5.5 per cent over the four years to 2018-19.

The areas receiving the greatest level of funding are health and education. However, the Australian Government unilaterally reduced funding for health and education and cut funding for pensioner concessions in its 2014-15 Budget, shifting a significant fiscal burden to states, as acknowledged by the Council of Australian Governments on 17 April 2015.

The Australian Government's decision represents a $1.3 billion cut to funding for schools in 2018 and 2019. In health, the Australian Government's decision to withdraw guaranteed growth funding and reduce escalation would reduce payments to New South Wales by $1.5 billion over the two years to 2018-19. The updated estimate is a funding loss of around $26 billion in the 10 years to 2024-25.

Table 5.8: National Agreement and Other Payments to New South Wales [a]

	2013-14	2014-15		2015-16	2016-17	2017-18	2018-19	% Average growth p.a 2014-15 to 2018-19
	Actual	Budget	Revised	Budget	Forward estimates			
	$m	$m	$m	$m	$m	$m	$m	
Health	4,439	4,789	4,861	5,243	5,622	5,849	6,081	5.8
Education [b]	1,412	1,552	1,606	1,753	1,984	2,135	2,175	7.9
Skills and Workforce Development	455	457	459	464	470	477	483	1.3
Affordable Housing	410	416	418	422	428	433	439	1.2
Disability	427	446	446	460	475	492	511	3.4
Other [c]	306	169	283	277	283	296	309	2.3
Total National Agreement and other payments	**7,449**	**7,829**	**8,073**	**8,619**	**9,262**	**9,681**	**9,997**	**5.5**

(a) Excludes payments 'through the state' such as non-government school funding.
(b) National Education Agreement until 1 January 2014, National Education Reform Agreement or Students First thereafter.
(c) Includes other payments such as service level agreements between the Australian Government and NSW line agencies which are in addition to the IGA.

The projected losses in Commonwealth grant revenues and their implications for the revenue outlook are of concern. They highlight the volatility and vulnerability of the state revenue base to Australian Government actions. Securing sustainable payments from the Australian Government is vital to enable state governments to continue providing services to the community while effectively managing their budgets over the medium term.

New South Wales is committed to working together with the Australian Government and other states to ensure the Commonwealth White Papers on Reform of the Federation and Taxation deliver funding arrangements that are sufficient, sustainable and equitable (see Box 5.2) and are complemented by tax reform that ensures revenues accruing to each level of government are adequate to meet service delivery accountabilities.

Box 5.2: White Papers on the Reform of the Federation and Reform of Australia's Tax System

The Australian Government plans to release a White Paper on Reform of the Federation (Federation White Paper) in 2016. In addition, the Australian Government is releasing a White Paper on Reform of Australia's Tax System (Tax White Paper).

The Federation White Paper will consider improving efficiency and accountability between levels of government through reducing duplication and clarifying roles and responsibilities, particularly in the areas of health, education, and housing and homelessness. It will also consider whether current federal financial relations are the most equitable, effective and efficient.

The Tax White Paper will consider opportunities to simplify Australia's tax system and improve its fairness. Key points for discussion identified in the Australian Government's Tax White Paper include simplifying and improving fairness of the tax system, and managing the economic costs of raising taxation revenue.

In 2015-16, New South Wales will pursue these intergovernmental objectives:

- all governments need sufficient and sustainable revenue to meet their responsibilities. New South Wales will continue to advocate for more autonomy and certainty over Commonwealth grants to the State
- New South Wales will examine options for the National Injury Insurance Scheme, and hold discussions with the Australian Government regarding the interaction of the scheme with the National Disability Insurance Scheme. New South Wales will also seek for all jurisdictions with asbestos victims related to James Hardie to share the default risk associated with the Asbestos Injuries Compensation Fund
- New South Wales is committed to improving state and national competitiveness to underpin future economic growth. New South Wales will work with other jurisdictions to consider the recommendations of the Harper Review of Competition Policy which was released in March 2015. The prospect of a successful national competition reform agenda would be enhanced by a further round of Commonwealth-funded competition payments linked to achievements.

Other revenues

Other general government revenue sources account for around 20 per cent of total revenue. They include sale of goods and services, interest income, dividends and income tax equivalents, royalties, fines, regulatory fees and other revenues.

Revenue from sales of goods and services in 2015-16 is estimated to increase by $1.9 billion, or 29.3 per cent. This reflects increased revenue from TAHE, as a result of the sale of goods and services between the GGS and the PTE sector.

Interest income is expected to decrease in 2015-16 by $143 million to $508 million, in line with lower projected cash and term deposit balances resulting from increased capital expenditure on State infrastructure projects and lower interest rates. Interest income is expected to decline at an annual average rate of 1.9 per cent over the three years to 2018-19.

5.4 General Government Expenses

Expenses in 2014-15 are estimated to be $67.1 billion, an annual growth rate of 3.6 per cent. Expenses growth in 2015-16 is estimated at 3.8 per cent. The four-year average growth rate across the budget and forward estimates is 2.8 per cent. This reflects the Government's continued commitment to expense management and improving the efficiency of service delivery.

The Government is fully funding its election commitments through savings measures while continuing to deliver key services in areas such as health, education and frontline social services. Service delivery reforms by the Government continue to respond to emerging and long-term fiscal pressures. A major service delivery reform in the 2015-16 Budget is the establishment of a TAHE which will reduce expenses from the GGS by $447 million over the budget and forward estimates.

Table 5.9 provides a reconciliation of budget expense aggregates between the 2014-15 Budget and the 2015-16 Budget.

Table 5.9: Expense Reconciliation

	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m
Expenses - 2014-15 Budget	**67,396**	**69,265**	**71,575**	**73,644**
Election Commitments including offsets and savings	5	(36)	(41)	28
Other New Policy Measures	287	838	694	573
Total Policy	**291**	**802**	**653**	**601**
Parameter and Other Budget Variations				
- Superannuation	352	231	337	277
- Interest	(30)	(94)	(147)	(213)
- Depreciation	(77)	(3)	42	99
- Economic Parameters and Technical Adjustments	(181)	38	94	(472)
- Other	(667)	(673)	99	(233)
Total Parameter and Other Budget Variations	**(602)**	**(500)**	**425**	**(542)**
Total Expense changes since Budget 2014-15	*(311)*	*301*	*1,078*	*59*
Expenses - 2015-16 Budget (Pre-TAHE)	**67,085**	**69,566**	**72,653**	**73,703**
Impact of TAHE	**...**	**58**	**(184)**	**(136)**
Expenses - 2015-16 Budget (Post-TAHE)	**67,085**	**69,624**	**72,469**	**73,567**

Expenses in 2014-15 are now forecast to be $311 million lower than at the 2014-15 Budget. This reflects the re-profiling of expenditure from 2014-15 to future years due to Commonwealth grant timing changes for education, and timing and cost changes in various transport projects. Also contributing to this lower estimate are falls in expected interest, depreciation and expenses as a result of other economic and demand driven parameters. These factors more than offset the impact of policy decisions.

From 2015-16 to 2017-18, expenses are forecast to be $1.2 billion higher relative to the 2014-15 Budget estimates. Key drivers of the change over this period include:

- election commitments which result in a net saving of $49.3 million. This comprises $800 million in initiatives for vital services which are fully funded through whole-of-government savings initiatives of $849.3 million
- other new policy measures amounting to $2.1 billion that will increase short-term capacity in the corrective services system, and maintain the safety and useability of roads and public transport
- an increase in superannuation expenses of $845.4 million due to the revision of AASB 119 and actuarial changes
- a reduction in interest expenses of $453.9 million as a result of lower-than-anticipated borrowings and interest rates
- an increase in depreciation of $138.5 million reflecting the Government's infrastructure program
- remaining parameter and other budget variations include re-profiling of funding from 2014-15 and 2015-16 to future years for changes in the timing of Commonwealth grants for education; and timing and cost changes in various transport projects, particularly for the Sydney Metro NorthWest project, which is ahead of schedule and tracking under budget.

Election commitments

The Government's election commitments have been fully funded by savings initiatives including whole-of-government efficiency dividends, procurement savings and initiatives to eliminate duplication. On the expenses side, these result in a net saving of $71.6 million over the period 2015-16 to 2018-19.

Key election commitments delivered in the Budget include:

- boosting frontline health staff by at least 3,500 full-time equivalent positions, including at least 2,100 nurses and midwives
- funding for increased hospital activity to support 320,000 additional emergency department attendances and 13,500 extra elective surgeries
- the provision of $20.6 million for the Social Housing Community Improvement Fund to improve the liveability and accessibility of social housing. Up to $50,000 will be granted for projects that will enhance social housing infrastructure or facilities, improve open spaces and increase accessibility for people with a disability or the elderly
- strengthening the NSW Police Force with funding of $70 million to boost frontline police numbers by 310, including 250 specialist police, as well as 15 specialist civilian staff, and ensuring that the most advanced technology is available by investing $100 million on new equipment including body worn video cameras

- $127.6 million to grow the NSW Visitor Economy, to be invested into securing major events for the State and making Sydney the number one destination for major events; growing regional tourism and attracting more overseas visitors to regional locations; and targeting overseas visitors from the target international markets.

For further details refer to Appendix A on election commitments.

The Government also made an election commitment for a suite of policies under the Jobs for NSW package to help individuals gain better access to work and incentivise businesses to hire additional staff.

Box 5.3: More Jobs for New South Wales

In the 2015-16 Budget, the Government is committing $397 million over four years to help create 150,000 jobs, grow local businesses, and attract new businesses to New South Wales.

The Government introduced the Jobs Action Plan in 2011-12 which provides a $5,000 payroll tax rebate to businesses that employ new workers. The scheme was due to close to new applicants from 1 July 2015. Due to the success of the scheme with over 106,000 payroll rebate applications made over the past four years and over 21,000 of these new jobs in regional areas, the Government has extended the scheme until 30 June 2019.

To further stimulate jobs growth, the Government will spend $9 million per year from 2016-17 to 2018-19 for the Small Business Employment Incentive. From 1 July 2015, businesses in New South Wales with wages below the current payroll tax threshold of $750,000 and that employ new staff may apply for a $2,000 grant for each additional employee. The grant will be paid on the first anniversary of the hire of a new employee.

A $25 million Jobs of Tomorrow Scholarship Fund will be established to provide 25,000 scholarships of $1,000 for students undertaking qualifications for technology and skills growth areas. The scholarships will be paid in two parts, $500 at the beginning and $500 at the successful completion of the course.

The Government will also boost the State investment attraction schemes by $32 million to encourage interstate and international businesses to relocate to New South Wales.

Table 5.10 provides a reconciliation of election expense commitments from the Budget Impact Statement published by the Parliamentary Budget Office (PBO) to the 2015-16 Budget, outlining refinements to election costings and savings measures. For further details refer to Appendix A.

Table 5.10: Election Commitment Reconciliation from PBO Budget Impact Statement – Expenses

	2014-15	2015-16	2016-17	2017-18
		Budget	Forward Estimates	
	$m	$m	$m	$m
Election Commitments per PBO Budget Impact Statement	**...**	**(112)**	**(98)**	**(49)**
Refinement of measures	5	49	28	43
Re-costings		13	16	17
Other adjustments	...	14	13	17
Election Commitments per Budget	**5**	**(36)**	**(41)**	**28**

In addition to its election commitments, the Government will invest in other policy measures in 2015-16 and across the forward estimates including:

- funding of $314.6 million to expand prison and correctional centre bed capacity
- $70.2 million for the Community Building Partnerships programs to provide improved community infrastructure for the people of New South Wales
- re-profiling the Sydney Metro NorthWest from 2017-18 into earlier years as a result of the project running ahead of schedule
- additional funding of $50 million per annum from 2015-16 for Out-of-Home Care (OOHC) to support the State's most vulnerable.

Box 5.4: Wagering Parity

From 1 January 2016, while the actual wagering tax rates remain unchanged, the NSW Government's share of the tax will be gradually stepped down over a five-year period to match Victorian tax rates.

The reduction in notional tax rates will be used to increase racing industry funding for thoroughbreds, harness racing and greyhounds. These funds will be available for the controlling bodies (Racing NSW, Harness Racing NSW and Greyhound Racing NSW) to invest in specific purposes such as racing infrastructure, prize money and apprenticeships. The reinvestments of funds back into the racing industry in New South Wales will ensure that it remains sustainable and is competitive with other states.

The allocation of funds will be administered by the Minister for Racing.

Expenses trends and outlook

Table 5.11 shows the outlook of general government expenses by major operating statement categories. The major trends are:

- employee-related expenses are expected to increase at 3.6 per cent, on average, over the budget and forward estimates due to further investment by the Government in frontline staff such as additional doctors, teachers and nurses
- depreciation and amortisation expenses are expected to grow at an average of 4.7 per cent over the budget and forward estimates reflecting the Government's infrastructure program
- a substantial reduction of 28 per cent in capital grants expense growth over the budget and forward estimates, on average, largely due to the establishment of TAHE, which results in capital expenditure being funded through equity, not grants.

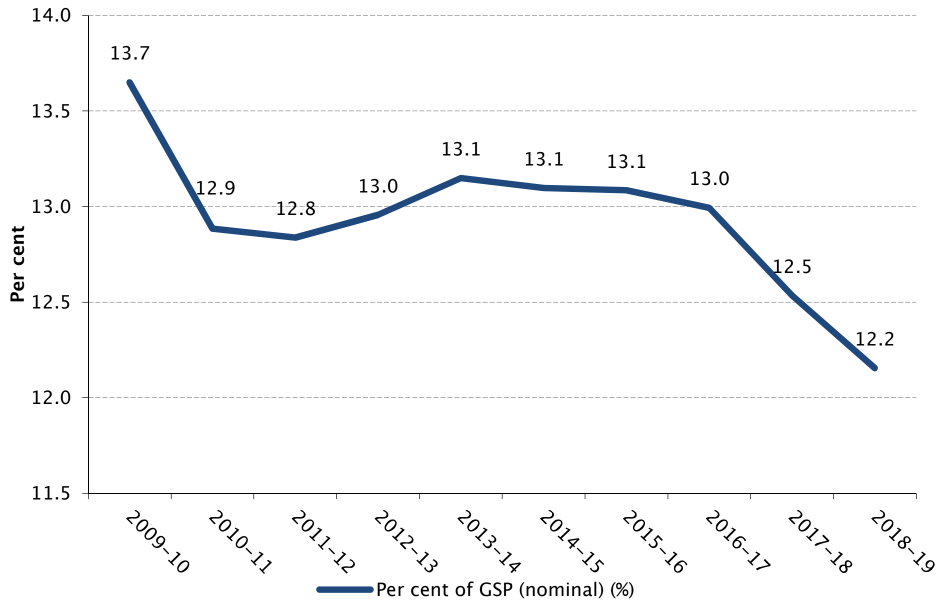
Further details of trends in operating statement categories are outlined in Appendix B4: Supplementary Revenue and Expense Analysis.

Table 5.11: General Government Sector Expenses

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m	% Average Growth 2014-15 to 2018-19
Employee-Related	31,513	32,824	33,338	34,996	36,239	37,785	3.6
Other Operating	14,345	14,680	17,567	18,118	17,742	17,821	5.0
Depreciation and Amortisation	3,954	4,165	4,440	4,645	4,880	5,009	4.7
Current Grants and Subsidies	9,644	10,179	11,092	11,570	11,605	11,388	2.8
Capital Grants	3,052	2,969	941	898	849	796	-28.0
Interest	2,249	2,268	2,244	2,242	2,253	2,259	-0.1
Total Expenses	**64,757**	**67,085**	**69,624**	**72,469**	**73,567**	**75,058**	2.8

Chart 5.5 shows the ratio of total expenses to GSP is expected to fall from 13.7 per cent in 2009-10 to an estimated 12.2 per cent in 2018-19. This decline reflects the Government's focus on prudent expense management over the past four years, as well as an expected pick-up in nominal GSP growth over the forward estimates.

Chart 5.5: Total Expenses as a Percentage of GSP, 2009-10 to 2018-19[(a)]

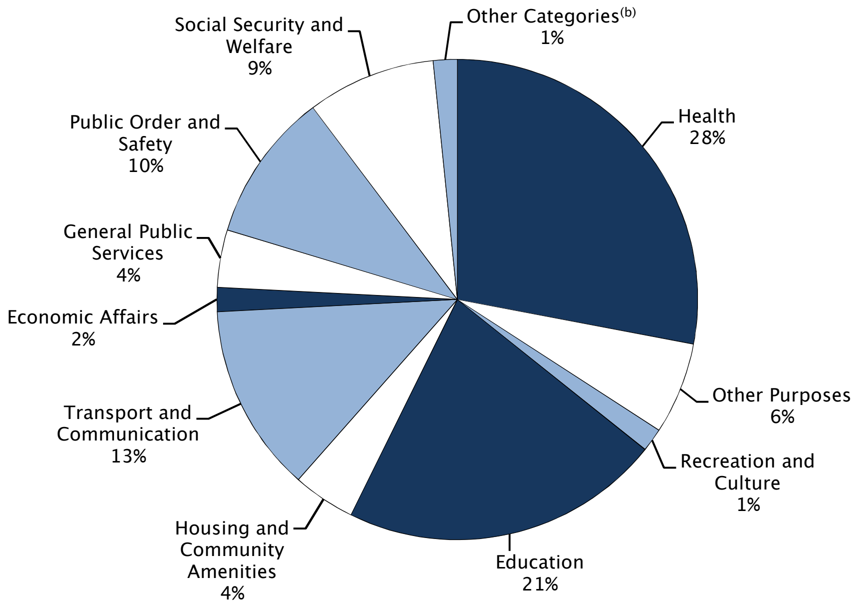


(a) Based on nominal GSP at current prices

Recurrent expenses by function

The Government is committed to investing in and improving services. As shown in Chart 5.6, the five largest areas of total expenses in 2015-16 will be health (28.0 per cent), education (21.6 per cent), transport and communication (12.7 per cent), public order and safety (10.1 per cent) and social welfare (8.7 per cent). These five functions account for approximately 80 per cent of total expenses. Since 2010-11, health recurrent spending as a percentage of total expenses has increased from 27.2 per cent to 28.0 per cent in 2015-16. In addition, recurrent spending in transport and communication has increased by 1.0 percentage point of total expenses.

Chart 5.6: Composition of Total Recurrent Expenses 2015-16: by Policy Area[(a)]



(a) The composition of total expenses is classified by Government Finance Statistics (GFS) General Purpose Code (GPC)
(b) Other categories include fuel, energy, agriculture, forestry, fishing, hunting, mining and mineral resources other than fossil fuels, manufacturing and construction

For more details, see Appendix B4: Supplementary Revenue and Expense Analysis.

Health

Budgeted expenses for health in 2015-16 are $19.5 billion or 28 per cent of total GGS expenses. This is $1 billion higher than in 2014-15, bringing the total increase to the health budget since March 2011 to around $4.1 billion. This funding has allowed the health system to improve performance in many key areas, including faster treatment times for emergency department patients with 75 per cent of patients now completing their treatment within four hours compared to 59 per cent in March 2011.

Funding for inpatient hospital services will increase by $458 million or 5.5 per cent in 2015-16. This will support an additional 40,000 hospital admissions, including 3,100 more elective surgery patients. Emergency services funding increases by $117 million or 4.7 per cent and will support an additional 90,000 emergency department attendances.

To support increases in hospital activity, significant investment will continue to be made in the health workforce. Frontline health staff numbers will grow by at least 3,500 full-time equivalent (FTE) positions created over the next four years, including approximately 2,100 nurses and midwives, 700 doctors, 300 allied health professionals and 400 hospital support staff. The Government will invest in 360 FTE positions including specialised nurses, midwives and support staff.

The 2015-16 Budget continues the Government's commitment to medical research, with $40 million to be invested in the new Health Services Research Support Program and $20 million for the Medical Research Support Program to support the day-to-day infrastructure costs of independent medical research institutes. A further $19 million over four years will also be invested through the Medical Devices Fund and a Commercialisation initiative for the development and marketisation of new medical technologies.

Key mental health initiatives in the Budget include $35 million in 2015-16 to implement the *Living Well: A Strategic Plan for Mental Health Reform in NSW 2014-2024*, $22.8 million to enhance support services for women experiencing post-natal depression under the Sustaining NSW Families Program, and $10.5 million over four years for Lifeline Australia to increase access to vital counselling services.

Education

Over the past four years, the Government has invested record spending in education to support significant growth across schools and early childhood education centres in both rural and metropolitan New South Wales. This Budget invests $15 billion in the education and training sector, representing 21.6 per cent of total expenses and growth of $850 million over 2014-15.

Approximately half of this growth ($546 million) covers primary and secondary education costs. This is mainly driven by increased funding under the NERA and growth in school enrolments. The NSW Government will continue its full six-year commitment to the NERA to continue support for government and non-government schools. Over four years $224 million of NERA funding will help improve teaching standards through the Quality Teaching, Successful Students package. A further $167 million over four years for the Supported Students, Successful Students package includes providing an additional 236 school counsellors.

Student transportation expenses are expected to increase to $787 million in 2015-16, in line with growth in student numbers. This includes funding to support the School Student Transport Scheme to provide subsidised travel for eligible school students on rail, bus, ferry and long distance coach services. The Assisted School Travel Program will receive further funding of $13 million in 2015-16 to meet a forecast increase in the number of students with a disability and more complex needs. The program provides students with a disability with free specialised transport to and from school.

This Budget provides $1.7 billion over four years for school infrastructure works, including $456 million in 2015-16. This is a 27 per cent increase over 2014-15 and mainly caters for growing school enrolments.

In addition this Budget includes the Reskilling NSW program for which $48 million in funding will provide fee-free scholarships to 200,000 disadvantaged young people to undertake vocational education and training certificate courses and another $8 million that will support at-risk youth in regional areas into training and employment.

Further to the growing number of student enrolments, the Government will ensure there is sufficient care for students outside of school hours through the Before and After School Care Fund. The NSW Government will invest $20 million to provide up to 45,000 new before and after school care places. Under this investment, grants of up to $20,000 will be made available to at least 1,000 government and less well-resourced non-government primary schools to help with the cost of establishing an Out of School Hours Care (OSHC) service, and meet growing community demand. The grants will help primary school principals with the costs of establishing a new service, to be run by the school P&C, not-for-profit providers or the commercial sector. Applications for the grants will open in August, and the first grants will be provided in October, with the first of the new OSHC services opening at the beginning of Term 1, 2016.

As competition in the job market grows, the Government is assisting students to transition to paid work through the Smart and Skilled reforms.

Box 5.5: Smart and Skilled

In 2015-16, the Government is investing $2.3 billion in the NSW Vocational Education and Training (VET) system to help people get the skills they need to find a job and advance their careers.

The Smart and Skilled reform of the NSW VET system commenced in January 2015 and will give students the skills they need to get a job and advance their careers. The reforms include a student entitlement for courses up to Certificate III and income contingent loans for higher-level qualifications. This means the students can chose a training provider that best suits their needs.

The Smart and Skilled Quality Framework ensures that training is relevant to jobs and workplaces, meets national standards, and gives students better information on course costs and availability. The Smart and Skilled Skills List includes a wide range of qualifications to support the diverse skills needs of NSW employers and was developed through extensive industry and community consultation and labour market research.

Transport and communication

The Government is investing $8.8 billion in 2015-16 to provide funding for a seamless network of public transport services and road networks which account for future trends in land use and travel demand, building the infrastructure required for new growth areas, and maintaining access to and from regional areas.

Expenses in the transport sector, in 2015-16, are expected to fall by 3.5 per cent from the 2014-15 estimate. This decrease is largely attributed to the establishment of TAHE which reduces expenses from 2015-16 and over the forward estimates by $447.1 million. For further details refer to Box 1.1 in Chapter 1.

Government expenditure in the areas of transport and communication has been substantial in recent years, delivering initiatives including the South West Rail Link and the Opal Card. Funding of $3.5 billion (including capital and recurrent funding) in 2015-16 will support rail transport projects such as the maintenance of Sydney Trains' assets, delivery of Sydney Metro NorthWest and improving freight rail access. In addition, $3.8 billion of funding in 2015-16 will support road transport projects that maintain or upgrade roads, reduce congestion and improve safety for both regional and metropolitan New South Wales. Initiatives so far have been integral to increasing public transport customer satisfaction from 80 per cent in 2012-13 to an expected 88 per cent in 2014-15.

Public order and safety

The Government will be spending a record $7 billion on public order and safety. This will focus on preventing and reducing the level of crime, preventing and reducing the level of re-offending, improving confidence of the community in the justice system and ensuring disaster preparedness. Over the four years to 2018-19, public order and safety expenses are forecast to grow by an average of 2.3 per cent.

Funding for police and fire protection services is a substantial driver of this growth and accounts for 60.4 per cent of total public order and safety expenses in 2015-16. This reflects increases in frontline police numbers, including more than $70 million over four years to enhance NSW Police Force specialist commands, as well as increased budget allocations to Fire and Rescue NSW, NSW Rural Fire Service and the NSW State Emergency Service to fund emergency response and recovery.

Funding for prisons and corrective services is expected to grow by 3.3 per cent in 2015-16 with substantial funding over the forward estimates to increase capacity in the correction system and support community safety. The Government has committed $315 million to increase the corrective services system capacity throughout New South Wales.

Box 5.6: Countering Violent Extremism

The Government has allocated $4 million in new funding over two years for a NSW Countering Violent Extremism (CVE) Early Intervention Program to address the evolving threat posed by foreign fighters and 'lone actors'. This new grant program will support local communities to engage at-risk young people to promote positive behaviours that can divert these individuals from violent extremism before they become a security risk. This program will complement the Australian Government's recently announced CVE Intervention Framework.

The Government will work with community leaders and experts to develop and deliver mentoring and support programs in priority localities and communities. The Department of Education will also implement a range of CVE initiatives within existing resources to address anti-social behavior in NSW schools including crime prevention workshops delivered by school liaison police officers in secondary schools, and cyber safety resources for schools.

Social security and welfare

Total expenses in 2015-16 for social security and welfare are estimated at $6 billion, an increase of 8 per cent from 2014-15. This funding helps to better protect the most vulnerable members of the community, breaking the cycle of disadvantage and increasing opportunities for people with disabilities and the elderly.

Welfare funding for people with disabilities will account for 50.8 per cent of total social security and welfare expenses in 2015-16 including through the transition to the National Disability Insurance Scheme (NDIS).

Box 5.7: Implementing the National Disability Insurance Scheme

In 2015-16, total expenditure (recurrent and capital) will increase by 6.7 per cent and will help deliver individualised packages of support for people with disabilities, including 900 respite places and 310 places in supported accommodation. This Budget provides over $150 million additional funding in 2015-16 to deliver the final year of the *Ready Together* program, designed to grow the State's disability services budget ahead of the full implementation of the NDIS in 2018-19.

Upon full implementation of the scheme, the Government will contribute $3.1 billion and the Australian Government will contribute $3.3 billion, which includes fully funding the cost of administration. This will see around 140,000 people with disability benefiting from the NDIS, with 95,000 currently receiving support and an estimated 45,000 new clients. The NDIS will allow participants to choose the support they need to live a full life, and participate in the community and the economy.

A trial of the NDIS commenced in the Hunter region in 2013-14. The Government is contributing $550 million over three years and $35 million over four years to the trial. As at the end of March 2015, around 3,500 people with disabilities have NDIS support plans and it is estimated that around 10,000 people with disabilities will benefit from the Hunter trial by June 2016.

The New South Wales and Australian Governments will also begin the early rollout of the NDIS in the Nepean-Blue Mountains region in 2015-16, with around 2,000 young people under 18 years in the area being able to access the NDIS. Both governments are currently planning for transition to the full scheme, which involves developing implementation and operational plans to allow for a staged transition of existing clients into the NDIS and the intake of new clients. The transition will commence in July 2016 and is expected to be completed by June 2018.

Box 5.8: Domestic and Family Violence

The NSW Government continues to lead the way in this year's Budget with ongoing investment in services and programs to prevent and respond to domestic and family violence (DFV).

The Government invests in core services through the justice, social services and health systems to counter DFV. In addition, the Government invests in a range of specialist DFV programs and services. The Government will spend an estimated $148.5 million over four years on such specialist programs and services which include:

- expansion of the Safer Pathway referral process, a key component of It Stops Here. Two Safer Pathway trial sites successfully commenced at Waverley and Orange, and in July 2015 an additional four Safer Pathway sites will commence in Bankstown, Broken Hill, Tweed Heads and Parramatta. Funding for Safer Pathway is $2.3 million in 2015-16
- commencement of a Domestic Violence Disclosure Scheme based on a similar scheme operating in the United Kingdom. New South Wales will be the first state in Australia to pilot the Scheme. This is another new tool the Government is using to tackle DFV
- expansion of the Staying Home Leaving Violence program to four additional locations, helping women who have separated from a violent partner or family member and their children to remain safely in their own home or another home of their choice. Funding for the program is $5.6 million in 2015-16
- funding of over $33 million over four years for the Women's Domestic Violence Court Advocacy Program
- $10.4 million in 2015-16 for the Start Safely Program, providing short to medium-term financial help for people escaping DFV who are at risk of homelessness
- $3.6 million in 2015-16 to continue the Integrated Domestic and Family Violence Service to prevent the escalation of DFV among high-risk groups
- $2.3 million over four years for the Men's Telephone Counselling and Referral Service
- $1.8 million in 2015-16 for the Men's Behaviour change programs to work with domestic violence perpetrators to change their behaviour
- $1.6 million in 2015-16 to continue fund the Domestic Violence Assistance Line, a 24-hour State-Wide service.

In addition, the NSW Police Force capability to counter domestic and family violence will be increased with 24 new domestic violence specialist police officers.

This Budget strengthens the child protection system through a package of legislative, practice and system reforms under Safe Home for Life. In 2015-16, the NSW Government will invest $1.7 billion to protect children and young people from neglect and abuse, an increased spend of 7.6 per cent from the 2014-15 Budget. Key initiatives include:

- $60.4 million to continue and enhance Safe Home for Life reforms that put children's need for safety, permanency and stability at the centre of practice
- $50 million for additional services to support the increased number of children and young people in need of care by providing them with a safe and stable home
- $39.7 million for the design and implementation of a new frontline technology system for caseworkers that will support a modern, responsive and child-focused system.

The NSW Government is continuing to transition children in statutory care from the Department of Family and Community Services to the non-government sector. As at March 2015, 7,268 children and young people in statutory care were placed with NGOs. This represents around 57 per cent of all statutory care, up from 17 per cent in 2010-11.

In dollar terms, the NSW Government will purchase OOHC placement and non-placement support services from non-government organisations (NGO) totalling $539 million in 2015-16, which makes up 56 percent of the total budget spend for OOHC of $960 million. The current NGO contracts for OOHC are due to expire on 30 June 2016.

Housing and community amenities

The Government is investing $2.9 billion in 2015-16 in social housing assistance and community development. Funding for social housing is expected to increase by 6.5 per cent in 2015-16 to $1.3 billion, with $980.7 million in social housing assistance. $182 million will be provided for specialist homelessness services to ensure that people who are homeless or at risk of homelessness have access to timely and appropriate services and to ensure a better balance between early intervention, crisis and post-crisis support. Leasing subsidies in the private rental market will also be provided and will total $75.7 million, providing opportunities for independence and a pathway to better outcomes.

Planning is underway to develop a new social and affordable housing fund, to unlock approximately $1 billion of new investment.

Service delivery reform

The provision of quality service delivery is at the forefront of the Government's agenda for New South Wales. To date, the Government has demonstrated its commitment to develop new and innovative ways to deliver high quality services.

In 2013 the Government pioneered Australia's first two social benefit bonds: the Newpin Social Benefit Bond (operated by UnitingCare Burnside) and the Benevolent Society Bond. These bonds obtain funds from private investors and are reinvested into programs designed to achieve improved social outcomes. These bonds have funded programs designed to prevent children from entering care and also to safely return children in care to their families. This program will help up to 1,100 families overcome issues such as domestic violence, mental health, substance abuse, unstable housing and family dysfunction.

Building on the success of the social benefit bonds, the Government has developed a plan to grow the social impact investment market in New South Wales. The Government is targeting the development of two new social impact investments to go to market each year. Potential areas to be supported by the investments are managing chronic healthcare, supporting offenders on parole to reduce their levels of re-offending, managing mental health hospitalisations, and supporting young, particularly OOHC leavers, to transition to independence.

The Government continues to assess its role in service delivery and the potential to leverage private sector expertise and partnerships where services may be delivered more efficiently, allowing the Government to focus on core services of health, education, social services and policing.

As part of the ongoing effort to reduce waste and remove duplication across the public sector, the Government is exploring options to better manage its 25,000 vehicle fleet, costing $250 million every year. Requests for proposals are being sought from the private sector for the supply of leasing and fleet management services to government agencies. Reviews of the fleet efficiency across government services have saved more than $14 million, to date, with more savings to come.

For services that the Government is best placed to deliver efficiently and effectively, further investment and reform will take place to keep up with technology and improve customer service. The consolidation of government transactions at Service NSW centres is one example.

Box 5.9: Service NSW One Stop Shops

In July 2013, the Government began the rollout of new Service NSW centres to improve customer service for the people of New South Wales. There are 36 service centres now operational across New South Wales and more in the works. These one-stop shops for government services offer extended hours, easier access, and faster services, supported by knowledgeable customer service teams.

From its launch in 2013 to June 2015, Service NSW has served more than 16 million customers through its digital service, 24/7 phone service and network of one stop shops, spanning from driver licence renewals to registering a new business, with customer satisfaction of 98 per cent. To meet the growing demand for digital transactions, more transactions are being put online in addition to the roll out of new one stop shops and other points of presence such as digital stores and stores within stores.

These plans meet customer expectations to simplify services while also reducing the total cost to serve customers across New South Wales.

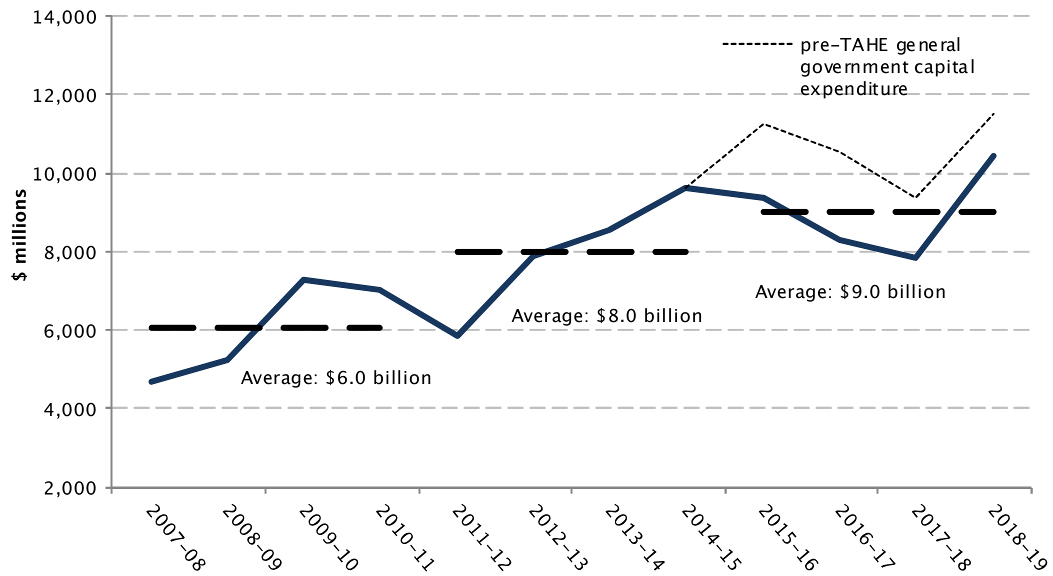
5.5 Capital Expenditure

The Government is growing the State capital program in a fiscally responsible way. The general government capital expenditure program for 2015-16 is $9.4 billion and totals $36 billion over the four years from 2015-16 to 2018-19.

Capital expenditure averaged $8 billion per year over the four years from 2011-12 to 2014-15, a significant increase on the preceding four-year period as the Government began the task of addressing the infrastructure gap.

The 2015-16 Budget builds on this progress with a continued focus on high value infrastructure projects to support the State's future growth. The 2015-16 Budget provides for a further step-up of capital expenditure over the preceding period, with general government capital expenditure rising to an average of $9 billion in the four years from 2015-16 to 2018-19.

Chart 5.7: General Government Capital Expenditure 2007-08 to 2018-19

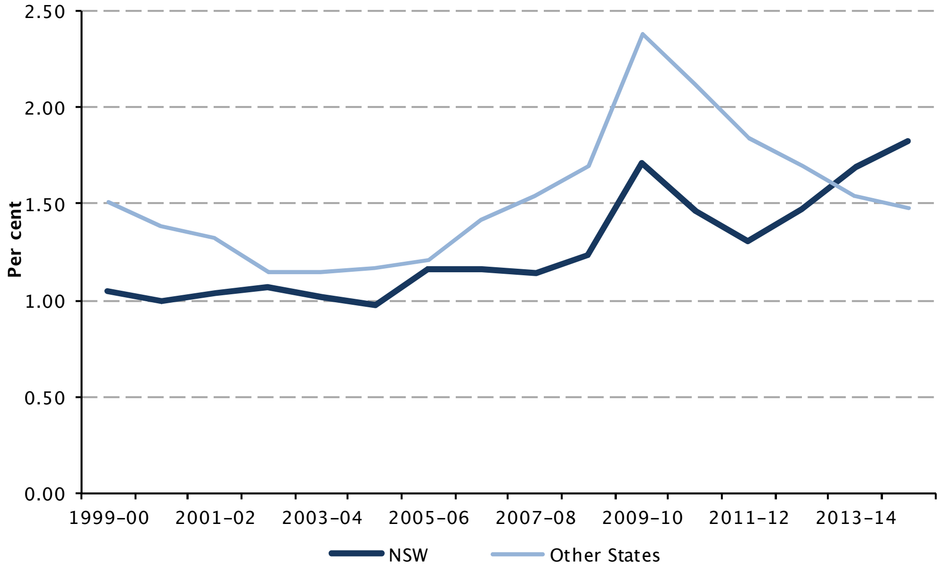


As a share of GSP GGS capital expenditure has grown from 1.3 per cent in 2011-12 to 1.9 per cent in 2014-15.

General government capital expenditure in the 2015-16 Budget is impacted by the TAHE reform. The TAHE arrangements result in rail-related capital expenditure previously funded by grants from the GGS being funded by equity injections and thus recognised from 2015-16 onwards in the PTE sector (see Box 1.1 Chapter 1: Overview). Chart 5.7 shows the impact of these changes. Without the movement of rail-related investment to the PTE sector, general government capital expenditure would have averaged $10.7 billion over the four years to 2018-19, rather than the $9 billion included in the Budget.

In 2014-15, New South Wales purchases of new non-financial assets as a percentage of GSP in the GGS is above the average of other States, after an extended period of below average spending (see Chart 5.8). New South Wales' strong growth has occurred while other states are reducing their corresponding share.

Chart 5.8: General Government – Purchases of New Non-Financial Assets, Percentage of GSP – New South Wales Compared with Other States[a]



(a) 1999-2000 to 2013-14 based on ABS data. 2014-15 data based on State Budget Papers and NSW Treasury calculations.
(b) For consistency with other states, the chart uses purchases of non-financial assets which excludes assets acquired through finance leases.

The 2015-16 Budget reflects new funding as well as changes to the cost and timing of project delivery. New funding provided by the Government includes:

- funding for the revitalisation of Newcastle through the truncation of the heavy rail line in preparation for the introduction of light rail services
- providing additional ferries for the Parramatta River
- commencing replacement of the 30-year old XPT fleet
- acceleration of Rebuilding NSW planning and construction work for roads, public transport, schools and health projects.

Additional funding has also been provided for WestConnex, urban renewal and land acquisition.

Other changes to the cost and timing of project delivery include:

- the carry forward of expenditure from 2013-14 for design and construction of Headland Park and North Public Domain at Barangaroo
- the re-profiling of major road projects, including Heavy Vehicle Rest Area Initiatives, Bridge rebuilding and WestConnex
- the re-profiling of the court upgrades program, crime reduction initiatives and Justice shared corporate services.

Additionally, a number of projects, including the Sydney Metro NorthWest, are running ahead of schedule and under budget.

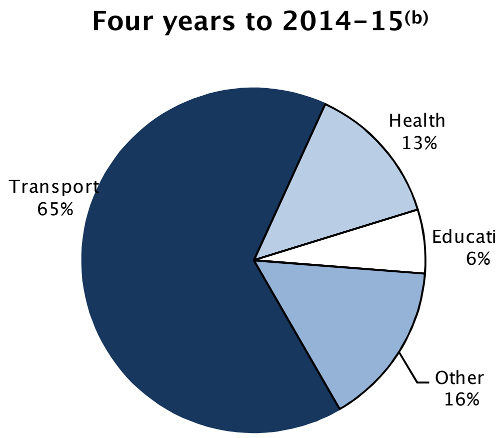
The four-year capital expenditure program to 2018-19 includes $1.5 billion from Restart NSW to fund a range of high priority infrastructure projects. Restart NSW is funded from the proceeds of asset recycling, together with windfall tax revenues and the issuing of Waratah Bonds, with the objective of improving the economic growth and productivity of the State.

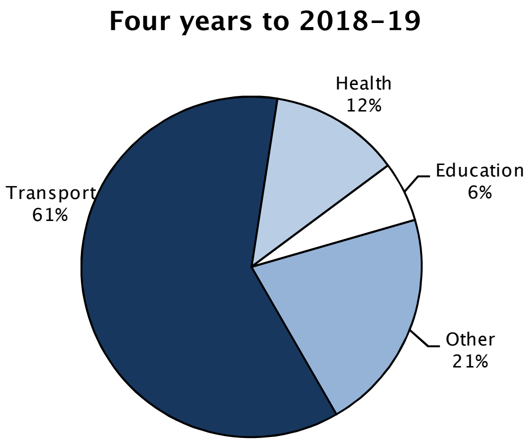
The Budget includes $590.6 million to 2018-19 to accelerate planning and delivery of key Government commitments identified in the *Rebuilding NSW State Infrastructure Strategy 2014 Update,* together with a further update in February 2015. This funding will progress the planning for Rebuilding NSW road, public transport and cultural and arts projects and provide initial funding for new schools and health projects. The accelerated Rebuilding NSW expenditure will be funded from the Consolidated Fund and Restart NSW and will form part of the Government's $20 billion Rebuilding NSW commitments. Key projects in the Government's Rebuilding NSW plan include a second harbour rail crossing, a third harbour road crossing and upgrading key regional transport links. Further information on Rebuilding NSW is provided in Chapter 4 of this Budget Paper.

The benefits of a strong capital expenditure program are wide-ranging and include a boost to jobs and economic activity. This investment allows the Government to overcome the State's infrastructure backlog, deliver new roads and rail projects to ease congestion for motorists and public transport customers and to connect growing population centres in Sydney with jobs and employment. It also supports the construction of new schools and hospitals.

Transport infrastructure remains the major focus of the Government's capital investment program. Chart 5.9 shows general government capital investment by major sector in the four years to 2014-15 and the four years to 2018-19. Investment in the State's transport networks, including new roads and rail projects, accounts for 61 per cent of general government capital investment between 2015-16 and 2018-19.

Chart 5.9: General Government Capital Investment by Major Sector[a]





(a) The sectors used here are based on grouping similar agencies together and do not align with the GFS functional approach published in this Budget Paper. "Other" includes investment in family and community services, social housing, justice and emergency services, the arts and recreation and general public services.

(b) Total includes the Australian Government's Economic Stimulus Plan which provided funding for education, social housing and roads projects

Total expenditure commitments from Restart NSW, including $1.5 billion in capital expenditure included in the Budget, are described in Chapter 2 of Budget Paper No. 2. In addition to the capital expenditure included in the 2015-16 Budget, the Government has reserved a further $4.3 billion for projects against funds held in Restart NSW. The reservations for these projects will impact future budgets following further project development and completion of project assurance processes, including final business case approval.

The State's growing capital program is delivering high value infrastructure in a fiscally responsible way. Funding strategies, including the use of operating surpluses, asset recycling and partnerships with the private sector, allow for delivery of an ambitious infrastructure program while maintaining the State's triple-A credit rating. Independent expert advice from INSW further ensures that increased investment expenditure is directed to high quality projects that improve the economic growth and productivity of the State.

5.6 Balance Sheet

A strong balance sheet is crucial to maintaining the State's triple-A credit rating. This supports a low cost of borrowing and attracts the widest range of potential investors in the State's debt issuance and private financing for capital projects. It also allows flexibility for the Government to respond to emerging fiscal and economic pressures, by providing capacity for the Government to absorb any adverse fiscal shocks or raise additional debt in a fiscally sustainable manner.

In recent years the Government has increased its focus on strengthening and improving the efficiency of the balance sheet. The Government has actively pursued innovative financing strategies including asset recycling and Public Private Partnerships to fund its capital expenditure program. As a result, even while capital expenditure increased substantially from 2011, net debt as a percentage of GSP has fallen from 3.0 per cent to 1.3 per cent between June 2012 and June 2015.

The use of these strategies allows the State to access funding for infrastructure investments in an economically efficient manner without significantly increasing borrowings. The Government's significant asset recycling program converts the proceeds gained from the sale or lease of a number of the State's assets into the Restart NSW Fund to deliver much-needed infrastructure investments. The proposed partial lease of the State's electricity network assets to fund $20 billion of investments critical to the State's future will be the largest asset recycling program to date. This transaction will be reflected in the Budget upon its completion.

The Government is also increasingly using Public Private Partnerships to access private capital to finance infrastructure projects and manage project risk particularly in the transport sector. Public Private Partnerships provide an efficient blend of public and private sector expertise to deliver innovation and cost-effective infrastructure for the State. Public Private Partnerships will be used in the delivery of key projects including Sydney Metro NorthWest, Sydney Light Rail and NorthConnex.

As part of the continued focus on improving the efficient use of the State's funds and strengthening the balance sheet, in 2015-16 the Government will:

- carry out a comprehensive review of its cash management strategy in order to identify further opportunities for efficiency gains
- review the funding arrangements and capital adequacy of PTEs to ensure efficient operations

- continue undertaking innovative approaches to funding investment, particularly in critical areas such as housing supply
- develop an improved framework for managing financial risks to the State's balance sheet.

Table 5.12 shows the estimates for key balance sheet aggregates.

Table 5.12: General Government Sector Balance Sheet Aggregates

	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
	Actual	Revised	Budget	Forward estimates		
	$m	$m	$m	$m	$m	$m
Net Debt	6,869	6,655	9,875	12,270	13,112	15,799
Per cent of GSP	1.4	1.3	1.9	2.2	2.2	2.6
Net Financial Liabilities	69,715	76,964	75,984	69,175	64,496	64,653
Per cent of GSP	14.2	15.0	14.3	12.4	11.0	10.5
Net Worth	167,768	174,403	189,995	212,575	228,837	241,985
Per cent of GSP	34.1	34.0	35.7	38.1	39.0	39.2

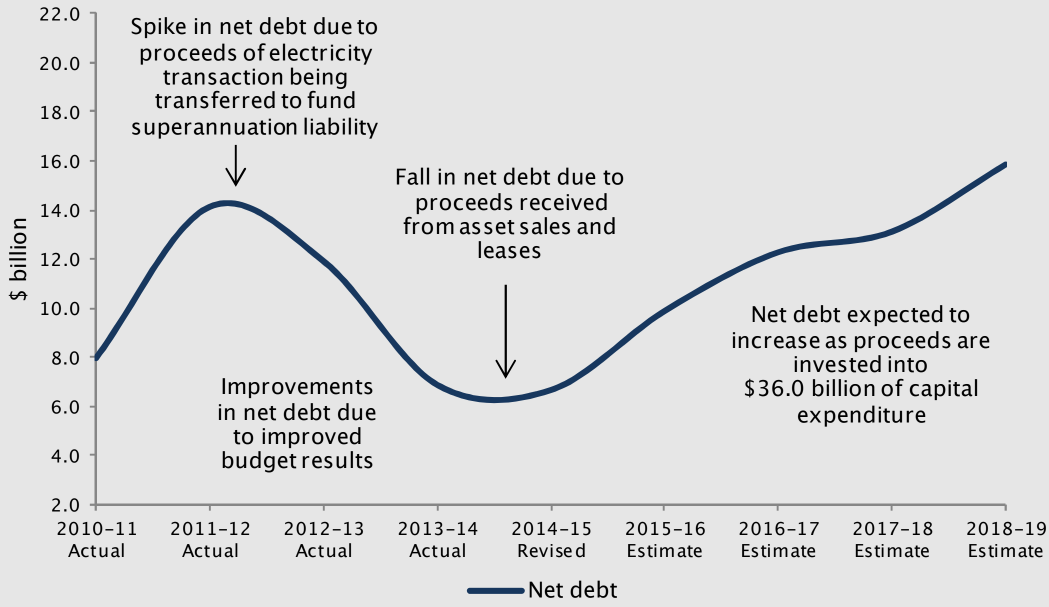
Net debt is the most commonly used indicator of balance sheet strength and fiscal sustainability. It takes into account gross debt liabilities (borrowings including finance leases, advances received, and deposits held), offset by cash and cash equivalent assets, investments loans and placements and advances paid. Non-financial assets and other liabilities such as superannuation are not included in net debt.

Box 5.10 Asset Recycling and Net Debt

Fluctuations in net debt since 2011 can be primarily explained through changes in cash levels as a result of sales and leases of the State's assets including for asset recycling initiatives. When proceeds from the sale or lease of assets are received, cash increases and net debt falls. When these funds are recycled into productive uses, cash and net debt return to previous levels.

In 2012, the Government used proceeds to reduce the Government's superannuation liability consistent with the fiscal strategy. The 2015-16 Budget aggregates reflect the use of accrued proceeds from prior assets sales including the recent divestment of ports, to fund productive infrastructure investments consistent with the asset recycling initiatives. These movements are presented in Chart 5.10.

Chart 5.10: Movements in Net Debt since 2010-11

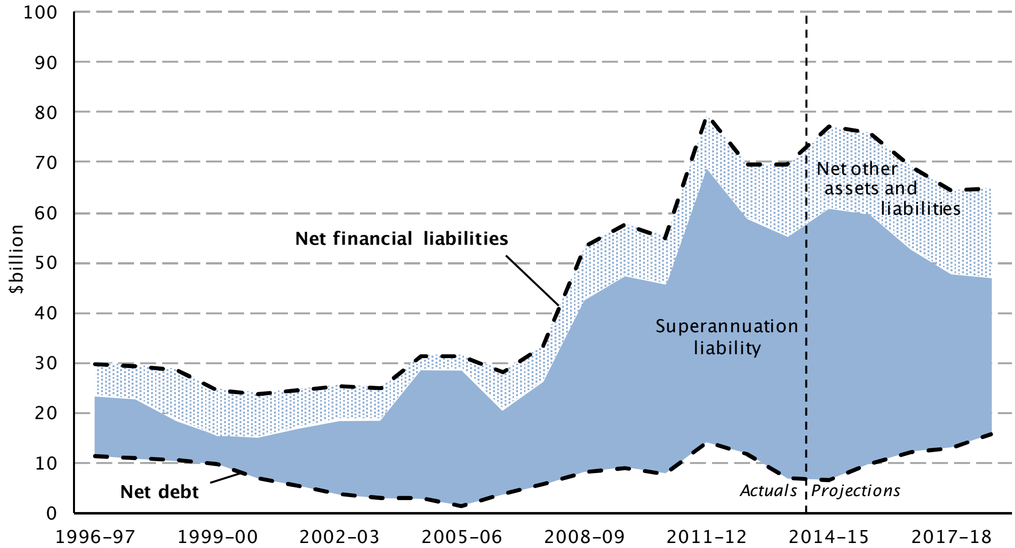


Upon completion of the partial lease of State's electricity network assets, net debt is expected to fall as proceeds will be received and invested to fund $20 billion of critical infrastructure projects. Proceeds from the partial lease of the electricity network and the associated capital expenditure through Rebuilding NSW will be included in Budget aggregates once the transaction contract has been signed and expenditure is approved.

Net debt stood at $14.1 billion at 30 June 2012. As at 30 June 2015 it is estimated to be around $6.7 billion, reflecting asset sale proceeds being held as cash. As these proceeds are recycled into much needed capital investment, net debt is anticipated to return to broadly similar levels so that by 30 June 2019 net debt is projected to be around $15.8 billion. However current projections do not take into account the partial lease of the state's electricity network. When these proceeds are recognised in future budgets, net debt will be significantly reduced. These proceeds will be used to fund an additional $20 billion of infrastructure in future years through Rebuilding NSW, increasing net debt as proceeds are spent.

Net financial liabilities represent total liabilities less financial assets, other than equity in publicly owned corporations. This is a broader indicator of the State's fiscal position compared to net debt, because it includes other liabilities such as the Government's unfunded superannuation liabilities. As illustrated in Chart 5.11, the difference between net debt and net financial liabilities primarily reflects the unfunded superannuation liabilities.

Chart 5.11: General Government Sector Net Debt and Net Financial Liabilities



General government sector net financial liabilities are forecast at $76 billion at June 2016. While net debt is forecast at lower levels for the years ending June 2015 to June 2017 compared to the 2014-15 Budget, forecasts for net financial liabilities are higher across all years.

This reflects changes in the value of superannuation liability which exceed the movements in net debt. The unfunded superannuation liability is valued in accordance with accounting standard AASB 119 *Employee Benefits* resulting in a liability that is very sensitive to changes in discount rates. The value of the net liability across the forward estimates reflects a lower discount rate based on lower forecasts of the Commonwealth 10-year bond yield over this period, compared to the 2014-15 Budget. This has increased the June 2016 superannuation liability by $16.6 billion, in addition to the $6.9 billion increase in the liability due to the revised AASB 119 standard which required the inclusion of contributions tax on the liability. This is offset by $2.9 billion in other movements.

General Government Sector net financial liabilities are expected to fall to $64.7 billion by June 2019. Net financial liabilities at these levels are consistent with the gradual elimination of the unfunded superannuation liability. This in turn is consistent with the Government's commitment to fully fund superannuation liabilities by 2030.

Net worth represents the difference in value between total assets (including non-financial assets) and total liabilities. General Government Sector net worth is forecast at $190 billion at June 2016, increasing by $52 billion over the forward estimates to reach $242 billion by June 2019.

Cash and investments

Investment funds are held by a number of agencies across the General Government Sector and are generally managed by NSW Treasury Corporation (TCorp) or the Crown. The majority of these funds are invested in growth-based portfolios to meet designated liabilities, principally for workers compensation, other insurance, dust diseases and long service payments in the construction industry.

In order to provide an enhanced whole-of-portfolio view of the State's financial assets, streamline the administration of the funds and reduce management costs, the Government has amalgamated fund management activities. The management of funds held in Safety, Return to Work & Support and SAS Trustee Corporation (State Super) have now been amalgamated into TCorp, which already manages New South Wales Self Insurance Corporation's (SiCorp) Treasury Managed Fund and the funds of the Long Services Corporation. This amalgamation makes TCorp a top 10 Australian investment manager, which will generate efficiencies and improve access to expertise in fund management within the NSW Government. The Government will continue to assess its management strategies and procure independent advice where necessary to ensure that the State earns appropriate returns on its assets.

Table 5.13 provides a breakdown of GGS cash and investments.

Table 5.13: Composition of General Government Sector Cash and Investments[(a)]

	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Cash and Term Deposits[(b)]	14,064	13,454	9,848	7,186	5,574	5,232
SiCorp Treasury Managed Fund[(c)]	7,165	8,009	8,342	8,472	8,824	9,252
TCorp Investment Facilities[(d)]	1,604	2,068	2,220	2,366	2,533	2,722
Other Investments	1,302	1,447	1,567	1,625	1,765	1,870
Total cash and investments	**24,135**	**24,978**	**21,977**	**19,649**	**18,696**	**19,075**

(a) This table provides a breakdown of cash and cash equivalent assets, financial assets at fair value, and other financial assets on the balance sheet.

(b) Cash and term deposits include funds set aside for Restart NSW projects.

(c) SiCorp's asset portfolio is managed to ensure its liabilities are fully funded without the need for volatile demands from the State's operating cash flows. The increase in the fund across the forward estimates is consistent with an increase in forecast liabilities.

(d) TCorp investment facilities comprise term deposits and other investments managed by TCorp on behalf of the General Government Sector.

Total General Government Sector cash and investments are forecast to be $25 billion at end June 2015, $22 billion at end June 2016, and fall to $19 billion at end June 2019. This fall over time reflects the use of cash reserves to fund Restart NSW and other capital projects.

Borrowings

General Government Sector borrowings mainly comprise loans from TCorp on behalf of the Government and finance leases. Borrowings excluding finance leases are forecast to remain relatively stable at around $29 billion in the Budget year (see Table 5.14) and across the forward estimates, despite the significant capital expenditure program of $36 billion across the four years to 2018-19 that is delivered in this Budget. Compared to the 2014-15 Budget, the total level of borrowings has fallen across all years, by $795 million in 2015-16 to nearly $1.8 billion in 2017-18. These results are due to the Government's strong cash results and engagement in innovative financing arrangements.

Table 5.14: Composition of General Government Sector Borrowings

	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Borrowings at amortised cost excluding finance leases	27,952	28,592	29,004	29,268	29,332	29,266
Borrowings and derivatives at fair value	13	11	9	7	6	4
Finance leases	3,075	3,040	3,016	2,952	2,901	6,152
Total borrowings	**31,040**	**31,643**	**32,028**	**32,227**	**32,238**	**35,422**

The Government's delivery of a large capital program in conjunction with the maintenance of a strong balance sheet reflects the Government's focus on maintaining low debt levels, and using the State's strong financial position to fund capital expenditure through operating cash surpluses as well as using innovative financing strategies. The expected doubling of finance leases from $3 billion in June 2016 to $6.2 billion in June 2019 is a consequence of the increasing use of availability Public Private Partnerships in the transport sector.

Treasury is responsible for ensuring that the debt portfolio is managed prudently and that long term interest costs are minimised. Accordingly, Treasury has established debt management objectives for the GGS which are used to guide TCorp's management of the debt portfolio activities.

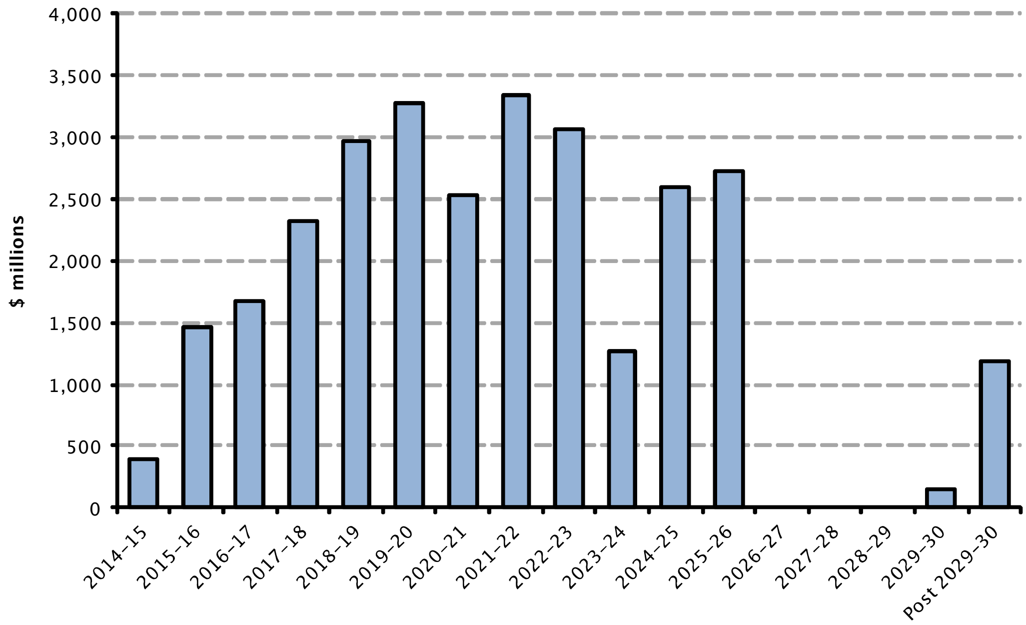
These objectives are to:

- minimise the market cost of debt over the longer term (within risk constraints)
- minimise the variability of the general government interest costs over the longer term.

TCorp provides advice to Treasury on the appropriate debt benchmarks, including the target-weighted average life for the debt portfolio and the risk limits within which the debt portfolio should be managed. The settings of the benchmark result in General Government Sector borrowings being spread out over a medium to long-term horizon. Spreading borrowings out over a long-term horizon ensures that the State's refinancing risk is managed conservatively and in line with the long-term nature of capital expenditure. The debt mix of the portfolio includes floating rate, fixed rate and inflation-linked liabilities in line with the objective of minimising long-term debt costs.

The composition and the maturity profile of general government borrowings through TCorp at 31 May 2015 is shown in Chart 5.12 and Table 5.15 below.

Chart 5.12: Maturity Profile of General Government Sector Borrowings[(a)]



(a) The value of borrowings in this chart is at face value, and is different from the value reported in the financial statements.

Table 5.15: Composition of TCorp General Government Sector Borrowings[(a)]

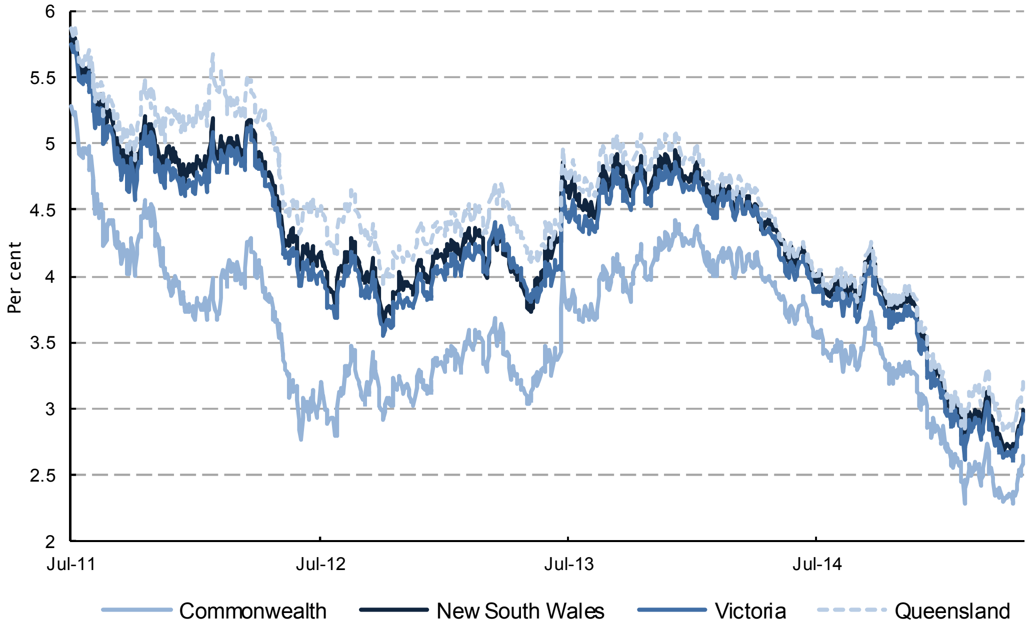
Maturity	Fixed rate loans	Floating rate loans	Inflation linked loans	Short term loans	**Total**
	$m	$m	$m	$m	$m
Less than one year	1,468	1	–	402	**1,870**
One to five years	10,213	5	–	–	**10,218**
Five to ten years	11,186	2	1,596	–	**12,784**
Over ten years	1,398	–	2,668	–	**4,066**
Total	24,264	8	4,264	402	**28,938**

(a) Data as at 31 May 2015.

Bond yields determine the cost of borrowing for the State, and therefore influence the borrowing and funding strategy. As presented in Table 5.15, most of TCorp's borrowings are long term at fixed rates.

Along with the fall in the Commonwealth bond yields, NSW 10-year bond yields have fallen from over 5 per cent in 2011 to around 3 per cent currently. This is presented in Chart 5.13. The fall in bond yields to historically low levels in recent years has allowed new borrowings and refinancing of debt to be secured at attractive rates. Additionally, the borrowing margin over Commonwealth bond yields has narrowed in recent years. Yields on new bond issues over the next few years are forecast to remain below historical long term rates.

Chart 5.13: Comparison of 10-Year Bond Yields Across Jurisdictions[(a)]



(a) Source: Bloomberg and Reserve Bank of Australia

Chapter 6: Performance and Outlook of the Broader Public Sector

- The Non-Financial Public Sector (NFPS) consolidates the General Government Sector (GGS) and the Public Non-Financial Corporation (PNFC) sector. The PNFC sector comprises Public Trading Enterprises (PTEs) that are partially or fully owned by the Government and operate in a commercial environment. PTEs provide electricity, water, housing, transport and port services that are funded from user charges and fees, government grants or Public Private Partnerships.
- The operating performance of the PNFC sector for 2014-15 is expected to be better than forecast in the 2014-15 Budget. However, a weaker operating performance is expected from 2015-16 and over the forward estimates, largely due to more stringent regulatory settings in the electricity sector, reflected in the recent AER determinations.
- Dividends and tax equivalent payments from electricity distribution and transmission businesses for 2014-15 are consistent with the 2014-15 Budget. However, these payments are forecast to decrease significantly in 2015-16 and over the forward estimates, primarily as a result of the AER determinations. Despite significant Government-led efficiency improvements over recent years, the AER determinations will have implications for staffing levels, credit ratings of the businesses and their capital structure.
- As part of its asset recycling strategy, the Government is undertaking a 99-year lease of 49 per cent of New South Wales' electricity transmission and distribution businesses. Transactions will comprise leases of TransGrid, Ausgrid and Endeavour Energy, while Essential Energy in its entirety will remain with the State. The State's retained interests in the electricity network will continue to be managed by the Government through special independently governed holding entities.
- The Government continues to improve the capital efficiency of PTEs, which in turn supports the State's triple-A credit rating and places downward pressure on consumer prices.
- The broader public sector also comprises the Public Financial Corporation (PFC) sector, covering the role of financial administration and facilitation. This includes entities such as the NSW Treasury Corporation (TCorp).
- During the year, the Government successfully executed the amalgamation of the funds management activities of the State's three largest financial asset managers – Safety, Return to Work and Support, SAS Trustee Corporation and TCorp – within TCorp. The reform creates a top 10 Australian funds manager, with TCorp now managing around $70 billion of financial assets.

6.1 Introduction

The State comprises the NFPS and the PFC sector. The NFPS consolidates those entities that provide services to the general public and businesses in New South Wales. These entities are categorised as sitting under the GGS or the PNFC sector. The PNFC sector comprises PTEs that are either fully or partially owned by the Government. PTEs can be commercial or non-commercial and deliver a range of services funded from user charges and fees, government grants or Public Private Partnerships. These services include electricity, water, housing, transport and port services. The PFC sector includes Public Financial Enterprises (PFEs) whose role is financial administration and facilitation on behalf of the State.

A full list of government-owned businesses and their classification is provided at Appendix B3.

6.2 Reforms to the Broader Public Sector

The Government is committed to improving the performance and asset management of its businesses, thereby reducing the cost of services to consumers and improving service delivery. The Government is also focussed on ensuring the long-term efficiency of its asset portfolio, by continuing its strategy of recycling assets as well as implementing further reforms to increase efficiency within the transport, water and property sectors.

Asset recycling

In 2013, the Government introduced an asset recycling strategy to improve asset management across the public sector as well as release funds for reinvestment in critical infrastructure. Over the past four years, the Government's asset recycling strategy has seen the long-term lease of Sydney's desalination plant, the lease of the State's ports as well as divestment of all but one of its electricity generation businesses.

Since the 2014-15 Budget, the Government has completed the sale of Macquarie Generation to AGL (gross proceeds of $1.5 billion) and Delta Electricity's gas-fired Colongra power station to Snowy Hydro (gross proceeds of $234 million). The sale of a small portfolio of renewable generation assets held by Green State Power was also completed. These transactions largely removed the State from ongoing financial exposure to movements in the wholesale electricity markets and released capital for funding of infrastructure.

Continuing with its strategy of asset recycling, the Government will undertake a 99-year lease of 49 per cent of the New South Wales electricity network consistent with the authorising legislation passed by Parliament. This will involve leasing to the private sector all of TransGrid and portions of both Ausgrid and Endeavour Energy. The whole of Essential Energy will remain controlled by the State. The State will continue to hold 51 per cent of the electricity network businesses, and its retained interests in each partially leased network business will be overseen by independently governed holding entities.

Leasing the State's electricity businesses means funding can be released for use in critical infrastructure projects identified in Rebuilding NSW while reducing pressure on debt levels. In the long term, the budget will be stronger as the leases not only reduce risk and uncertainty, but also remove a significant amount of debt that otherwise would have stayed on the State's balance sheet.

For further information about Rebuilding NSW refer to Chapter 4 Rebuilding NSW – Transforming the State Through New Infrastructure.

Other major reforms for commercial assets

The Government continues to review the structure and operations of its businesses to reduce costs, improve service delivery and manage the State's balance sheet. Examples of this include the comprehensive bulk water reforms, improving wholesale land operations, urban renewal and the amalgamation of funds management activities.

The Government completed the first stage of the comprehensive bulk water reform in 2014-15 to support best practice in catchment management and bulk water supply. The formal merger of State Water Corporation and Sydney Catchment Authority to form WaterNSW was completed as part of these reforms. This amalgamation brings together water quality, dam management, flood mitigation and catchment protection expertise to create a stronger organisation with shared expertise and skills. Water NSW aims to deliver the highest quality and most efficient service to its customers.

The next focus of reform involves establishing a $1 billion Regional Water Security and Supply Fund under Rebuilding NSW to address water supply challenges within New South Wales. These include improving drinking water quality, greater capacity to meet water demand from growing populations, drought security, dam safety and improving the adequacy of wastewater treatment. The Hunter, Gwydir, Macquarie and Lachlan river systems have been identified as the highest priority catchments, critical to enabling economic activity that would otherwise be constrained by a lack of water security. Therefore, a range of options are currently being investigated to ensure these river systems are adequately prepared.

The development of sustainable water security solutions for Cobar and Broken Hill will also be targeted. The Government has allocated $52.3 million for emergency works to support an improved water supply to Broken Hill.

UrbanGrowth NSW continues to focus on wholesale land operations and urban renewal while reducing its involvement in the retail property sector. As part of the transition to a Major Urban Renewal Portfolio (MURP), UrbanGrowth NSW is developing a financially sustainable business model and assessing the impact of implementing MURP projects. Key projects include the Bays Precinct, North Parramatta, the Central to Eveleigh Transformation Project and Green Square Town Centre.

Another major accomplishment of the Government is the successful completion of the amalgamation of funds management activities, bringing together financial assets of around $70 billion within TCorp. Funds of $21.4 billion were transferred from Safety, Return to Work and Support (SRWS) and $34.6 billion from SAS Trustee Corporation (STC) to add to funds already managed by TCorp. This makes TCorp a top 10 Australian funds manager.

Amalgamating funds management staff within TCorp mitigates the State's fiscal risks by ensuring efficient funds management through a single entity. Responsibility for investment objectives, risk management and asset allocation remains with each of the separate entities and their respective Boards. The Government will be seeking to amend the legislation of TCorp, STC and SRWS to further facilitate more efficient and sustainable funds management.

6.3 Performance and Outlook of the NFP Sector

Net operating balance

The NFPS net operating balance provides the operating performance of the entire non-financial public sector, which accounts for the majority of the Total State Sector. Importantly, the NFPS allows for a comparison of both of its component parts – the GGS and PNFC sector. Chart 6.1 below shows the operating performance of the NFPS and its component GG and PNFC sectors over the period 2013-14 to 2018-19.

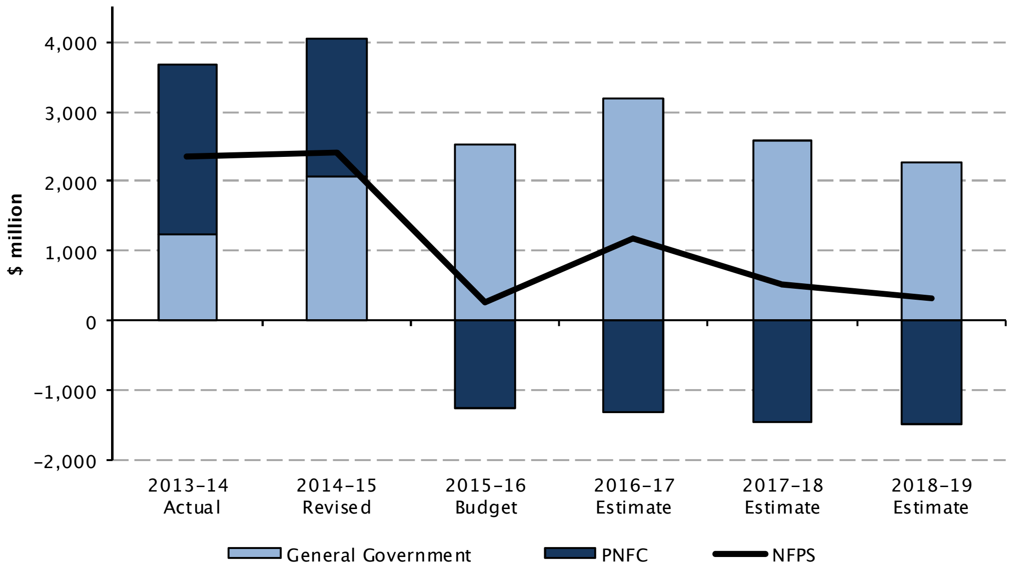
For the NFPS as a whole, the net operating balance is expected to be positive from 2015-16 to 2018-19, but at lower levels than 2014-15. While the GGS budget result is expected to remain in surplus, deficits are forecast in the PNFC sector from 2015-16 and over the forward estimates.

The net operating balance for the PNFC sector is expected to fall from a surplus of $2.4 billion in 2013-14 to $2 billion in 2014-15. This primarily reflects reduced revenue forecasts for electricity businesses and RailCorp.

In 2015-16, the PNFC budget result moves to a deficit of $1.2 billon. This is primarily being driven by the establishment of the Transport Asset Holding Entity (TAHE) which replaces TfNSW revenue to RailCorp with equity transfers. For further information on TAHE, see Box 1.1, Chapter 1 Overview. The fall is also driven by the impact of the AER determinations on electricity entity profits. Further information on the impact of the AER determinations on the State's electricity transmission and distribution businesses is included in Box 6.1.

From 2016-17 to 2018-19, the deficit in the PNFC sector net operating balance is forecast to worsen by an average 5.9 per cent per annum. This is largely driven by more stringent regulatory price settings for regulated businesses, increased depreciation and amortisation expenses for electricity network businesses, and steady increases in other operating expenses for most businesses within the PNFC sector.

Chart 6.1: Components of the Non-Financial Public Sector Net Operating Result



However, operational efficiencies are being achieved from businesses within the water sector. During 2014-15, Hunter Water increased focus on its core businesses by completing the sale of its head office and its non-core engineering consulting and laboratory operations. Hunter Water also commenced the sale process for surplus land at Tillegra. These reforms will improve Hunter Water's balance sheet management and lower its costs of capital.

Dividends and tax equivalent payments

Dividends received from government businesses are a return on investment in those businesses. Government businesses also make tax equivalent payments to the State which ensure competitive neutrality with businesses in the private sector.

As forecast in the 2014-15 Budget, higher dividends and tax equivalent payments for 2014-15 reflect ongoing reviews of business capital structures including Sydney Water and Sydney Catchment Authority. However, in 2015-16, dividends and tax equivalent payments are forecast to decrease by 39.1 per cent to $1.5 billion. This is largely driven by the AER determinations which affect the profitability of electricity network businesses. Total dividends and tax equivalent payments are forecast to decrease annually by 17.0 per cent from 2016-17 to 2018-19, due to more stringent regulatory price settings in the electricity and water sectors.

Further information on the ongoing capital reviews of PTEs can be found at Box 6.2.

Table 6.1 shows the dividend and tax equivalent payments of commercial PTEs and PFEs over the period 2013-14 to 2018-19.

Table 6.1: Dividends and Tax Equivalent Payments from Non-Financial Public and Financial Public Sectors

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Dividends						
Electricity						
Generation	9	...	...	...	...	...
Distribution and Transmission	872	815	349	294	147	147
Water	337	720	652	393	414	297
Property and Resources	85	102	20	21	22	20
Ports	15	...	...	...	5	8
PFE	59	80	85	44	50	50
Total Dividends	1,377	1,716	1,106	751	638	522
Other Non-Cash Notional Items[(a)]	9	...	...	...	...	...
Total	1,386	1,716	1,106	751	638	522
Tax equivalents						
Electricity						
Generation	20	(78)	(12)	6	7	(1)
Distribution and Transmission	567	462	114	83	81	77
Water	174	202	186	138	160	166
Property and Resources	80	60	53	80	35	43
Ports	13	(1)	0	1	3	4
PFE	29	48	22	21	22	21
Total Tax Equivalents	883	693	363	330	308	309
Total Dividends and Tax Equivalents[(b)]	2,260	2,410	1,468	1,081	946	831

(a) Notional items arising under the Gentrader transaction.

(b) Excludes non-cash notional items.

Commercial PTEs within the electricity and water sectors currently contribute the largest proportion of total dividend and tax equivalent payments.

Dividends and tax equivalent payments from the water sector are expected to be $921.5 million in 2014-15, which is consistent with 2014-15 Budget forecasts. In 2015-16, dividends and tax equivalent payments are forecast to decrease to $837.7 million. From 2016-17 to 2018-19, dividends and tax equivalent payments in the water sector are expected to decrease by an average 15.9 per cent per annum as changed regulatory settings impact on profitability.

Dividends and tax equivalent payments from electricity network businesses are estimated to be $1.3 billion in 2014-15, which is in line with the 2014-15 Budget forecast. However, in 2015-16, dividends and tax equivalents payments are forecast to decrease by 63.8 per cent and, from 2016-17 to 2018-19, by an average annual 20.0 per cent, owing to the impact of the AER determinations.

Table 6.2 shows the forecast dividends and tax equivalent payments for electricity transmission and distribution businesses from 2014-15 to 2018-19. The table takes into account the impact on the businesses of the AER determinations, movements in forecast revenues from non-regulated sources as well as estimated operational savings in response to the AER determinations.

Table 6.2: Dividends and Tax Equivalent Payments for Electricity Network Businesses [(a)]

	2014-15	2015-16	2016-17	2017-18	2018-19
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
2014-15 Half-Yearly Review	1,172	736	642	407	N/A
TransGrid	405	232	149	176	210
Ausgrid	476	118	126	35	10
Endeavour	228	84	75	17	3
Essential	168	28	28	...	...
2015-16 Budget	1,277	463	378	228	224

(a) This table does not include the impacts of leasing the network businesses. As transactions are completed, their impact on dividends and tax equivalent payments will be recognised.

Box 6.1: The Impact of the AER Determinations on Electricity Network Businesses

In April 2015, the AER released its final determinations on NSW electricity network revenues. The AER determinations lower the regulatory return, Weighted Average Cost of Capital (WACC), operating and capital expenditure allowances for the current regulatory period.

The new regulatory period is out to 2017-18 for TransGrid and 2018-19 for Ausgrid, Endeavour Energy and Essential Energy. The final regulatory determinations also include a "true-up" for the transitional regulatory year 2014-15.

The table below shows the negative impact of the AER determinations on forward distribution estimates, partially mitigated by the expected operating and capital efficiency measures of the network businesses.

The analysis in Table 6.3 indicates that the network sector, in aggregate, would be unprofitable if the impact of the regulatory rulings are observed in isolation.

Since the final determinations were released in April, the businesses have examined mitigating strategies to respond adequately to the lower AER revenue allowances by pursuing unregulated revenue opportunities and generating operational savings. Including the impact of these mitigating factors, the overall impact on the 2015-16 Budget is shown in the last row of the table.

Table 6.3: Impact of AER Determinations on Dividends and TEPs

	2014-15	2015-16	2016-17	2017-18	2018-19
		Budget	Forward Estimates		
	$m	$m	$m	$m	$m
2014-15 Budget Forecasts	1,172	945	936	766	-
Impact of WACC [(a)]		(429)	(471)	(504)	-
Impact of Lower Operating Allowance [(a)]		(352)	(306)	(268)	-
Other Impacts of AER Determinations [(a)]		(168)	(351)	(470)	-
Sub total : Impact of AER Determinations [(a) (b)]		(949)	(1,129)	(1,242)	-
Impact of Mitigating Factors [(c)]		467	571	704	-
2015-16 Budget	1,277	463	378	228	224

(a) Note that as dividends cannot fall below zero, the estimates provided are notional. In practice, dividends would fall to zero and the entities would require financial support from the General Government Sector.
(b) Includes the impact of the AER determinations on capital expense allowance, borrowing costs and efficiency benefit sharing schemes
(c) Mitigating factors include the impact on dividends and tax equivalent payments as a result of the movement in forecast revenues from non-regulated sources, as well as estimated operational savings.

The current aggregates of dividends and tax equivalent payments relate to 100 per cent ownership of Ausgrid, Endeavour Energy, Essential Energy and TransGrid. These figures are subject to revision as the proposed lease transactions are completed, and any change to the AER determinations due to the appeal process.

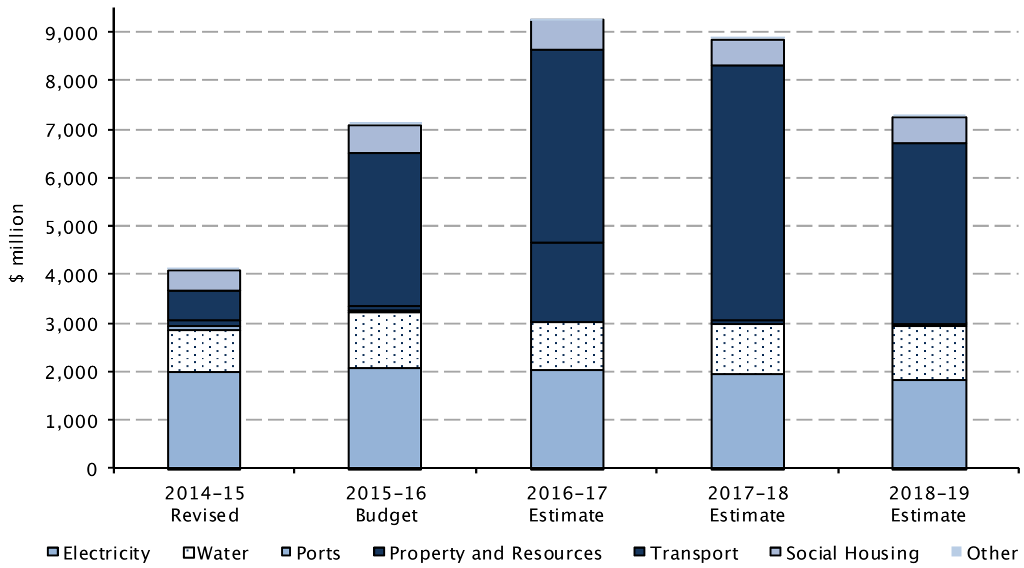
Capital expenditure

Capital expenditure within the PNFC sector is expected to be $4.1 billion in 2014-15, or 15.3 per cent lower than estimates published in the 2014-15 Budget. This is due to lower expenditure by electricity and transport businesses. From 2015-16, the forecasts are significantly impacted by the shift of capital expenditure from TfNSW (within the GGS) to TAHE in the PNFC sector. Forecasts are also impacted by the recognition of the Darling Harbour Live Project by the Sydney Harbour Foreshore Authority in 2016-17. As a result, capital expenditure in the PNFC sector is forecast to more than double between 2014-15 and 2016-17 to $9.3 billion. Annual capital expenditure is forecast to be lower in 2017-18 and 2018-19 following the completion of the Sydney Metro Northwest in 2017-18. This is partially offset by capital expenditure for WestConnex. These figures do not include any planned capital expenditure as part of the Rebuilding NSW plan.

Further details on the Government's capital expenditure strategy are provided in Budget Paper No. 2.

Chart 6.2 shows the capital expenditure by sector over the period 2014-15 to 2018-19.

Chart 6.2: Capital Expenditure by Industry Sector – PNFC



Capital expenditure within the public housing sector is undertaken by the NSW Land and Housing Corporation (LAHC), which owns and manages public housing assets. Total capital expenditure by LAHC is expected to be $553.8 million in 2015-16, of which $551 million relates to investment in social housing dwellings. The LAHC has an asset management strategy that aims to deliver fit for purpose dwellings with an improved asset and capital investment framework. This strategy will generate additional funds for reinvestment by unlocking the value of properties in the portfolio and selling properties that are not suitable for social housing. For example, the projected proceeds from the Millers Point property sales will be reinvested into some 1,500 new social housing dwellings.

> **Box 6.2: Capital Efficiency of Government Businesses is Being Improved**
>
> As announced in the 2014-15 Budget, the Government is reviewing the capital structures of its businesses to ensure that they are closely aligned with regulatory benchmarks and private sector best practice. Efficient debt levels are important for maintaining financial discipline on operational and capital spending, as well as balance sheet management. This in turn supports the State's triple-A credit rating and places downward pressure on consumer prices.
>
> The Government as shareholder has conducted research, developed detailed financial models, consulted with private sector asset managers and utility owners and sought expert external advice on private sector investment management. Water businesses have also achieved improved credit rating metrics and additional distributions have been declared by Sydney Water and the Sydney Catchment Authority.
>
> New policies are being developed so the Government and the businesses can target and maintain commercially appropriate capital structures more predictably going forward, supported by stronger financial modelling capability. The work has concluded that shareholders and the businesses should agree a target capital structure that maintains an agreed target credit rating over the medium term and annual distributions that maintain the target capital structure.
>
> In conjunction with the release of new policies in 2015-16, capital structure reviews will be conducted in consultation with individual government businesses.

6.4 Public Financial Corporation Sector

The PFC Sector covers entities involved in financial administration and facilitation.

TCorp is the central borrowing authority for the State. It also manages asset and liability portfolios and provides financial risk management and investment management services to the Government and its businesses. It will become a more evenly balanced asset and liability manager as a result of the successful execution of the funds amalgamation project. TCorp generally distributes all of its profits from its market operations and investment activities to the Government as dividends. Dividends for 2014-15 from TCorp are consistent with the 2014-15 Budget. In 2015-16, TCorp expects to provide dividends from profits as well as retained earnings that are surplus to its capital requirements.

The Superannuation Administration Corporation, trading as Pillar Administration (Pillar), provides superannuation administration services to both the private and public sectors. It manages superannuation accounts for around 1.1 million members with assets of approximately $105 billion. In the face of significant technology investment demands, the Government approved a relief from dividends until 2017-18. This will support capital expenditure on an essential information technology upgrade and allow Pillar to meet net asset and liquidity requirements under its Australian Financial Services Licence.

Appendix A: 2015 Election Commitments

Table A.1: Expense Measures[(a)]

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
2015 Election Commitments					
Family and Community Services					
Social Housing Community Improvement Fund	...	6.0	6.2	8.4	...
Institute of Open Adoption	...	1.0	1.0	0.9	...
Deliver more services valued by seniors	...	1.5	1.6	1.6	1.5
Delivering the National Disability Insurance Scheme early	...	7.3	(7.3)	...	...
Education					
Aboriginal Centre for Excellence	...	10.0	10.0	...	...
Maths and science initiative[(b)]	...	3.4	2.3	2.3	2.3
$20 million Before And After School Care Fund	...	20.0	...	...	...
Industry, Skills and Regional Development					
Supporting the RSPCA	...	0.5	0.5	0.5	0.5
Growing the Arts And Cultural Sector in Western Sydney	...	1.0	1.5	2.1	3.2
Expanding energy rebates	...	21.6	25.9	30.9	36.2
Harnessing new technology to prevent shark attacks	...	0.1	...	...	...
Jobs For NSW	...	8.7	87.9	162.9	137.9
Boost funding for Landcare	...	1.5	2.6	5.3	6.5
Telecommunication services in regional NSW	...	8.3	8.5	8.7	...
Justice					
Tough sentencing for criminals	...	0.9	2.0	2.3	2.5
Combating child sexual assault	...	5.5	5.6	5.8	5.9
Strengthen the NSW Police Force[(c)]	...	27.0	29.0	37.3	45.4
Support our rural firefighters in protecting our communities	...	13.0	12.6	2.8	2.8
Victims Compensation Scheme	4.8	7.6	7.6	8.8	...
Boosting Police Citizen Youth Clubs	...	1.0	0.5	0.5	0.5
Planning and Environment					
Overhauling the Companion Animal Registration System[(d)]	...	1.0	1.0	1.1	1.1
Saving Our Species	...	...	20.0	20.0	20.0
Enhance and expand our National Parks	...	0.6	0.6	0.6	0.6
Premier and Cabinet					
Support our veterans	...	0.6	0.4	0.4	0.4
Fixed commitments for local projects	...	14.5	1.2	4.3	...
Growing NSW visitor economy	...	35.7	32.7	33.0	26.3

Table A.1: Expense Measures[a] (cont.)

	2014-15	2015-16	2016-17	2017-18	2018-19
	$m	$m	$m	$m	$m
2015 Election Commitments					
Transport					
Parramatta River - more ferries and services	...	...	...	7.6	6.5
Finance, Services and Innovation					
Trial Car Sharing Services In Government	...	...	...	...	...
Treasury					
Cash management practices	...	(18.0)	(18.0)	(18.0)	(18.0)
Treasurer's Advance for Victims' Compensation Scheme	...	...	...	...	...
Whole-of-Government					
1.5% efficiency dividend	...	(129.3)	(133.5)	(136.2)	(137.7)
Eliminating unnecessary duplication across Government	...	(15.0)	(25.0)	(40.0)	(40.0)
Implementation of procurement savings initiatives	...	(62.5)	(108.6)	(115.6)	(116.7)
Other					
Reduction to DPC Contingency Fund	...	(9.7)	(10.0)	(10.0)	(10.0)
Total Impact on Expenses	**4.8**	**(36.3)**	**(41.3)**	**28.3**	**(22.3)**

(a) This table updates the Parliamentary Budget Office (PBO), *Budget Impact Statement 2015 - Coalition, 23 March 2015*. The costings in this table vary from the PBO due to reclassification of some measures between revenue and expenses and refinement of costings, including final implementation details. Some measures will be met either wholly or in part within existing resources. For other election commitments including those to be met from within existing resources, see Table A.2, A.3 and A.4 in this appendix. Budget impacts are shown on an escalated basis.

(b) Published by the PBO as "Specialist Subjects Successful Students".

(c) Includes the recurrent cost of additional police strength and police equipment. See also related capital component for police equipment - Strengthen the NSW Police Force - equipment, in Table A.3.

(d) Published by the PBO as a revenue measure. Reclassified as an expense measure. Refers to 50 per cent discount on registration fees for all cats and dogs obtained from pounds and shelters.

Table A.2: Revenue Measures[(a)]

	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
2015 Election Commitments					
Health					
Health capital - Transform Patient Health Care[(b)]	...	...	...	2.8	4.2
Justice					
Strengthen the NSW Police Force	...	10.0	15.0	15.0	15.0
Support our rural firefighters in protecting our communities	...	13.9	12.3	2.1	2.1
Planning and Environment					
Overhauling the Companion Animal Registration System[(c)]	...	...	...	...	...
Industry, Skills and Regional Development					
Enhance and expand our national parks	...	0.0	0.0	0.0	0.0
National Parks - increase access	...	0.1	...	...	...
Treasury					
Cash management practices	...	53.1	46.4	40.8	23.5
Finance, Services and Innovation					
Making property sales data and land valuation data free	...	(1.1)	(1.1)	(1.2)	(1.2)
Total Impact on Revenue	**...**	**76.0**	**72.6**	**59.6**	**43.6**

(a) This table updates the Parliamentary Budget Office (PBO), *Budget Impact Statement 2015 - Coalition, 23 March 2015*. The costings in this table vary from the PBO due to reclassification of some measures between revenue and expenses and refinement of costings, including final implementation details. For other election commitments including those to be met from within existing resources, see Table A.1, A.3 and A.4 in this appendix.

(b) Published by the PBO as an expense measure. Components reclassified as a revenue measure.

(c) Published by the PBO as a revenue measure. Reclassified as an expense measure.

Table A.3: Capital Measures[a]

	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m
2015 Election Commitments					
Education					
Maths and science initiative[b]	...	0.8	...	...	...
Health					
Health capital – Transform Patient Health Care[c]	...	56.6	111.7	53.7	22.2
Justice					
Strengthen the NSW Police Force – equipment	...	10.0	15.0	15.0	15.0
Support our rural firefighters in protecting our communities	...	3.5	2.1	...	...
Industry, Skills and Regional Development					
Enhance and expand our National Parks	...	3.0	...	...	...
Transport					
Parramatta River – more ferries and services	...	2.0	11.0	11.0	...
Finance, Services and Innovation					
Trial car sharing services in Government	...	...	...	...	...
Premier and Cabinet					
Support our veterans	...	0.1	...	...	...
Fixed commitments for local projects	...	0.6	0.6	...	...
Total Impact on Capital Expenditure	**...**	**76.5**	**140.4**	**79.7**	**37.2**

(a) This table updates the Parliamentary Budget Office (PBO), *Budget Impact Statement 2015 – Coalition, 23 March 2015*. The costings in this table vary from the PBO due to reclassification of some measures between revenue and expenses and refinement of costings, including final implementation details. Some measures will be met either wholly or in part within existing resources. For other election commitments including those to be met from within existing resources, see Table A.1, A.2 and A.4 in this appendix.

(b) Published by the PBO as "Specialist Subjects Successful Students" as an expense measure. Components reclassified as a capital measure.

(c) This measure excludes Rebuilding NSW funding to be applied in later years.

During the election campaign, the Government announced a number of measures that are to be fully offset and therefore, have a nil impact on the 2015-16 Budget and forward estimates. The following lists some of these election commitments. Subsequent to the election, a number of items received supplementary funding. For full details of election commitments, see election commitment booklet.

Table A.4: Funding Within Existing Resources

2015 Election Commitments	
Education	Innovative Education, Successful Students – new schools and upgrades
	Quality Teaching, Successful Students – public primary school teacher mentoring and coaching
	Supported Students, Successful Students – increased resources to improve student welfare
Health	Boost to frontline staff and hospital capacity for increased activity
	Increased support for rural health
	Rollout of 'It Stops Here: Safer Pathway' program to more areas
	Transforming Patient Health Care through building and upgrading hospital and health services
	Medical research policy
	Integrated care policy
	Abolishing co-payments for Highly Specialised Drugs
	Additional support for mothers with post-natal depression
Justice	Stronger legislation to fight organised crime
	Police Station capital works
	Cultural institutions – free general admission to under 16s[a]
	Fighting the scourge of ice
	Community Safety Fund
	Reopening Kirkconnell Prison
	Domestic Violence Disclosure Scheme
Planning and Environment	Increase the number of home sites unlocked from Government owned land
	Energy Efficiency Action Plan[a]
	Container Deposit Scheme[a]
	New community recycling centres
	Local Floodplain Management in Kyogle
	Reduced sulphur emissions in fuel used by cruise ships
	Funding for new Community Renewable Energy Grants
	Establishment of a 200 hectare Bungarribee Super Park
	Jimmy's Beach renourishment
	Urban Habitat Renewal Program to improve urban bush and habitat over four years
	Addition to the Brisbane Waters National Park
	New Edmondson Regional Park
	Backyard swimming pool compliance
Family and Community Services	Building safer and better social housing communities
	Homelessness services funding boost
	Pensioner and seniors concessions reinstatement
	Ageing advocacy funding extension[a]

Table A.4: Funding Within Existing Resources (cont.)

2015 Election Commitments	
Transport, Roads and Freight	Major train station upgrades
	Commuter car parking upgrades
	Intercity and regional interchange upgrades
	Morning peak express trains service increases from Parramatta to the CBD
	Regional train fleet[b]
	Community transport funding boost
	Local walking and cycling paths investment increases
	Transport grants increases for regional and country areas
	Macarthur Transport Action Plan
	Linking Orange coach to Bathurst Bullet
	Safety and congestion road projects to improve traffic flow and address pinch points
	Flashing lights for school safety zones
	Highway and local road safety improvements and upgrades
Industry, Skills and Regional Development	A new sports infrastructure fund administered via the ClubGRANTS program
	Newsagent assistance fund[a]
	Reskilling NSW[a]
	Funding to reduce lead levels at Broken Hill[a]
	NSW drought package[a]
	Enhancement to the Water Monitoring Framework
	Reopening parts of Warragamba Dam to the public
	Commitment to Cap and Pipe Scheme
	Coastal dredging to restore the accessibility and health of five key North Coast waterways
	Petroleum Exploration Licence Buy Back extension to 30 June 2015
Premier and Cabinet	Funding a perpetual John Monash Scholarship
	Appointment of an Electricity Commissioner
	NSW Police Force review of oversight arrangements
	Appointment of a Minister for the Prevention of Domestic Violence and Sexual Assault
	Sporting infrastructure upgrades
Finance, Services and Innovation	Expansion of Service NSW one-stop shops
	Introduction of digital drivers licences
	Workers Compensation Scheme reform[a]
	Procurement contribution to local jobs and training
	Relocation of Office of Finance and Services positions to Queanbeyan and Gosford
	Underquoting cracking down on real estate agents
Treasury	Social impact investment policy
	Foodbank – distribution centre[a]
	Deregulation of retail trading laws
	Additional support for James Hardie asbestos victims

(a) This item subsequently received supplementary funding.

(b) This item no longer impacts general government expenses due to the establishment of Transport Asset Holding Entity.

Appendix B1: Statement of Finances

- This appendix presents the financial aggregates for the 2015-16 Budget. Material previously presented in Chapter 10 can now be found in this appendix.
- Financial aggregates in this appendix are prepared in line with:
  - the Uniform Presentation Framework (UPF) endorsed by the Australian Loan Council
  - Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised Government Finance Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) reporting basis.
- UPF Tables also include disclosures that identify 'convergence' differences as explained on pages B1-5 and B1-6.
- A 6-year time series is provided from 2013-14 to 2018-19 for the general government sector, public non-financial corporation (PNFC or public trading enterprise) sector, and consolidated non-financial public sector (NFPS).
- The Australian Bureau of Statistics (ABS) is planning to release a revised GFS-based Government Finance Estimates publication in November 2015, proposed for application from 1 July 2017.
- An analysis of general government revenue and expenses is presented in Appendix B4. This analysis supplements what is presented in Chapter 5: Budget Position and Outlook, and looks at each element of revenue and expenses by Government Purpose Classification (GPC) and category.
- Appendix B2 outlines the accounting policies and forecast assumptions adopted in the Budget. The Operating Statements as per Table B.1, Table B.10 and Table B.14 quantifies the impact on the forward estimates from 2015-16 to 2018-19.

Introduction

This appendix includes information that was previously provided in Chapter 10: Uniform Financial Reporting of the 2014-15 Budget Paper No. 2 *Budget Statement*.

It presents financial aggregates for the general government sector, public non-financial corporation (PNFC) sector and consolidated non-financial public sector. These aggregates are prepared in line with the revised Uniform Presentation Framework (UPF) agreed by the Australian Loan Council in March 2008.

The Australian Loan Council comprises each state and territory Treasurer and the Australian Treasurer. It monitors state finances, particularly the forecast cash surplus/(deficit) of governments and their future financing/investing requirements. Accordingly, the objective of the UPF is to facilitate a better understanding of individual government's budget papers and provide for more meaningful comparisons of each government's financial results and projections.

The format of the aggregates is based on reporting standards set out by the Australian Accounting Standards Board – AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised GFS-GAAP reporting basis.

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.

Uniform Presentation Framework

The NSW Government financial tables in this appendix meet Loan Council obligations under the UPF.[1] Additional disclosures explain matters specific to New South Wales.

Framework

The UPF tables are in line with AASB 1049 which:

- adopts generally accepted accounting principles (GAAP) definitions, including recognition and measurement principles in almost all cases
- amends presentation requirements to encompass a comprehensive result that retains the GAAP classification system but overlays it with the transactions and other economic flows classification system based on GFS
- expands the disclosure requirements to include key fiscal aggregates required by GFS.

Due to differences in reporting classifications, GFS financial aggregates released by the ABS from 2008-09 will differ from UPF aggregates. These 'convergence' differences are not generally material for New South Wales, apart from GFS's exclusion of deferred tax, settlement provisions and obligation payments. For more information on other differences see the primary financial statements later in this appendix. For details and amounts of the key 2013-14 convergence differences, see pages 7-173 to 7-176 of the *2013-14 Report on State Finances*.

Historical Series

To ensure a consistent historical series of fiscal aggregates, all jurisdictions have agreed to backcast published historical data on a best endeavours basis. For example, historic information in the consolidated operating statements has been recast on the basis of available dissections between GFS transactions and other economic flows.

[1] The complete UPF manual is available on the Australian Treasury website www.treasury.gov.au. Extracts from the manual are included in this appendix to explain key concepts while the glossary to this budget paper also includes key UPF terms.

Fiscal Measures

UPF reporting measures evaluate the soundness of a government's fiscal position and the fiscal policy effect on the economy. The fiscal measures in the UPF framework are:

- net operating balance
- net lending/borrowing (fiscal balance)
- net worth
- change in net worth (comprehensive result)
- net debt
- net financial worth
- net financial liabilities
- cash surplus/(deficit)
- ABS GFS cash surplus/ (deficit).

Definitions of these measures are set out in the Glossary to this budget paper.

Flow measures (net operating balance, net lending/borrowing and change in net worth) show changes in the fiscal position during the reporting period, reflecting the impact of government decisions and actions, and re-measurement effects during that time. Flows represent the creation, transformation, exchange, transfer or extinction of economic value.

Stock measures (net worth, net debt, net financial worth and net financial liabilities) highlight a government's fiscal position at a point in time, providing information on the aggregate results of past decisions.

Primary Financial Statements

UPF Presentation

Public sector estimates and outcomes are presented on an accrual accounting basis in three AASB 1049 based primary statements: the operating statement, including other economic flows; the balance sheet; and the cash flow statement. AASB 1049 adopts GFS principles where this does not conflict with GAAP. Details of key convergence differences between GFS and GAAP are explained in this appendix. The following statements, along with the Loan Council Allocation statement, form the UPF's core reporting requirements. Appendix B2 sets out the significant accounting policies and forecast assumptions adopted by New South Wales.

Operating Statement

The operating statement:

- presents information on transactions (revenue and expenses) and other economic flows (revaluations and adjustments)
- captures the composition of revenues and expenses and the net cost of government activities within a fiscal year
- shows the full cost of resources consumed by the government in achieving its objectives, and the extent that these costs are met from various revenue sources, and
- shows information on capital expenditure and asset sales to derive a net lending/borrowing position.

The operating statement also reports three major fiscal measures:

- net operating balance which is calculated as revenue minus expenses from transactions. New South Wales recognises its budget result as the net operating balance for the general government sector
- total change in net worth (comprehensive result) which starts with the net operating balance and includes other economic flows such as revaluations
- net lending (fiscal balance) which starts with the net operating balance and includes net capital expenditure but excludes depreciation, giving the best indicator of a jurisdiction's call on financial markets.

Commencing 2013-14, changes to AASB 119 *Employee Benefits* impact the calculation of superannuation costs and superannuation actuarial gain/loss. One impact of the change regarding the treatment of returns on fund assets is to increase operating expenses (and reduce the operating result) which is offset by an equal and offsetting change in the actuarial gain/loss recognised in other comprehensive income (i.e. outside profit and loss). This change (before dividend and tax effects) does not impact the comprehensive result, nor the unfunded superannuation liability and net assets. In addition AASB 119 has increased the net superannuation interest cost, current service charge and the superannuation liability due to the inclusion of contributions tax on the liability. The NSW government does not expect the increase in the liability to crystallise, as the effective tax rate for these schemes is close to zero.

Convergence differences in the Operating Statement

The main differences in treatment between the NSW GFS operating statement and the harmonised AASB 1049 operating statement presented are:

- The harmonised aggregates exclude selected Commonwealth Government transfer payment revenues and expenses that pass through the State's accounts. The ABS requires such payments to be grossed up in GFS reports. However, they are excluded from the AASB 1049 UPF reports as the NSW Government has no control over them. For information on the gross value of these grants see footnotes to the grants revenue and expense Table B.6.

- Grants are recognised when the State gains control over the assets. Control is normally obtained when the cash is received. For example, the Commonwealth Government gave the State a $960 million grant in June 2014 for road works to be carried out over several years. Under AASB 1049, this revenue was recognised in 2013-14 when the cash was received. However, in GFS reports, this revenue is recognised to match the timing of expenditure over the period 2013-14 to 2018-19. This GFS treatment is in line with an ABS direction.
- Dividends paid by the Public Non-financial Corporation (PNFC) and Public Financial Corporation (PFC) sectors are recognised as an expense in GFS (in the PNFC and PFC sector operating statements), but they are treated as an equity transaction for AASB 1049.
- A liability is recognised in the UPF balance sheet for prepaid licence concession receipts. Income is subsequently recognised from amortising the prepaid licence over the concession period. GFS treats this as a sale of a non-produced intangible asset in the period that the prepayment is received.

Balance Sheet

The balance sheet:

- records the value of financial and non-financial assets and liabilities of governments, at the end of each financial year
- shows the resources at the government's disposal and the type and valuation of its liabilities
- reveals the make-up of the government's financial assets, its fixed asset holdings, and the extent of liabilities such as borrowings and unfunded superannuation and
- allows comparisons of asset and liability levels between jurisdictions and time periods.

The UPF balance sheet fiscal aggregates include net worth, net financial worth, net financial liabilities and net debt.

Convergence differences in Balance Sheet

The main differences in treatment between the GFS balance sheet and the harmonised AASB 1049 balance sheet presented here are:

- Allowance for doubtful debts is recognised and reported in the UPF balance sheet, but is excluded from the GFS balance sheet, as GFS does not recognise an economic event has occurred
- A prepaid income liability is recognised in the UPF balance sheets for unamortised prepaid licences. This liability is excluded from the GFS balance sheet, which treats the prepaid income as an upfront sale of a non-produced intangible asset
- GFS balance sheets exclude deferred tax assets and deferred tax liabilities, but they are reported in accounting balance sheets. The convergence difference only affects GGS, PNFC and PFC sector balance sheets, as the assets and liabilities are eliminated for the consolidated Non-financial Public Sector and Total Public Sector balance sheets

- GFS balance sheets exclude provisions for asset remediation liabilities, and the related capitalised asset value, but they are reported in accounting balance sheets. GFS will only recognise the liability when it effectively becomes payable to a counterparty. The convergence difference affects net financial liabilities, but not net worth
- GFS balance sheets also do not recognise other settlement provisions and obligation payments as there is no present counterparty to the transactions
- Net financial worth and net financial liabilities aggregates are affected by the differing treatments for prepayments. Prepayments are treated in GFS as a receivable (financial asset), but in the UPF they are classified as a non-financial asset under AASB 1049. While this difference affects net financial liabilities and net financial worth, it does not affect net debt and net worth aggregates
- GFS net debt for the general government sector will always be lower than (AASB 1049) net debt, as the ABS requires that certain equity investments (in multi-jurisdictional agencies) be reclassified for GFS purposes as advances, reducing the value of GFS net debt. While this affects net debt, it does not affect net financial liabilities and net worth aggregates
- By definition, GFS net worth for the PNFC and PFC sectors will always be zero, as owner's equity is classified as equivalent to a liability. However, under the UPF, liabilities exclude owner's equity.

Cash Flow Statement

The cash flow statement reveals how a government obtains and expends cash. It shows how government cash inflows and outflows are allocated between various activities, and their net impact on cash held.

This statement requires cash flows to be categorised into:

- operating activities comprising activities linked to collecting taxes, distributing grants, and providing goods and services
- investing activities comprising activities linked to acquiring and disposing financial and non-financial assets
- financing activities comprising activities linked to changing the size and composition of a government's financial structure.

The signing convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows).

The cash flow statement reports two fiscal measures:

- net increase in cash held which is the sum of net cash flows from all operating, investing and financing activities
- cash surplus/(deficit) which comprises only net cash from operating activities, plus sales and less purchases of non-financial assets (less dividends paid for the PNFC and PFC sectors).

The ABS GFS cash surplus/ (deficit) is shown in a separate table. The ABS GFS cash surplus/ (deficit) is derived by deducting finance leases and similar financing arrangements from the AASB 1049 cash surplus/ (deficit) for all sectors.

Exclusion of non-cash finance leases and similar financing arrangements is the only difference between the GFS cash result and the AASB 1049 result.

New South Wales uses the AASB 1049 cash result (excluding the impact of finance leases and similar financing arrangements) as its headline cash result.

Institutional Sectors

Appendix B3 lists NSW-controlled entities. The NSW-controlled entities have been classified according to their government sector. These sectors are defined in the ABS GFS manual.

Emerging Issues

Market/non-market agency classification

The ABS released the revised Standard Economic Sector Classification of Australia (SESCA), Australia, 2008 (Cat.no.1218.0) in November 2009.

The ABS applies a principles-based approach in classifying agencies as either market or non-market. The principle is that market operators make decisions about what to produce and how much to produce in response to expected levels of demand and expected costs of supply. A market producer should therefore earn a significant amount from sales, but other factors may need to be taken into account.

Applying the market/non-market definition may result in some public sector agencies moving between the public corporations and general government sectors. The ABS *GFS Concepts, Sources and Methods* currently reference the 2008 SESCA. This will remain the standard in GFS until the ABS *GFS Concepts, Sources and Methods* is revised.

Revised GFS Manual

The International Monetary Fund's (IMF) Government Finance Statistics Manual 2001 (GFSM 2001) was revised to reflect the 2008 System of National Accounts. The IMF released the final version of the international Government Finance Statistics Manual in December 2014. The ABS GFS manual will be updated to reflect the new international standards (where applicable).

The revised Australian GFS Manual is proposed to be released in November 2015. Treasuries have until 30 June 2017 to implement the revised ABS GFS manual in their systems.

The Publication of GFS data under the revised ABS GFS manual is expected to begin from September quarter 2017 and Annual GFS publications from 2017-18.

Uniform Presentation Tables

These tables are set out by institutional sectors showing the order of operating statement, balance sheet and cash flow statement.

In addition to the UPF minimum disclosure requirements, these tables also include a historical and forward-year time series. The tables for general government sector also include:

- tax revenues by type
- a dissection of grant revenue and expense
- dividend and income tax equivalent income by sector
- total expenses by function, and
- purchases of non-financial assets by function.

Table B1.1: General Government Sector Operating Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
Revenue from Transactions						
Taxation	24,295	26,046	27,855	28,678	30,085	31,343
Grants and Subsidies						
- Commonwealth General Purpose	15,894	17,065	17,346	17,864	18,214	18,828
- Commonwealth Specific Purpose Payments	7,449	8,073	8,619	9,262	9,681	9,997
- Commonwealth National Partnership Payments	3,963	2,829	2,712	3,794	2,587	1,622
- Other Grants and Subsidies	1,026	1,045	1,098	1,062	783	887
Sale of Goods and Services	5,677	6,352	8,212	8,856	8,496	8,256
Interest	609	651	508	482	481	479
Dividend and Income Tax Equivalents from Other Sectors	2,260	2,410	1,468	1,081	946	831
Other Dividends and Distributions	700	779	424	452	472	505
Fines, Regulatory Fees and Other	4,133	3,892	3,901	4,132	4,411	4,566
Total Revenues from Transactions	**66,005**	**69,143**	**72,143**	**75,663**	**76,157**	**77,315**
Expenses from Transactions						
Employee	27,056	28,287	28,936	30,452	31,715	33,288
Superannuation						
- Superannuation Interest Cost	1,762	1,698	1,476	1,478	1,499	1,447
- Other Superannuation	2,694	2,839	2,926	3,066	3,024	3,050
Depreciation and Amortisation	3,954	4,165	4,440	4,645	4,880	5,009
Interest	2,249	2,268	2,244	2,242	2,253	2,259
Other Property	...	...	...	...	...	...
Other Operating	14,345	14,680	17,567	18,118	17,742	17,821
Grants and Subsidies						
- Current Grants and Subsidies	9,644	10,179	11,092	11,570	11,605	11,388
- Capital Grants	3,052	2,969	941	898	849	796
Total Expenses from Transactions	**64,757**	**67,085**	**69,624**	**72,469**	**73,567**	**75,058**
Transactions from Discontinuing Operations	...	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,247**	**2,058**	**2,520**	**3,194**	**2,590**	**2,257**

Table B1.1: General Government Sector Operating Statement (cont)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Superannuation	...	...	...	...	...	...
Gain/(Loss) from Other Liabilities	(689)	(684)	137	392	244	118
Other Net Gains/(Losses)	285	581	155	95	100	171
Share of Earnings from Associates (excluding Dividends)	118	(16)	(15)	(11)	(17)	(8)
Dividends from Asset Sale Proceeds	...	118	100	...	...	...
Deferred Income Tax from Other Sectors	(458)	...	...	...	...	...
Other	(42)	(27)	105	125	67	24
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(785)**	**(28)**	**483**	**602**	**394**	**305**
Operating Result	**462**	**2,030**	**3,002**	**3,796**	**2,984**	**2,562**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	(83)	(4,757)	5,024	9,819	6,106	3,498
Deferred Tax Direct to Equity	...	...	...	(0)	...	...
Revaluations	3,790	6,049	3,364	3,397	3,379	3,392
Share of Earnings from Associates from Revaluations	(401)	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	3,978	4,562	7,033	9,034	5,756	5,159
Net Gain/(Loss) on Equity Investments in Other Sectors Discontinued	148	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	(3)	...	...	...	...	...
Other	(21)	(1,248)	(2,831)	(3,466)	(1,963)	(1,463)
Other Economic Flows - Other Comprehensive Income	**7,408**	**4,605**	**12,590**	**18,784**	**13,278**	**10,587**
Comprehensive Result - Total Change in Net Worth [(a)]	**7,870**	**6,635**	**15,592**	**22,580**	**16,262**	**13,149**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**7,870**	**6,635**	**15,592**	**22,580**	**16,262**	**13,149**
Less: Net Other Economic Flows	(6,623)	(4,578)	(13,073)	(19,386)	(13,672)	(10,892)
Equals: Budget Result - Net Operating Balance	**1,247**	**2,058**	**2,520**	**3,194**	**2,590**	**2,257**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	8,432	9,479	9,186	8,216	7,705	7,018
Sales of Non-Financial Assets	(517)	(469)	(687)	(400)	(474)	(535)
Less: Depreciation	(3,954)	(4,165)	(4,440)	(4,645)	(4,880)	(5,009)
Plus : Change in Inventories	(25)	(4)	1	(2)	8	(1)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	114	131	183	109	125	3,420
- Other	(1,567)	(1,719)	60	69	107	110
Equals: Total Net Acquisition of Non-Financial Assets	**2,484**	**3,254**	**4,302**	**3,347**	**2,591**	**5,003**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(1,236)**	**(1,196)**	**(1,783)**	**(153)**	**(1)**	**(2,747)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(b)]	8,546	9,610	9,369	8,325	7,830	10,438

(a) 'Total change in net worth' is before transactions with owners as owners, and before revisions to equity from changes to accounting policies. Therefore, it may not equal the movement in balance sheet net worth.

(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

Table B1.2: General Government Sector Balance Sheet

	June 2014	June 2015	June 2016	June 2017	June 2018	June 2019
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	9,966	10,881	5,723	5,059	5,441	5,090
Receivables	6,833	7,470	6,699	6,277	6,098	5,773
Tax Equivalents Receivable	206	102	21	19	40	76
Investments, Loans and Placements						
Financial Assets at Fair Value	9,562	10,865	11,369	11,671	12,219	12,869
Other Financial Assets	4,607	3,232	4,885	2,919	1,037	1,115
Advances Paid	944	1,033	1,175	1,301	1,378	1,354
Deferred Tax Equivalents Assets	4,695	4,650	4,786	4,939	5,042	5,101
Equity						
Investments in Other Public Sector Entities	84,695	88,943	95,976	105,007	110,761	115,918
Investments in Associates	4,039	3,897	3,882	3,870	3,854	3,846
Other Equity Investments	10	10	10	10	10	10
Total Financial Assets	**125,557**	**131,082**	**134,525**	**141,072**	**145,879**	**151,153**
Non-Financial Assets						
Inventories	248	244	245	243	251	250
Forestry Stock and Other Biological Assets	7	7	7	7	7	7
Assets Classified as Held for Sale	106	300	42	103	68	47
Investment Properties	137	142	142	142	142	142
Property, Plant and Equipment						
Land and Buildings	64,100	67,334	69,672	70,064	70,619	70,911
Plant and Equipment	9,533	10,373	10,407	10,451	10,388	10,255
Infrastructure Systems	74,239	78,970	83,686	89,337	94,446	102,471
Intangibles	2,356	2,661	2,984	2,940	2,691	2,370
Other Non-Financial Assets	2,061	2,392	2,817	3,456	3,960	4,269
Total Non-Financial Assets	**152,790**	**162,423**	**170,003**	**176,742**	**182,572**	**190,721**
Total Assets	**278,346**	**293,505**	**304,528**	**317,814**	**328,451**	**341,874**
Liabilities						
Deposits Held	117	122	113	100	86	73
Payables	5,553	5,748	4,976	4,746	4,755	4,856
Tax Equivalent Payables	40	48	81	49	18	27
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	13	11	9	7	6	4
Borrowings at Amortised Cost	31,028	31,632	32,019	32,220	32,233	35,417
Advances Received	791	901	885	893	861	734
Employee Provisions	14,435	15,179	15,222	15,184	15,211	15,464
Superannuation Provisions [a]	48,262	54,053	49,735	40,379	34,519	31,084
Deferred Tax Equivalent Provisions	488	532	537	528	522	523
Other Provisions	7,934	8,365	8,565	8,788	9,103	9,441
Other Liabilities	1,918	2,512	2,390	2,345	2,298	2,265
Total Liabilities	**110,578**	**119,102**	**114,533**	**105,239**	**99,614**	**99,889**
NET ASSETS	**167,768**	**174,403**	**189,995**	**212,575**	**228,837**	**241,985**
NET WORTH						
Accumulated Funds	20,085	16,733	22,047	32,316	39,564	44,283
Reserves	147,683	157,669	167,948	180,258	189,273	197,703
TOTAL NET WORTH	**167,768**	**174,403**	**189,995**	**212,575**	**228,837**	**241,985**
OTHER FISCAL AGGREGATES						
Net Financial Worth	**14,979**	**11,979**	**19,992**	**35,833**	**46,265**	**51,264**
Net Debt[b]	**6,869**	**6,655**	**9,875**	**12,270**	**13,112**	**15,799**
Net Financial Liabilities[c]	**69,716**	**76,964**	**75,984**	**69,175**	**64,496**	**64,653**

(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.

Table B1.3: General Government Sector Cash Flow Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Cash Receipts from Operating Activities						
Taxes Received	24,081	26,247	27,909	28,708	30,107	31,379
Receipts from Sales of Goods and Services	6,316	6,275	8,522	9,281	8,921	8,823
Grants and Subsidies Received	28,272	28,898	29,866	31,981	31,264	31,316
Interest Receipts	550	631	467	442	435	435
Dividends and Income Tax Equivalents	2,806	2,306	2,128	1,435	1,032	916
Other Receipts	7,441	7,684	6,486	6,692	6,941	7,273
Total Cash Receipts from Operating Activities	**69,467**	**72,041**	**75,378**	**78,539**	**78,700**	**80,142**
Cash Payments from Operating Activities						
Payments for Employees	(26,297)	(27,897)	(29,232)	(30,309)	(31,488)	(32,991)
Payments for Superannuation	(3,392)	(3,438)	(3,698)	(4,081)	(4,277)	(4,435)
Payments for Goods and Services	(15,750)	(16,590)	(19,927)	(20,327)	(19,824)	(19,830)
Grants and Subsidies Paid	(8,556)	(9,151)	(9,597)	(9,913)	(9,805)	(9,439)
Interest Paid	(1,614)	(1,733)	(1,684)	(1,682)	(1,651)	(1,639)
Other Payments	(4,482)	(3,850)	(3,440)	(3,527)	(3,557)	(3,647)
Total Cash Payments from Operating Activities	**(60,090)**	**(62,660)**	**(67,578)**	**(69,840)**	**(70,601)**	**(71,981)**
Net Cash Flows from Operating Activities	**9,376**	**9,381**	**7,800**	**8,699**	**8,099**	**8,162**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	605	450	697	400	474	535
Purchases of Non-Financial Assets	(8,325)	(9,332)	(9,184)	(8,313)	(7,737)	(6,986)
Net Cash Flows from Investments in Non-Financial Assets	**(7,720)**	**(8,881)**	**(8,487)**	**(7,913)**	**(7,263)**	**(6,451)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	2,875	965	222	203	212	267
Payments	(305)	(1,398)	(3,071)	(3,694)	(2,268)	(1,725)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**2,570**	**(433)**	**(2,849)**	**(3,491)**	**(2,056)**	**(1,458)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	724	9,095	495	2,721	2,515	460
Payments for Purchases of Investments	(4,984)	(8,202)	(2,181)	(636)	(658)	(682)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(4,260)**	**893**	**(1,686)**	**2,085**	**1,857**	**(223)**
Net Cash Flows from Investing Activities	**(9,410)**	**(8,422)**	**(13,023)**	**(9,319)**	**(7,463)**	**(8,132)**
Cash Flows from Financing Activities						
Advances Received	98	154	23	38	39	29
Advances Repaid	(54)	(61)	(53)	(53)	(53)	(94)
Proceeds from Borrowings	2,204	1,281	640	480	430	513
Repayments of Borrowings	(444)	(1,215)	(533)	(543)	(726)	(879)
Deposits Received (net)	(956)	4	(9)	(14)	(14)	(14)
Other Financing (net)	15	(8)	(0)	(2)	...	...
Net Cash Flows from Financing Activities	**863**	**155**	**69**	**(92)**	**(323)**	**(445)**
Net Increase/(Decrease) in Cash Held	**829**	**1,114**	**(5,154)**	**(712)**	**313**	**(415)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	9,376	9,381	7,800	8,699	8,099	8,162
Net Cash Flows from Investments in Non-Financial Assets	(7,720)	(8,881)	(8,487)	(7,913)	(7,263)	(6,451)
Cash Surplus/(Deficit)	**1,656**	**500**	**(687)**	**786**	**836**	**1,711**

Table B1.4: Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Cash Surplus/(Deficit)	**1,656**	**500**	**(687)**	**786**	**836**	**1,711**
Assets Acquired under Finance Leases	(114)	(131)	(183)	(109)	(125)	(3,420)
Other Financing Arrangements[(a)]	(195)	(129)	(12)	97	32	(32)
ABS GFS Surplus/(Deficit)	**1,347**	**240**	**(882)**	**773**	**743**	**(1,741)**

(a) Comprises movements in payables and receivables of a capital nature.

Table B1.5: General Government Sector Taxes

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m
Taxes on Employers' Payroll and Labour Force	**7,083**	**7,454**	**7,854**
Taxes on Property			
Land Taxes	2,335	2,497	2,660
Stamp Duties on Financial and Capital Transactions	6,765	7,998	8,610
Financial Institutions' Transaction Taxes	...	...	...
Other	121	165	156
Total Taxes on Property	**9,222**	**10,660**	**11,426**
Taxes on the Provision of Goods and Services			
Excises and Levies	...	...	...
Taxes on Gambling	1,910	2,059	2,245
Taxes on Insurance	2,536	2,088	2,376
Total Taxes on the Provision of Goods and Services	**4,447**	**4,147**	**4,622**
Taxes on Use of Goods and Performance of Activities			
Motor Vehicle Taxes	2,864	3,024	3,163
Franchise Taxes	3	1	1
Other	678	759	789
Total Taxes on Use of Goods and Performance of Activities	**3,544**	**3,785**	**3,953**
Total Taxation Revenue	**24,295**	**26,046**	**27,855**

Table B1.6: General Government Sector Grant Revenue and Expense

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m
Current Grants and Subsidies Revenue			
Current Grants from the Commonwealth [(a)]			
General Purpose Grants	15,894	17,065	17,346
Specific Purpose Payments	7,449	8,073	8,619
National Partnership Payments	2,065	1,156	967
Total	**25,408**	**26,294**	**26,933**
Other Grants and Subsidies	1,019	1,029	1,086
Total Current Grants and Subsidies Revenue	**26,427**	**27,323**	**28,019**
Capital Grants and Subsidies Revenue			
Capital Grants from the Commonwealth [(a)]			
General Purpose Grants	...	...	...
Specific Purpose Payments	0	0	0
National Partnership Payments	1,898	1,673	1,745
Total	**1,898**	**1,673**	**1,745**
Other Grants and Subsidies	7	16	11
Total Capital Grants and Subsidies Revenue	**1,905**	**1,689**	**1,756**
Total Grant Revenue	**28,332**	**29,013**	**29,775**
Current Grant, Subsidies, and Transfer Payments Expense to:			
State/Territory Government	...	...	...
Local Government [(a)]	524	600	772
Private and Not-for-Profit Sector [(a)]	6,481	6,616	7,434
Other Sectors of Government	2,640	2,963	2,886
Total Current Grants, Subsidies, and Transfer Payments Expense	**9,644**	**10,179**	**11,092**
Capital Grant, Subsidies, and Transfer Payments Expense to:			
State/Territory Government	...	...	...
Local Government [(a)]	297	257	354
Private and Not-for-Profit Sector [(a)]	264	394	413
Other Sectors of Government	2,491	2,317	175
Total Capital Grants, Subsidies, and Transfer Payments Expense	**3,052**	**2,969**	**941**
Total Grant Expense	**12,697**	**13,147**	**12,033**

Table B1.6: General Government Sector Grant Revenue and Expense (cont)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m

Note:

(a) Grant revenue and expenses above exclude the following transfer payments from the Commonwealth Government that New South Wales passes on to third parties. They are not recorded as NSW revenue and expense elsewhere in Budget Papers as the State has no control over the amounts that it passes on. Details are as follows:

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m
Transfer Receipts			
Current Transfer Receipts for Specific Purposes	3,335	3,930	3,788
Capital Transfer Receipts for Specific Purposes	121	...	...
Total Receipts	**3,456**	**3,930**	**3,788**
Current Transfer Payments to			
Local Government	354	712	711
Private and Not-for Profit Sector	2,981	3,219	3,077
Capital Transfer Payments to			
Local Government	...	...	...
Private and Not-for Profit Sector	121	...	...
Total Payments	**3,456**	**3,930**	**3,788**

Table B1.7: General Government Sector Dividend and Income Tax Equivalent Income

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m
Dividend and Income Tax Revenue from the PNFC Sector	2,171	2,282	1,361
Dividend and Income Tax Revenue from the PFC Sector	88	128	107
Other Dividend Income	700	779	424
Total Dividend and Income Tax Equivalent Income	**2,959**	**3,189**	**1,892**

Table B1.8: General Government Sector Expenses by Function

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m
General Public Services	2,111	2,522	2,698
Defence	...	...	...
Public Order and Safety	6,416	6,673	6,992
Education	13,731	14,170	15,020
Health	17,648	18,433	19,479
Social Security and Welfare	5,180	5,584	6,029
Housing and Community Amenities	2,267	2,683	2,930
Recreation and Culture	1,368	1,072	1,089
Fuel and Energy	28	30	33
Agriculture, Forestry, Fishing and Hunting	821	740	870
Mining and Mineral Resources other than Fuels; Manufacturing; and Construction	181	193	219
Transport and Communications	8,897	9,158	8,836
Other Economic Affairs	1,190	931	1,123
Other Purposes [(a)]	4,920	4,897	4,306
Total Expenses	**64,757**	**67,085**	**69,624**

(a) 2015-16 includes $150 million Advance to the Treasurer, which will be allocated across functions as the funds are spent in the Budget Year.

Table B1.9: General Government Sector Purchases of Non-Financial Assets by Function

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m
General Public Services	365	450	489
Defence	...	...	...
Public Order and Safety	389	501	568
Education	496	432	560
Health	1,154	1,216	1,283
Social Security and Welfare	151	212	204
Housing and Community Amenities	207	210	159
Recreation and Culture	250	176	233
Fuel and Energy	1	0	1
Agriculture, Forestry, Fishing and Hunting	17	17	25
Mining and Mineral Resources other than Fuels; Manufacturing; and Construction	6	4	10
Transport and Communications	5,351	6,198	5,566
Other Economic Affairs	29	36	48
Other Purposes [(a)]	17	27	41
Total Purchases of Non-Financial Assets	**8,432**	**9,479**	**9,186**
Assets Acquired under Finance Leases			
Health	30	22	...
Transport and Communications	84	110	183
Total Assets Acquired under Finance Leases	**114**	**131**	**183**
Total Capital Expenditure	**8,546**	**9,610**	**9,369**

(a) 2015-16 includes $20 million Advance to the Treasurer, which will be allocated across functions as the funds are spent in the Budget Year.

Table B1.10: Public Non-Financial Corporation Sector Operating Statement

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Taxation	...	...	...	...	...	...
Grants and Subsidies						
- Commonwealth General Purpose	...	...	...	...	...	...
- Commonwealth Specific Purpose Payments	9	23	18	0	0	0
- Commonwealth National Partnership Payments	...	...	...	...	...	...
- Other Grants and Subsidies	3,329	3,109	2,702	2,748	2,739	2,823
Sale of Goods and Services	12,939	12,411	11,316	11,457	11,736	11,945
Interest	101	94	99	111	104	112
Dividend and Income Tax Equivalents from Other Sectors	...	...	...	...	...	...
Other Dividends and Distributions	...	...	...	...	...	...
Fines, Regulatory Fees and Other	2,687	2,796	830	878	917	913
Total Revenues from Transactions	**19,065**	**18,433**	**14,965**	**15,194**	**15,497**	**15,793**
Expenses from Transactions						
Employee	3,360	3,593	3,476	3,541	3,548	3,619
Superannuation						
- Superannuation Interest Cost	76	90	70	66	59	50
- Other Superannuation	357	349	342	325	315	311
Depreciation and Amortisation	3,250	3,343	3,614	3,747	3,880	4,054
Interest	1,851	1,814	1,934	2,077	2,291	2,438
Income Tax Expense	820	646	340	309	286	288
Other Property	...	...	...	...	...	...
Other Operating	6,033	6,164	6,104	6,090	6,182	6,176
Grants and Subsidies						
- Current Grants and Subsidies	312	326	312	312	312	312
- Capital Grants	535	121	19	30	95	19
Total Expenses from Transactions	**16,593**	**16,446**	**16,211**	**16,497**	**16,967**	**17,267**
Transactions from Discontinuing Operations [(a)]	(34)	9	...	...	...	...
NET OPERATING BALANCE - SURPLUS AFTER TAX	**2,437**	**1,996**	**(1,246)**	**(1,302)**	**(1,470)**	**(1,474)**

Table B1.10: Public Non-Financial Corporation Sector Operating Statement (cont)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Superannuation	(15)	...	...	...	...	...
Gain/(Loss) from Other Liabilities	(0)	...	...	...	...	...
Other Net Gains/(Losses)	690	(632)	324	307	222	65
Share of Earnings from Associates (excluding Dividends)	...	...	...	...	...	...
Dividends from Asset Sale Proceeds	...	...	...	...	...	...
Deferred Income Tax from Other Sectors	...	...	...	...	...	...
Other	104	(16)	37	25	37	51
Discontinuing Operations - Other Economic Flows	181	(41)	...	...	...	...
Other Economic Flows - included in Operating Result	**959**	**(689)**	**361**	**332**	**258**	**116**
Operating Result	**3,397**	**1,307**	**(884)**	**(970)**	**(1,212)**	**(1,359)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	33	(330)	436	853	557	340
Deferred Tax Direct to Equity	203	7	(180)	(188)	(142)	(116)
Revaluations	2,918	6,161	3,871	3,220	3,238	3,588
Share of Earnings from Associates from Revaluations	...	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	...	...	...	...	...	...
Net Gain/(Loss) on Equity Investments in Other Sectors Discontinued	...	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	(19)	(28)	5	4	3	2
Other	195	653	2,418	3,278	2,445	2,266
Other Economic Flows - Other Comprehensive Income	**3,330**	**6,463**	**6,550**	**7,167**	**6,102**	**6,080**
Comprehensive Result - Total Change in Net Worth [(b)]	**6,727**	**7,770**	**5,666**	**6,197**	**4,890**	**4,721**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**6,727**	**7,770**	**5,666**	**6,197**	**4,890**	**4,721**
Less: Net Other Economic Flows	(4,290)	(5,774)	(6,911)	(7,499)	(6,360)	(6,195)
Equals: Net Operating Balance - Surplus After Tax	**2,437**	**1,996**	**(1,246)**	**(1,302)**	**(1,470)**	**(1,474)**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	4,538	4,101	6,895	7,726	8,893	7,181
Sales of Non-Financial Assets	(389)	(375)	(947)	(594)	(506)	(573)
Less: Depreciation	(3,250)	(3,343)	(3,614)	(3,747)	(3,880)	(4,054)
Plus : Change in Inventories	(31)	(280)	90	111	(220)	(70)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	793	...	224	1,570	11	110
- Other	1,757	2,209	429	451	409	451
Equals: Total Net Acquisition of Non-Financial Assets	**3,419**	**2,312**	**3,076**	**5,517**	**4,707**	**3,044**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(982)**	**(316)**	**(4,322)**	**(6,820)**	**(6,177)**	**(4,519)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(c)]	5,332	4,101	7,118	9,296	8,904	7,290
Dividends Accrued [(d)]	(1,318)	(1,636)	(1,021)	(708)	(589)	(472)

(a) Discontinuing operations for 2013-14 includes the Macquarie Generation and Port of Newcastle transaction and 2014-15 includes Macquarie Generation and Delta Electricity.

(b) 'Total change in net worth' is before transactions with owners as owners, and before revisions to accounting policies. The actual movement in balance sheet net worth may therefore differ.

(c) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

(d) 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 B1.11: Public Non-Financial Corporation Sector Balance Sheet

	June 2014	June 2015	June 2016	June 2017	June 2018	June 2019
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	1,566	1,210	1,478	1,884	2,278	2,528
Receivables	2,115	1,913	1,710	1,665	1,649	1,661
Tax Equivalents Receivable	40	34	72	45	14	23
Investments, Loans and Placements						
Financial Assets at Fair Value	869	96	117	118	120	121
Other Financial Assets	285	774	772	766	760	790
Advances Paid	0	0	0	0	0	0
Deferred Tax Equivalents Assets	483	514	519	509	503	504
Equity						
Investments in Associates	...	...	...	...	...	...
Other Equity Investments	2	2	2	2	2	2
Total Financial Assets	**5,360**	**4,542**	**4,671**	**4,989**	**5,327**	**5,628**
Non-Financial Assets						
Inventories	953	811	808	913	691	619
Forestry Stock and Other Biological Assets	782	782	782	782	782	782
Assets Classified as Held for Sale	2,109	292	70	67	69	64
Investment Properties	494	515	464	423	440	411
Property, Plant and Equipment						
Land and Buildings	53,062	57,640	59,347	62,623	64,275	66,150
Plant and Equipment	6,789	6,374	6,497	6,497	6,554	6,772
Infrastructure Systems	66,650	70,067	75,179	80,386	86,627	91,124
Intangibles	1,545	1,506	1,513	1,483	1,417	1,370
Other Non-Financial Assets	241	230	225	229	234	241
Total Non-Financial Assets	**132,625**	**138,218**	**144,884**	**153,404**	**161,090**	**167,535**
Total Assets	**137,986**	**142,760**	**149,554**	**158,394**	**166,416**	**173,163**
Liabilities						
Deposits Held	50	37	34	33	32	33
Payables	2,854	2,522	2,513	2,835	2,941	2,940
Tax Equivalent Payables	199	93	15	13	35	70
Liabilities Directly Associated with Assets Held for Sale	348	...	...	...	...	...
Borrowings and Derivatives at Fair Value	199	29	25	21	18	16
Borrowings at Amortised Cost	32,875	33,177	36,651	40,735	44,977	47,894
Advances Received	459	432	406	394	379	358
Employee Provisions	1,965	1,918	1,798	1,749	1,695	1,660
Superannuation Provisions[(a)]	2,778	3,090	2,733	1,935	1,411	1,103
Deferred Tax Equivalent Provisions	4,694	4,638	4,774	4,927	5,030	5,088
Other Provisions	2,510	2,509	1,737	1,425	1,271	1,130
Other Liabilities	202	192	199	168	167	162
Total Liabilities	**49,133**	**48,636**	**50,885**	**54,235**	**57,957**	**60,455**
NET ASSETS	**88,852**	**94,125**	**98,670**	**104,159**	**108,459**	**112,708**
NET WORTH						
Accumulated Funds	43,562	43,737	44,578	47,025	48,221	49,000
Reserves	45,290	50,388	54,091	57,134	60,238	63,708
TOTAL NET WORTH	**88,852**	**94,125**	**98,670**	**104,159**	**108,459**	**112,708**
OTHER FISCAL AGGREGATES						
Net Financial Worth	**(43,773)**	**(44,094)**	**(46,214)**	**(49,246)**	**(52,630)**	**(54,827)**
Net Debt[(b)]	**30,864**	**31,594**	**34,749**	**38,415**	**42,249**	**44,863**
Net Financial Liabilities[(c)]	**43,773**	**44,094**	**46,214**	**49,246**	**52,630**	**54,827**

(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.

Table B1.12: Public Non-Financial Corporation Sector Cash Flow Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
Cash Receipts from Operating Activities						
Taxes Received	...	...	...	...	...	...
Receipts from Sales of Goods and Services	14,657	12,982	11,936	11,954	12,134	12,177
Grants and Subsidies Received	3,327	3,119	2,705	2,732	2,723	2,807
Interest Receipts	120	94	94	106	98	105
Other Receipts	2,307	1,936	1,679	1,725	1,727	1,726
Total Cash Receipts from Operating Activities	**20,413**	**18,131**	**16,414**	**16,518**	**16,682**	**16,815**
Cash Payments from Operating Activities						
Payments for Employees	(3,910)	(3,785)	(3,762)	(3,753)	(3,762)	(3,817)
Payments for Superannuation	(447)	(435)	(333)	(336)	(340)	(329)
Payments for Goods and Services	(6,800)	(6,205)	(6,165)	(5,723)	(5,749)	(5,914)
Grants and Subsidies Paid	(363)	(334)	(331)	(342)	(339)	(331)
Interest Paid	(1,846)	(1,828)	(1,814)	(1,921)	(2,067)	(2,299)
Income Tax Equivalents Paid	(1,127)	(842)	(467)	(281)	(228)	(264)
Other Payments	(1,895)	(1,564)	(1,233)	(1,277)	(1,258)	(1,309)
Total Cash Payments from Operating Activities	**(16,389)**	**(14,993)**	**(14,104)**	**(13,632)**	**(13,742)**	**(14,262)**
Net Cash Flows from Operating Activities	**4,024**	**3,138**	**2,310**	**2,886**	**2,940**	**2,553**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	391	375	947	594	506	573
Purchases of Non-Financial Assets	(4,743)	(4,121)	(6,884)	(7,721)	(8,891)	(7,180)
Net Cash Flows from Investments in Non-Financial Assets	**(4,352)**	**(3,746)**	**(5,936)**	**(7,127)**	**(8,384)**	**(6,607)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	185	922	...	...	...	...
Payments	...	(20)	(15)	(16)	(16)	(16)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**185**	**902**	**(15)**	**(16)**	**(16)**	**(16)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	94	89	50	54	58	63
Payments for Purchases of Investments	(218)	(99)	(49)	(27)	(31)	(72)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(125)**	**(10)**	**0**	**26**	**26**	**(9)**
Net Cash Flows from Investing Activities	**(4,292)**	**(2,854)**	**(5,951)**	**(7,116)**	**(8,374)**	**(6,632)**
Cash Flows from Financing Activities						
Advances Received	40	672	2,420	3,281	2,445	2,266
Advances Repaid	(242)	(170)	(145)	(30)	(31)	(36)
Proceeds from Borrowings	3,123	3,043	3,898	2,860	4,629	4,368
Repayments of Borrowings	(1,558)	(2,915)	(737)	(452)	(506)	(1,681)
Dividends Paid	(1,546)	(1,350)	(1,595)	(1,021)	(708)	(589)
Deposits Received (net)	(53)	(13)	(2)	(1)	(1)	1
Other Financing (net)	...	...	...	...	...	...
Net Cash Flows from Financing Activities	**(236)**	**(732)**	**3,839**	**4,637**	**5,828**	**4,329**
Net Increase/(Decrease) in Cash Held	**(504)**	**(449)**	**199**	**407**	**393**	**250**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	4,024	3,138	2,310	2,886	2,940	2,553
Net Cash Flows from Investments in Non-Financial Assets	(4,352)	(3,746)	(5,936)	(7,127)	(8,384)	(6,607)
Dividends Paid	(1,546)	(1,350)	(1,595)	(1,021)	(708)	(589)
Cash Surplus/(Deficit)	**(1,875)**	**(1,958)**	**(5,221)**	**(5,262)**	**(6,153)**	**(4,643)**

Table B1.13: Derivation of ABS GFS Public Non-Financial Corporation Sector Cash Surplus/(Deficit)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Cash Surplus/(Deficit)	**(1,875)**	**(1,958)**	**(5,221)**	**(5,262)**	**(6,153)**	**(4,643)**
Assets Acquired under Finance Leases	(793)	...	(224)	(1,570)	(11)	(110)
Other Financing Arrangements[(a)]	202	21	(11)	(5)	(3)	(1)
ABS GFS Surplus/(Deficit)	**(2,465)**	**(1,937)**	**(5,455)**	**(6,837)**	**(6,166)**	**(4,753)**

(a) Comprises movements in payables and receivables of a capital nature.

Table B1.14: Non-Financial Public Sector Operating Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Revenue from Transactions						
Taxation	23,479	25,293	27,046	27,809	29,203	30,394
Grants and Subsidies						
- Commonwealth General Purpose	15,894	17,065	17,346	17,864	18,214	18,828
- Commonwealth Specific Purpose Payments	7,458	8,096	8,637	9,262	9,681	9,997
- Commonwealth National Partnership Payments	3,963	2,829	2,712	3,794	2,587	1,622
- Other Grants and Subsidies	805	788	781	778	585	716
Sale of Goods and Services	17,354	17,150	16,180	16,600	17,110	17,521
Interest	629	666	531	520	514	522
Dividend and Income Tax Equivalents from Other Sectors	88	128	107	65	71	71
Other Dividends and Distributions	700	779	424	452	472	505
Fines, Regulatory Fees and Other	4,812	4,778	4,693	4,984	5,309	5,475
Total Revenues from Transactions	**75,181**	**77,573**	**78,457**	**82,126**	**83,747**	**85,651**
Expenses from Transactions						
Employee	30,108	31,210	31,738	33,330	34,585	36,212
Superannuation						
- Superannuation Interest Cost	1,838	1,788	1,547	1,544	1,558	1,497
- Other Superannuation	3,051	3,188	3,267	3,390	3,338	3,361
Depreciation and Amortisation	7,203	7,508	8,054	8,392	8,760	9,063
Interest	4,019	4,004	4,101	4,246	4,473	4,627
Income Tax Expense	...	...	...	...	...	...
Other Property	...	...	...	...	...	...
Other Operating	18,328	19,138	20,175	20,264	20,574	21,029
Grants and Subsidies						
- Current Grants and Subsidies	7,204	7,566	8,545	9,067	9,207	8,916
- Capital Grants	1,086	768	776	709	721	635
Total Expenses from Transactions	**72,836**	**75,170**	**78,203**	**80,942**	**83,216**	**85,341**
Transactions from Discontinuing Operations [(a)]	22	14	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**2,367**	**2,417**	**253**	**1,184**	**530**	**310**

Table B1.14: Non-Financial Public Sector Operating Statement (cont)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward estimates $m	2017-18 Forward estimates $m	2018-19 Forward estimates $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Superannuation	(15)	...	...	...	...	...
Gain/(Loss) from Other Liabilities	(689)	(684)	137	392	244	118
Other Net Gains/(Losses)	976	(118)	479	403	321	236
Share of Earnings from Associates (excluding Dividends)	118	(16)	(15)	(11)	(17)	(8)
Other	(67)	(24)	(37)	(38)	(38)	(41)
Discontinuing Operations - Other Economic Flows	55	10	...	...	...	...
Other Economic Flows - included in Operating Result	**377**	**(833)**	**564**	**746**	**511**	**305**
Operating Result	**2,744**	**1,585**	**817**	**1,930**	**1,041**	**615**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	(50)	(5,087)	5,460	10,672	6,663	3,839
Deferred Tax Direct to Equity	(0)	4	0	0	...	...
Revaluations	6,307	12,210	7,235	6,617	6,617	6,980
Share of Earnings from Associates from Revaluations	...	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	(1,295)	(918)	2,995	4,367	2,118	1,306
Net Gain/(Loss) on Financial Instruments at Fair Value	(21)	(28)	5	4	3	2
Other	199	(595)	(413)	(188)	482	803
Other Economic Flows - Other Comprehensive Income	**5,140**	**5,585**	**15,282**	**21,473**	**15,883**	**12,930**
Comprehensive Result - Total Change in Net Worth [(b)]	**7,884**	**7,170**	**16,099**	**23,402**	**16,925**	**13,544**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**7,884**	**7,170**	**16,099**	**23,402**	**16,925**	**13,544**
Less: Net Other Economic Flows	(5,517)	(4,753)	(15,846)	(22,219)	(16,394)	(13,234)
Equals: Net Operating Balance	**2,367**	**2,417**	**253**	**1,184**	**530**	**310**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	12,962	13,577	16,077	15,938	16,595	14,196
Sales of Non-Financial Assets	(905)	(844)	(1,635)	(994)	(980)	(1,108)
Less: Depreciation	(7,203)	(7,508)	(8,054)	(8,392)	(8,760)	(9,063)
Plus : Change in Inventories	(56)	(283)	91	109	(212)	(71)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	907	131	407	1,680	136	3,529
- Other	190	490	488	520	516	561
Equals: Total Net Acquisition of Non-Financial Assets	**5,894**	**5,563**	**7,375**	**8,861**	**7,295**	**8,045**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(3,527)**	**(3,146)**	**(7,122)**	**(7,677)**	**(6,764)**	**(7,735)**
OTHER AGGREGATES						
Capital Expenditure [(c)]	13,869	13,708	16,484	17,618	16,731	17,725

(a) Discontinuing operations for 2013-14 includes the Macquarie Generation and Port of Newcastle transaction and 2014-15 includes Macquarie Generation and Delta Electricity.

(b) 'Total change in net worth' is before transactions with owners as owners, and before revisions to accounting policies. The actual movement in balance sheet net worth may therefore differ.

(c) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

Table B1.15: Non-Financial Public Sector Balance Sheet

	June 2014	June 2015	June 2016	June 2017	June 2018	June 2019
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	11,531	12,091	7,201	6,944	7,719	7,618
Receivables	6,482	6,739	6,361	6,228	6,142	5,916
Investments, Loans and Placements						
Financial Assets at Fair Value	9,947	10,959	11,486	11,789	12,339	12,991
Other Financial Assets	4,892	3,515	5,178	3,223	1,351	1,441
Advances Paid	486	604	774	907	999	996
Deferred Tax Equivalents Assets	1	1	1	1	1	1
Equity						
Investments in Other Public Sector Entities	(4,158)	(5,076)	(2,081)	2,286	4,404	5,710
Investments in Associates	4,039	3,897	3,882	3,870	3,854	3,846
Other Equity Investments	12	12	12	12	12	12
Total Financial Assets	**33,232**	**32,742**	**32,814**	**35,261**	**36,821**	**38,532**
Non-Financial Assets						
Inventories	1,202	1,055	1,053	1,155	941	869
Forestry Stock and Other Biological Assets	790	790	790	790	790	790
Assets Classified as Held for Sale	2,215	593	112	170	137	111
Investment Properties	631	657	605	565	582	553
Property, Plant and Equipment						
Land and Buildings	117,162	124,974	129,019	132,687	134,895	137,061
Plant and Equipment	16,323	16,746	16,904	16,948	16,941	17,028
Infrastructure Systems	140,889	149,037	158,865	169,723	181,073	193,595
Intangibles	3,901	4,167	4,497	4,423	4,109	3,740
Other Non-Financial Assets	2,266	2,586	3,005	3,650	4,162	4,478
Total Non-Financial Assets	**285,378**	**300,605**	**314,850**	**330,111**	**343,629**	**358,224**
Total Assets	**318,611**	**333,348**	**347,664**	**365,372**	**380,450**	**396,757**
Liabilities						
Deposits Held	167	159	148	133	119	106
Payables	7,631	7,588	6,798	6,905	7,001	7,064
Liabilities Directly Associated with Assets Held for Sale	348	...	...	...	...	...
Borrowings and Derivatives at Fair Value	211	39	33	28	24	21
Borrowings at Amortised Cost	63,419	64,317	68,191	72,493	76,765	82,848
Advances Received	792	904	891	893	861	734
Employee Provisions	16,360	17,060	16,982	16,896	16,870	17,089
Superannuation Provisions (a)	51,040	57,143	52,468	42,313	35,930	32,186
Deferred Tax Equivalent Provisions	4	8	8	8	8	8
Other Provisions	8,762	8,930	8,961	9,190	9,480	9,803
Other Liabilities	2,107	2,691	2,575	2,499	2,451	2,413
Total Liabilities	**150,842**	**158,839**	**157,056**	**151,359**	**149,510**	**152,270**
NET ASSETS	**167,768**	**174,508**	**190,608**	**214,013**	**230,940**	**244,487**
NET WORTH						
Accumulated Funds	59,686	56,500	62,485	75,023	83,334	88,724
Reserves	108,082	118,009	128,122	138,989	147,606	155,762
TOTAL NET WORTH	**167,768**	**174,508**	**190,608**	**214,013**	**230,940**	**244,487**
OTHER FISCAL AGGREGATES						
Net Financial Worth	**(117,610)**	**(126,097)**	**(124,242)**	**(116,099)**	**(112,689)**	**(113,738)**
Net Debt (b)	**37,733**	**38,249**	**44,624**	**50,686**	**55,361**	**60,662**
Net Financial Liabilities (c)	**113,452**	**121,021**	**122,161**	**118,385**	**117,094**	**119,448**

(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.

Table B1.16: Non-Financial Public Sector Cash Flow Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
Cash Receipts from Operating Activities						
Taxes Received	23,211	25,469	27,113	27,873	29,269	30,463
Receipts from Sales of Goods and Services	19,269	17,820	17,255	17,636	18,076	18,500
Grants and Subsidies Received	27,940	28,588	29,551	31,657	31,197	31,249
Interest Receipts	603	662	499	489	477	486
Dividends and Income Tax Equivalents	89	101	105	107	65	72
Other Receipts	9,792	9,662	8,147	8,436	8,523	8,885
Total Operating Receipts	**80,904**	**82,302**	**82,670**	**86,198**	**87,607**	**89,656**
Cash Payments from Operating Activities						
Payments for Employees	(29,726)	(30,990)	(32,165)	(33,246)	(34,422)	(35,963)
Payments for Superannuation	(3,822)	(3,754)	(4,031)	(4,418)	(4,617)	(4,764)
Payments for Goods and Services	(20,511)	(21,370)	(22,796)	(22,326)	(22,504)	(23,080)
Grants and Subsidies Paid	(5,754)	(6,214)	(7,018)	(7,292)	(7,186)	(6,744)
Interest Paid	(3,393)	(3,499)	(3,436)	(3,544)	(3,662)	(3,885)
Other Payments	(6,100)	(5,307)	(4,711)	(4,811)	(4,889)	(5,098)
Total Operating Payments	**(69,306)**	**(71,135)**	**(74,157)**	**(75,637)**	**(77,280)**	**(79,534)**
Net Cash Flows from Operating Activities	**11,598**	**11,166**	**8,512**	**10,561**	**10,327**	**10,122**
Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	968	825	1,644	994	980	1,108
Purchases of Non-Financial Assets	(12,822)	(13,446)	(16,064)	(16,030)	(16,624)	(14,163)
Net Cash Flows from Investments in Non-Financial Assets	**(11,854)**	**(12,621)**	**(14,420)**	**(15,037)**	**(15,644)**	**(13,055)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	2,778	1,717	78	173	181	236
Payments	(265)	(1,265)	(1,173)	(1,254)	(504)	(378)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**2,513**	**452**	**(1,094)**	**(1,082)**	**(323)**	**(142)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	723	9,507	506	2,733	2,531	481
Payments for Purchases of Investments	(5,114)	(8,244)	(2,231)	(663)	(690)	(754)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(4,392)**	**1,263**	**(1,724)**	**2,070**	**1,841**	**(273)**
Net Cash Flows from Investing Activities	**(13,733)**	**(10,907)**	**(17,239)**	**(14,048)**	**(14,126)**	**(13,470)**
Cash Flows from Financing Activities						
Advances Received	98	259	530	863	705	931
Advances Repaid	(57)	(61)	(54)	(53)	(53)	(94)
Proceeds from Borrowings	5,339	4,387	4,538	3,340	5,058	4,876
Repayments of Borrowings	(1,973)	(4,095)	(1,232)	(953)	(1,190)	(2,518)
Deposits Received (net)	(1,009)	(10)	(11)	(14)	(15)	(13)
Other Financing (net)	115	(8)	(1)	(2)	(0)	(0)
Net Cash Flows from Financing Activities	**2,512**	**473**	**3,771**	**3,182**	**4,504**	**3,181**
Net Increase/(Decrease) in Cash Held	**378**	**733**	**(4,956)**	**(306)**	**706**	**(167)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	11,598	11,166	8,512	10,561	10,327	10,122
Net Cash Flows from Investments in Non-Financial Assets	(11,854)	(12,621)	(14,420)	(15,037)	(15,644)	(13,055)
Cash Surplus/(Deficit)	**(256)**	**(1,455)**	**(5,908)**	**(4,476)**	**(5,317)**	**(2,933)**

Table B1.17: Derivation of ABS GFS Non-Financial Public Sector Cash Surplus/(Deficit)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Cash Surplus/(Deficit)	**(256)**	**(1,455)**	**(5,908)**	**(4,476)**	**(5,317)**	**(2,933)**
Assets Acquired under Finance Leases	(907)	(131)	(407)	(1,680)	(136)	(3,529)
Other Financing Arrangements[(a)]	(202)	(112)	(23)	92	29	(33)
ABS GFS Surplus/(Deficit)	**(1,365)**	**(1,698)**	**(6,338)**	**(6,064)**	**(5,424)**	**(6,495)**

(a) Comprises movements in payables and receivables of a capital nature.

Loan Council Allocation

The Australian, State and Territory governments nominate a Loan Council Allocation (LCA) each year. The LCA measures each jurisdiction's net call on financial markets in a given financial year to meet its budget objectives. The NSW LCA for 2015-16 was approved at the April 2015 meeting of the Ministerial Council.

The 2015-16 LCA allocation was based on the 2014-15 Half-Yearly Review, with the revised LCA Estimate based on the 2015-16 Budget estimates, in which policy and parameters settings have changed. The revised estimates take into account fiscal and economic developments, the application of new governance arrangements and proposed new policy measures, particularly following the NSW election.

The 2015-16 estimated LCA is a deficit of $8.3 billion compared with the original deficit allocation of $5.3 billion. The variance of $3 billion is greater than the Loan Council's tolerance limit of $1.7 billion (calculated as 2 per cent of cash receipts from operating activities for the non-financial public sector).

There are a number of contributors to this increased allocation:

- within the PTE Sector the decrease in cash receipts from the sales of goods and services of $1.2 billion is mainly due to the Australian Energy Regulator (AER) final determination, which affects the State's electricity network business
- the 2015-16 Budget includes reforms to transport sector with the creation of the Transport Asset Holding Entity (TAHE), (see Box 1.1, Chapter 1: Overview). The TAHE arrangements will result in rail-related capital expenditure transferring to the PTE entity. As a consequence general government capital expenditure in the 2015-16 Budget has reduced by $1.9 billion, and the PTE sector increased by $1.9 billion. This has no overall impact on the loan council allocation
- the Government has increased the general government capital expenditure Budget for 2015-16 by $1.6 billion (excluding TAHE), largely as a result of the Government's commitment to address the backlog in infrastructure projects in NSW. This increase is offset by lower planned capital expenditure in the PTE sector of $0.7 billion following the sale of a number of entities
- the other significant change in the 2015-16 Budget relates to a change in the delivery model for the Westconnex project.

Table B1.18: Loan Council Allocation Estimates

		2015-16 Loan Council Allocation $m	2015-16 Budget-time Estimate $m
	General Government Sector Cash Deficit/(Surplus)	338	687
	Public Non-Financial Corporations Sector Cash Deficit/(Surplus)	2,672	5,221
	Non-Financial Public Sector Cash Deficit/(Surplus)[a]	**3,012**	**5,908**
	Acquisitions Under Finance Leases and Similar Arrangements[b]	46	430
Equals:	**ABS GFS Cash Deficit/(Surplus)**	**3,057**	**6,338**
Minus:	Net Cash Flows From Investments in Financial Assets For Policy Purposes	(1,234)	(1,094)
Plus:	Memorandum Items[c]	1,048	843
	Loan Council Allocation	**5,339**	**8,275**

(a) May not directly equate to the sum of the general government and PNFC cash deficits due to inter-sector transfers which are netted out.

(b) Finance leases and similar arrangements are shown separately as they are deducted from the AASB 1049 cash surplus to derive the ABS GFS cash surplus.

(c) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases that have many characteristics of public sector borrowings but are not formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions, that the Loan Council has agreed should not be included in LCAs – for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as universities.

Public Private Partnerships

As approved at the 1997 Loan Council Meeting, States are to report their full contingent exposure to Public Private Partnerships for new contracts entered into, that have not previously been reported. Exposure is to be measured by the Government's termination liabilities in a case of private sector default, and disclosed as a footnote to, rather than a component of, Loan Council Allocations.

Information on social infrastructure PPPs and other capital expenditure which is generally on the State's balance sheet is reported within the Loan Council Allocation.

Therefore, only new toll road PPP's, which are generally off-balance sheet, are reported below as Memo items.

CONTRACTS ENTERED OR EXPECTED TO BE ENTERED IN 2014-15

NORTHCONNEX

The NSW Government together with Transurban and the M7 Westlink Shareholders (the Project Sponsors) entered contracts on 31 January 2015 to build, operate and maintain a tolled motorway called NorthConnex. The motorway will be a nine kilometre tunnel linking the M1 Pacific Motorway at Wahroonga to the Hills M2 Motorway at West Pennant Hills.

The $3 billion project, consisting of design and construction, project delivery and land acquisition costs, will be funded through toll charges with a contribution from the NSW and Commonwealth Governments of up to $405 million each.

Contract and financial close occurred on 31 January 2015. It is expected that the tunnel would be opened to traffic late 2019.

Expected Government Contingent Liability	Nil

CONTRACTS EXPECTED TO BE ENTERED IN 2015-16

Nil

Expected Government Contingent Liability	Nil

Appendix B2: Statement of Significant Accounting Policies and Forecast Assumptions

Scope of the Estimated Financial Statements

The Budget Papers present the Estimated Financial Statements of the General Government Sector including revised estimates for the current year ending 30 June 2015, estimates for the Budget year ending 30 June 2016 and the three forward years ending 30 June 2017, 2018 and 2019.

These comprise the General Government Sector Operating Statement, General Government Sector Balance Sheet, General Government Sector Cash Flow Statement and Derivation of ABS GFS General Government Sector Cash Surplus / (Deficit). 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 are prepared for the NSW General Government Sector, which is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 (cat. No. 5514)* (ABS GFS Manual) as amended from time to time.

The General Government Sector 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 services to general government agencies.

The scope of the General Government Sector is outlined in Appendix B3 of Budget Paper 1.

Basis of Preparation

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

They have been prepared to reflect existing operations and the impact of new policy decisions taken by the New South Wales Government (where their financial effect can be reliably measured). The 2014-15 Budget is derived from the 2014-15 Budget Papers. The revised estimates for 2014-15 are based on actual results at 30 April 2015, and updated year end projections provided by agencies. They have also been prepared to take into account other economic and financial data available to Treasury up to 18 June 2015, including Commonwealth Government funding decisions announced in the 2015-16 Commonwealth Budget.

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

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

Accounting Policies

Australian Accounting Standards do not include requirements or provide guidance on the preparation or presentation of prospective financial statements. However, recognition and measurement principles within Australian Accounting Standards 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 business asset transactions until they are finalised. The financial impact of future planned discontinuing operations or restructures are not recognised due to the commercial-in-confidence nature of the transactions.

The Estimated Financial Statements adopt the accounting policies expected to be used in preparing general purpose financial statements for 2014-15. With the exception of those matters below, the policies are not materially different from those applied in the *Total State Sector Accounts 2013-14*. Note 1 of the *Total State Sector Accounts 2013-14* sets out the significant accounting policies, including the principles of consolidation and the recognition and measurement policies for revenues, expenses, other economic flows, assets and liabilities.

Change in Accounting Policies

The following Australian Accounting Standards have been adopted in 2014-15, impacting on the State's financial estimates as follows.

Revisions to Standards relating to Consolidations, Joint Arrangements and Associates

The State has adopted the following new and revised standards relating to consolidations, joint arrangements and associates on 1 July 2014: AASB 10 Consolidated Financial Statements; AASB 11 Joint Arrangements; AASB 12 Disclosure of Interests in Other Entities; AASB 127 Separate Financial Statements; and AASB 128 Investments in Associates and Joint Ventures.

AASB 10 introduced a revised definition of control and provided several new principles in assessing whether control exists. AASB 11 requires joint arrangements to be accounted for based on their contractual arrangements, and distinguishes between joint operations and joint ventures. AASB 12 contains the disclosure requirements associated with 'other entities' (i.e. subsidiaries, associates and joint ventures) that were previously located in AASB 127, 128 and 131 and Interpretations 112 and 113.

The impact of any changes to control relationships on the Estimated Financial Statements, arising from these new and revised standards, is not expected to be significant. The General Government Sector does not consolidate Public Non-Financial Corporations and Public Financial Corporations that it controls on a line by line basis; and instead, recognises an equity investment in those entities and a gain or loss for changes in the carrying amount of the investment.

Presentation of the Estimated Financial Statements

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

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. Australian accounting standards) with Government Finance Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics. This occurs by requiring that:

- 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 (i.e. Budget result) is the net result of harmonised GFS-GAAP transactions for the general government sector.

In the operating statement:

- the *net operating balance* (i.e. the Budget result) is the net result of income and expense *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 financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS
- 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 financial statements, including disclosure of contingent assets and liabilities, are not required to be presented within the meaning of Australian Accounting Standards as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

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 to the nearest million dollars.

Presentation Changes

There has been a minor presentation change within the Balance Sheet since the release of the 2014-15 Budget Papers to separately disclose 'Financial Assets at Fair Value' and 'Other Financial Assets' that are not recorded at fair value under the heading 'Investments, Loans and Placements'. This presentation remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to Budget Paper No 1.

Material Economic and Other Assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table B2.1.

Table B2.1: Key economic performance assumptions (a)

	2013-14 Outcomes	2014-15 Forecasts	2015-16 Forecasts	2016-17 Forecasts	2017-18 and 2018-19 Projections (b)
New South Wales					
Real state final demand	2.7	3¼	3½	3½	
Real gross state product	2.1	2½	3	3	2¾
Employment	0.6	1¼	1¾	1¾	1¼
Unemployment rate (c)	5.7	6	5¾	5¾	
Sydney CPI(d)	2.5	1¾	2½	2¾	2½
– through the year to June quarter(d)	2.8	1¾	2½	2¾	
Wage price index	2.5	2¼	2½	2¾	3½
Nominal Gross State Product(e)	3.1	4	4	4¾	

(a) Per cent change, year average, unless otherwise indicated.

(b) Average across 2017-18 and 2018-19.

(c) Year average, per cent.

(d) 2014-15 includes a ¾ of a percentage point detraction from the abolition of the carbon tax. 2014-15 to 2016-17 include a ¼ of a percentage point contribution from tobacco excise increases.

(e) Nominal GSP measures the *value* of production whereas real GSP measures the *volume* of production. The difference is a measure of the average change in prices for goods and services produced.

Source: ABS 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 General Government Sector'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.

Revenues from Transactions

Taxation

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. For example for payroll tax, this involves an assessment of the outlook for employment and wages. Forecasts of government guarantee fees take into account an assessment of the level of debt of public non-financial corporations 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 revenue

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

The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Australian Government. For 2015-16, the GST forecast is based on the assessed relativity for New South Wales in 2015-16 and the Australian Government's population projections. The assessed relativity is the average of the past three years annual per capita relativities (2011-12, 2012-13 and 2013-14) as published by the Commonwealth Grants Commission.

After 2015-16, the State's share of GST is based on assessed relativities in a particular year and the Australian Government's population and GST pool projections. The forecast per capita annual relativities are based on the projected relative fiscal capacity of New South Wales compared to other States and Territories.

Sales of goods and services

Revenue from the sale of goods and services is forecast taking into account factors including estimates of changes in demand for services provided or expected unit price variations based on proposed fee increases imposed by general government agencies and/or indexation.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenues are estimated by public financial and non-financial corporations based on expected profitability and the agreed dividend policy at the time of the Budget.

Fines, regulatory fees and other revenues

Fines, regulatory fees and other revenues include estimates of fines issues by the Courts, estimated traffic infringement fines, estimated revenue from enforcement orders, regulatory fees, contributions and royalty revenue for which estimates are 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

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 Government'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 approved initiatives and required efficiency savings.

Superannuation expense (and liabilities)

Superannuation expenses comprise:

- for the defined contribution plan, the forecast accrued contribution for the period, and
- for defined benefit plans, the forecast service cost and the net interest expense. This excludes the re-measurements, (i.e. actuarial gains and losses and return on plan assets excluding the gross interest income) 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 Government Bond 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 Commonwealth Government bond 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.

The table below sets out the major financial assumptions used to estimate the superannuation expense and liability in respect of defined benefit superannuation for the budget and forward estimates period.

Table B2.2: Superannuation Assumptions – Pooled Fund / State Super Schemes

	2014-15 %	2015-16 %	2016-17 %	2017-18 %	2018-19 %
Liability discount rate	2.77	3.02	3.79	4.33	4.55
Expected return on investments	15.3	8.60	8.60	8.60	8.60
Expected salary increases[a]					
– SSS and SASS Members [b]	2.25	2.50	2.50	2.50	2.50
– PSS Members [b]	2.25	2.50	2.50	2.50	2.50
Expected rate of CPI	1.50	2.50	2.75	2.75	2.50

(a) Taking the increased Superannuation Guarantee Contribution into account, total remuneration will increase by 2.5 per cent.

(b) SSS – State Superannuation Scheme, SASS – State Authorities Superannuation Scheme, PSS – Police Superannuation Scheme

Depreciation and amortisation

Property, plant and equipment is depreciated (net of its residual value) over its useful life. Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on the basis of known asset carrying valuations, the expected economic life of assets, assumed new asset investment and asset sales programs. The 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. The depreciation expense may also be impacted by future changes in useful lives, carrying value, residual value or valuation methodology.

Certain heritage assets, including original artworks and collections and heritage buildings, may not have a limited useful life 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 under the straight line method. Intangible assets with an indefinite life are not amortised, but tested for impairment annually.

Interest expense

The forecasts for the interest expenses are based on:

- payments required on the current general government sector debt,
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for NSW Treasury Corporation bonds, and
- the unwinding of discounts on non-employee provisions.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the 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 the application of government policy. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expense

Grant and subsidy expenses generally comprise cash contributions to local government authorities and non-government organisations. For the general government sector they include grants and subsidies paid to the Public Non-Financial Corporation and Public Financial Corporations sectors. The forecast grant payments are determined 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 non-financial physical assets. The forward estimates include the estimated impact of revaluations of non-financial physical assets.

Superannuation actuarial gains / losses

The forecast gain or loss on defined benefit superannuation is based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain on equity investments in other sector entities

The gain or loss on equity investments in other sector entities is based on estimates of the public financial corporation and public non-financial corporation 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 owners are based on the Treasury *Commercial Policy Framework*.

Assets

Land and buildings, plant and equipment, and infrastructure

The estimates of non-financial physical assets over the forecast period are at fair value and take into account planned acquisitions, disposals, and the impact of depreciation and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period. The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates are based on an examination of expected cost trends.

The Estimated Financial Statements also include provisions for future capital expenditure. These include agency estimates of approved projects and future new works held within agencies, as well as a central estimate for future new works still to be approved at the agency level. The central estimate for future new works is based upon historical trends.

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.

Employee provisions

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government'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 (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 claim 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.

Appendix B3: Classification of Agencies

The financial activities of all governments are measured using the Government Finance Statistics (GFS) framework.[1] All entities controlled by governments are classified into sectors according to the nature of their activities and funding arrangements.

For financial reporting and policy framework purposes, NSW Treasury classifies each NSW Government entity under one of three sectors:

- General Government
- Public Trading Enterprise
- Public Financial Enterprise.

Together, these sectors make up the Total State Sector. This is not a GFS term, but it is used to describe the scope of all Government activities.

Although there are differences between NSW Treasury and GFS terminology, the same classification regime applies. The nature of each sector as it relates to NSW Government entities is as follows.

General Government Sector	The General Government Sector represents the scope of the Budget. Agencies in this sector generally operate under the Financial Management Framework and carry out policy, regulatory and service delivery functions. This sector includes agencies such as the Ministry of Health, Department of Education, NSW Police Force, Rental Bond Board and Independent Pricing and Regulatory Tribunal. 'General Government Sector' is also the GFS term for this sector.
Public Trading Enterprise Sector	Agencies in this sector are either commercial or non-commercial. Commercial enterprises generally operate under the Commercial Policy Framework, which aims to replicate disciplines and incentives that drive the efficient commercial practices of private sector businesses. They deliver services to a customer base from which they receive their income. They generally pay dividends and tax-equivalent payments to the general government sector. These agencies include State-owned Corporations such as energy transmission and distribution corporations and the Sydney Water and Hunter Water Corporations. Non-commercial enterprises address important social objectives and levy charges for services to client groups on a subsidised basis. This includes the New South Wales Land and Housing Corporation, which receive substantial grants from the General Government Sector to provide these services. 'Public Non-Financial Corporation sector' is the GFS term for this sector.
Public Financial Enterprise Sector	These agencies are involved in financial services and generally operate under the Commercial Policy Framework. They include the New South Wales Treasury Corporation and Lifetime Care and Support Authority of New South Wales. 'Public Financial Corporation sector' is the GFS term for this sector.

[1] Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods,* Cat No 5514.0, ABS, Canberra, 2005.

The following table lists all entities considered material for the whole-of-government purposes which are controlled by the NSW Government and the Government Finance Statistics sectors under which they are classified[2]. In addition, balance sheet estimates shown in Budget Paper No. 1 include an estimate of the impact of small entities controlled by the NSW Government and not considered material for the whole-of-government purposes.

Classification of Agencies by Sector

Material Agencies	General Government Sector	Public Trading Enterprise Sector	Public Financial Enterprise Sector
Aboriginal Housing Office	•		
Art Gallery of New South Wales	•		
Audit Office of New South Wales	•		
Ausgrid		•	
Australian Museum	•		
Barangaroo Delivery Authority	•		
Board of Studies, Teaching and Educational Standards	•		
Building Insurers' Guarantee Corporation	•		
Centennial Park and Moore Park Trust	•		
City West Housing Pty Limited		•	
Cobbora Holding Company Pty Ltd		•	
Crown Finance Entity	•		
Crown Solicitor's Office	•		
Delta Electricity		•	
Department of Education	•		
Department of Family and Community Services	•		
Department of Finance, Services and Innovation	•		
Department of Industry, Skills and Regional Development	•		
Department of Justice	•		
Department of Planning and Environment	•		
Department of Premier and Cabinet	•		
Destination NSW	•		
Electricity Assets Ministerial Holding Corporation	•		
Endeavour Energy		•	
Environment Protection Authority	•		
Environmental Trust	•		
Essential Energy		•	
Fair Trading Administration Corporation			•
Fire and Rescue NSW	•		
First Australian Mortgage Acceptance Corporation (FANMAC) Trusts			•
Forestry Corporation of New South Wales		•	
Government Property NSW	•		
Green State Power Pty Ltd *(disposed of as at 18 July 2014)*			
Health Care Complaints Commission	•		
Historic Houses Trust of New South Wales	•		
Home Care Service of New South Wales	•		
Home Purchase Assistance Fund	•		

[2] This reflects the structure of the NSW public Sector to take effect from 1 July 2015 consistent with recent Administrative Arrangements orders *(Government Sector Employment Act 2013)*. For more information on changes see 'About this Budget Paper' in Budget Paper No. 3

Material Agencies	General Government Sector	Public Trading Enterprise Sector	Public Financial Enterprise Sector
Hunter Development Corporation	•		
Hunter Water Corporation		•	
Independent Commission Against Corruption	•		
Independent Liquor and Gaming Authority	•		
Independent Pricing and Regulatory Tribunal	•		
Independent Transport Safety Regulator	•		
Information and Privacy Commission	•		
Infrastructure NSW	•		
Judicial Commission of New South Wales	•		
Landcom (trading as UrbanGrowth NSW)		•	
Legal Aid Commission of New South Wales	•		
Liability Management Ministerial Corporation	•		
Lifetime Care and Support Authority of New South Wales			•
Local Land Services	•		
Long Service Corporation	•		
Luna Park Reserve Trust	•		
Macquarie Generation *(disposed of on 2 September 2014)*			
Mental Health Commission of New South Wales	•		
Minister Administering the Environmental Planning and Assessment Act	•		
Ministry for Police and Emergency Services *(merged with Department of Justice on 1 July 2015)*	•		
Ministry of Health	•		
Motor Accidents Authority of New South Wales	•		
MTS Holding Company Pty Limited		•	
Multicultural NSW *(previously known as Community Relations Commission of New South Wales)*	•		
Museum of Applied Arts and Sciences	•		
Natural Resources Commission	•		
New South Wales Crime Commission	•		
New South Wales Electoral Commission	•		
New South Wales Government Telecommunications Authority	•		
New South Wales Land and Housing Corporation		•	
New South Wales Rural Assistance Authority	•		
New South Wales Treasury Corporation			•
Newcastle Port Corporation		•	
NSW Food Authority	•		
NSW Police Force	•		
NSW Self Insurance Corporation	•		
NSW Trains		•	
NSW Trustee and Guardian	•		
Office of Environment and Heritage	•		
Office of Local Government	•		
Office of Sport	•		
Office of the Children's Guardian	•		
Office of the Director of Public Prosecutions	•		
Office of the NSW Rural Fire Service	•		
Office of the NSW State Emergency Service	•		
Office of Transport Safety Investigations	•		
Ombudsman’s Office	•		
Parliamentary Counsel’s Office	•		

Material Agencies	General Government Sector	Public Trading Enterprise Sector	Public Financial Enterprise Sector
Police Integrity Commission	•		
Ports Assets Ministerial Holding Corporation	•		
Public Service Commission	•		
Rail Corporation New South Wales (*Transport Asset Holding Entity from 1 July 2015)*		•	
Rental Bond Board	•		
Roads and Maritime Services	•		
Royal Botanic Gardens and Domain Trust	•		
Service NSW	•		
State Library of New South Wales	•		
State Records Authority of New South Wales	•		
State Sporting Venues Authority		•	
State Transit Authority of New South Wales		•	
Superannuation Administration Corporation (trading as Pillar)			•
Sydney Cricket and Sports Ground Trust		•	
Sydney Ferries		•	
Sydney Harbour Foreshore Authority		•	
Sydney Motorway Corporation		•	
Sydney Olympic Park Authority	•		
Sydney Opera House Trust		•	
Sydney Trains		•	
Sydney Water Corporation		•	
TAFE Commission	•		
Teacher Housing Authority of New South Wales		•	
The Legislature	•		
The Treasury	•		
TransGrid		•	
Transport for NSW (Department of Transport)	•		
UrbanGrowth NSW Development Corporation	•		
Venues NSW		•	
Waste Assets Management Corporation		•	
Water Administration Ministerial Corporation	•		
WCX M4 Corporation Pty Ltd		•	
Western Sydney Parklands Trust	•		
Water NSW		•	
WorkCover Authority	•		
Workers' Compensation (Dust Diseases) Board	•		
Zoological Parks Board of New South Wales		•	

Appendix B4: Supplementary Revenue and Expense Analysis

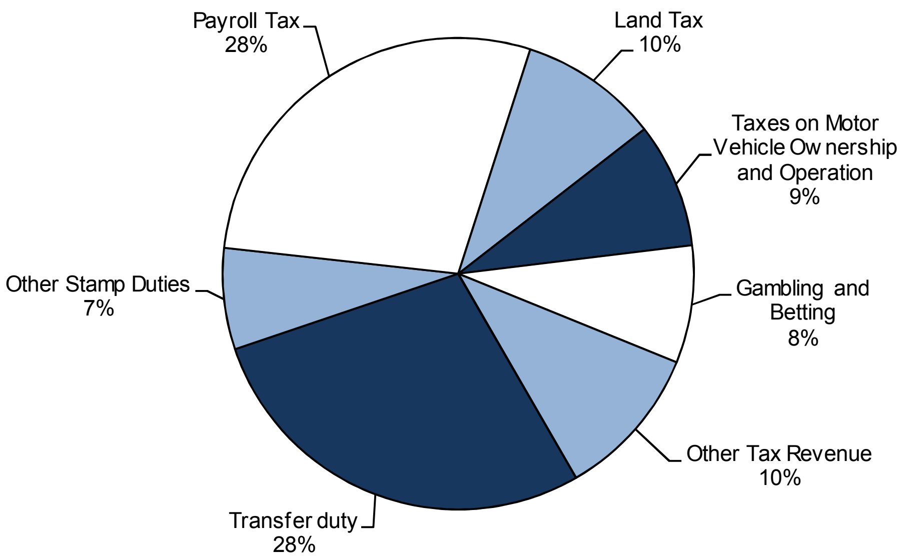
As a result of the restructure of the Budget Papers, general government revenue and expense analysis previously presented in Chapters 4, 5 and 6 can now be found in this appendix.

Revenue

Taxation

Major sources of tax revenue are stamp duties, payroll tax, land tax, motor vehicle taxes and gambling and betting taxes. The composition of tax revenue for 2015-16 is set out in Chart B4.1.

Chart B4.1: Composition of Tax Revenue, 2015-16



Tax revenue is expected to grow by an average of 4.7 per cent per annum over the four years to 2018-19.

Transfer duty

Transfer duty incorporates duty on residential property transfers, and small and large commercial transactions.

In 2015-16, transfer duty is expected to increase by $551 million, or 7.6 per cent, compared to 2014-15. This is due to historically low interest rates and high investor demand. Duty on residential property market transfers is expected to increase by 11.8 per cent in 2015-16 compared to 2014-15.

Growth in transfer duty is affected by the abolition of non-real business transfer duty from 1 July 2016.

Other stamp duties

Other stamp duties include general and life insurance, the transfer of new and used motor vehicles, non-residential mortgages and the transfer of unlisted marketable securities.

Stamp duty on insurance is expected to grow at an annual average rate of 4.8 per cent over the four years to 2018-19.

Duty on motor vehicle transfers is expected to grow by 6 per cent per annum over the four years to 2018-19. This reflects growth in the number of motor vehicle sales and expected vehicle price growth in line with forecast inflation.

Growth in other stamp duties is affected by the abolition of mortgage duty and unquoted marketable securities duties from 1 July 2016.

Payroll tax

Payroll tax is forecast to grow at an annual average rate of 5.7 per cent over the period 2015-16 to 2018-19.

The 2015-16 estimate is expected to be $400 million higher than 2014-15. This reflects wage and employment assumptions, with average compensation per employee expected to grow by 2.4 per cent and employment expected to grow by 1¾ per cent.

Land tax

Land tax is payable on a landowner’s total land holding, excluding the value of a landowner’s principal place of residence and farming land.

The tax-free primary threshold for the 2015 land tax year is $432,000, with the premium threshold set at $2,641,000.

Land tax is forecast to increase in 2015-16 by $163 million, or 6.5 per cent, and to grow at an annual average rate of 5.7 per cent in the four years to 2018-19, reflecting growth in land values.

Taxes on motor vehicle ownership and operation

Annual taxes on motor vehicles include weight tax and a fee for vehicle registration. Forecast growth of this revenue reflects estimates of vehicle fleet growth and CPI indexation of the tax rates. Revenue is expected to grow at 4.6 per cent per annum on average over the four years to 2018-19.

Gambling taxes

Gambling tax revenue is forecast to grow on average by 4.2 per cent per annum over the four years to 2018-19.

Revenue from racing is expected to increase by 2.4 per cent per annum over the four years to 2018-19. The decision to provide tax rate parity with Victoria on totalisators is reflected in expenses and is not reflected in the racing tax revenue. Weaker growth in racing revenue is offset by stronger growth in other gaming duties.

Commonwealth general purpose payments

GST revenue payments comprise virtually all General Purpose Payments to New South Wales.

The GST revenue payment from the Australian Government is distributed among States according to the principle of horizontal fiscal equalisation (HFE).

GST revenues depend on the amount of GST collected (pool size), population share and the relativity calculated by the Commonwealth Grants Commission (CGC). Any change in pool size, population share or relativity presents a significant risk to the State's financial position.

Table B4.1 shows revisions to NSW GST revenue payments forecast for the four years to 2017-18 since the 2014-15 Budget.

Table B4.1: GST Revenue Payments to New South Wales – Reconciliation Statement

	2013-14	2014-15		2015-16	2016-17	2017-18	2018-19	Total: 4 years to 2017-18
	Actual	Budget	Revised	Budget	Forward estimates			
	$m	$m	$m	$m	$m	$m	$m	
2014-15 Budget	**15,844**	**16,758**	**na**	**17,586**	**18,279**	**18,928**		**71,551**
Change due to:								
2013-14 adjustment			122	...	...	...		122
Change in population			16	38	52	66		172
Change in pool			...	56	(15)	(54)		(13)
Change in relativities			...	...	...	...		...
2014-15 Half-Yearly Review	**15,844**	**16,758**	**16,896**	**17,679**	**18,316**	**18,941**		**71,832**
Change due to:								
Change in population			32	40	39	39		150
Change in pool			91	(46)	170	260		475
Change in relativities			...	(377)	(682)	(1,066)		(2,125)
2015-16 Budget	**15,844**		**17,020**	**17,295**	**17,842**	**18,173**	**18,790**	**70,330**
Change since 2014-15 Budget			261	(291)	(436)	(755)		(1,221)

GST revenue is estimated to be higher than expected in 2014-15, because of an adjustment payment for the underestimation of the pool in 2013-14, an upward revision to the pool and an upward revision to the NSW population share.

GST payments to New South Wales in the four years to 2017-18 are estimated to be $1.2 billion lower than was expected in the 2014-15 Budget. The lower forecasts for GST revenue payments reflect the net effect of:

- upward revisions to the size of the total GST pool in the Australian Government's 2015-16 Budget
- upward revisions to NSW population share
- offset by a downward revision to NSW relativity following the latest relativity calculations.

The GST pool

The Australian Government revised the GST pool up by $1.5 billion over the four years to 2017-18 in its 2015-16 Budget compared to its 2014-15 Budget. This reflects additional compliance measures from 2016-17 and the extension of the GST to cross border supplies of digital products and services imported by consumers from 1 July 2017.

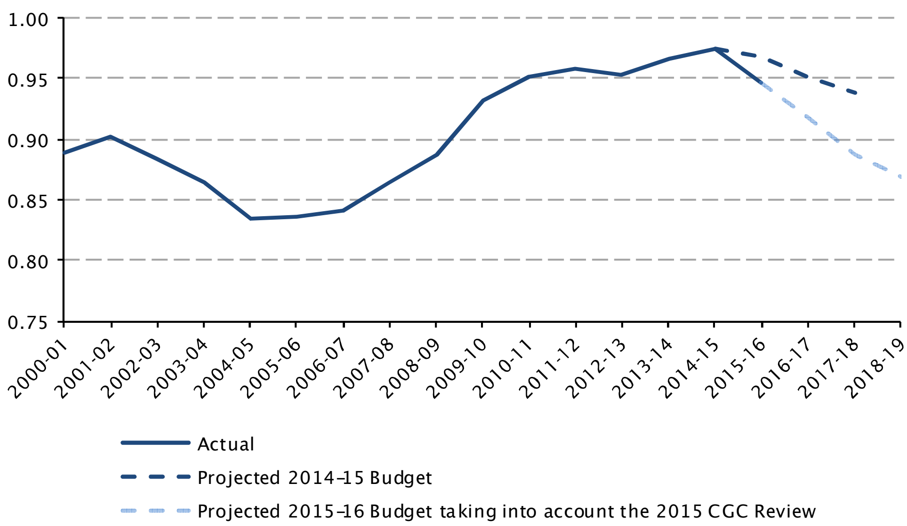
New South Wales GST relativity

NSW GST relativity was lower than expected in 2015-16 and is forecast to decline over the forward estimates (see Chart B4.2) reflecting:

- NSW transfer duty revenue has and is expected to grow more quickly than the national average over the forward estimates which reduces NSW relativity
- weaker mining royalties collected by Western Australia and Queensland increase those state's relativities and lower NSW relativity.

The lower relativity more than offsets the impact of the upward revisions to the NSW population share and GST pools in the forward estimates.

Chart B4.2: New South Wales Per Capita Relativity[(a)]

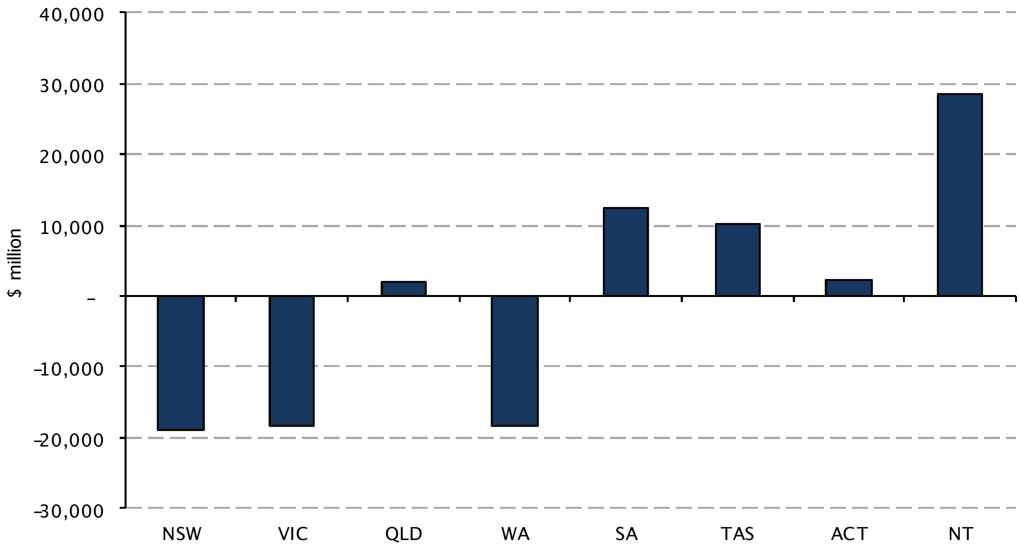


(a) The relativities prior to 2010-11 were calculated based on a five year moving average of annual assessments. In the 2010 Review, the Commission decided to calculate the relativities based on a three year moving average of annual assessments. Prior to 2009-10, the pool was a combined pool of GST revenue and health care grants. This chart is derived on the basis of a pool comprising GST revenue only.

GST redistribution

The redistribution of GST revenue between the states resulting from HFE is most commonly measured by comparing state GST revenue payments with the amount states would have received had the payments been based on state population shares, or equal per capita (EPC). Chart B4.3 shows this total redistribution since the GST was introduced in 2000-01.

Chart B4.3: GST Redistribution since 2000-01



In 2015-16, New South Wales will receive GST revenue payments that are $897 million less than its population share. Victoria and Western Australia will also receive less than their population share of GST revenue payments, while the other States receive GST revenue payments in excess of their population shares.

Box B4.1: 2015 GST Methodology Review

Around every five years the CGC reviews the methods it uses to assess State spending needs and revenue capacities. This is distinct from the annual updates of the relativities, which apply new data to reflect changes in State economic and demographic circumstances to the methodology determined for a particular period.

The main method changes in the 2015 Review include:

- a new urban transport infrastructure component of the capital assessment that recognises State urban transport infrastructure requirements to reflect city size
- assessing mining revenue on a mineral by mineral basis
- including housing services and urban transport services provided through Public Non-Financial Corporations (PNFCs) as a general government function
- a more direct method of assessment for health services. The key expense drivers include the socio-demographic profile of State populations and the impact of the non-State sector
- moving to actual student enrolments for the schools assessment. Australian Curriculum and Reporting Authority data are used to calculate the loadings for higher cost students
- Commonwealth payments and spending on aged care services have no impact on State GST shares
- assessment of additional expenses on community amenities in high growth areas and higher spending on planning and regulation relating to investment.

The Commission also considered the treatment of GST relativities in relation to large and volatile revenue sources at the request of the Australian Treasurer.

The Review recommended that using three-year averaging of the assessment years from the 2010 Review, applied consistently to all assessments, provides the most reliable, practical and fair outcome consistent with achieving HFE.

New South Wales over many years has pointed to the shortcomings of the current methods of implementing fiscal equalisation in Australia. The problems could be rectified by using an equal per capita distribution of GST supplemented by Australian Government provision of equalisation funding to the smaller States.

New South Wales and the other States have suggested that concerns about the principle of HFE and the GST distribution is best explored through the context of the White Paper on the Reform of the Federation.

Other grants and subsidies

The largest components of other grants and subsidies include contributions by State electricity distributors to the Climate Change Fund and own source revenues raised by schools including through Parents and Citizens Associations.

Other grants and contributions are expected to fall from $1.0 billion in 2014-15 to $887 million in 2018-19, a fall of 4 per cent over the four years to 2018-19 on an annual average basis.

Other revenues

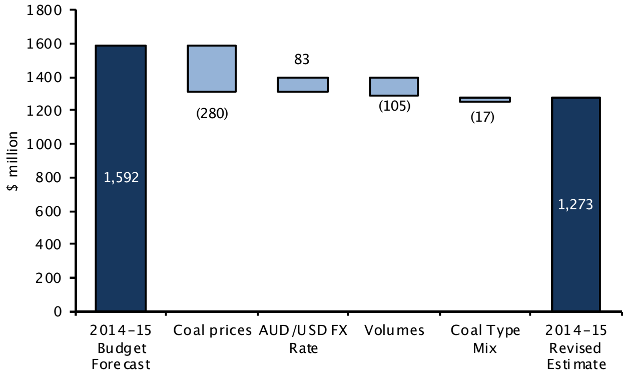
Other general government revenue sources, including sale of goods and services, interest income, dividends and income tax equivalents, royalties, fines, regulatory fees and other revenues account for 20.1 per cent of total revenue in 2015-16.

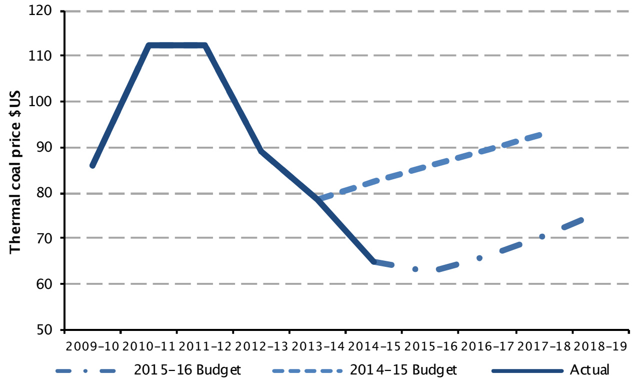
Around 95 per cent of royalties revenue is derived from coal. The key determinants of coal royalties are the volume of coal exports, international coal prices and the exchange rate.

Royalties in the four years to 2017-18 are now expected to be around $1.1 billion less than expected in the 2014-15 Budget, reflecting lower coal prices which have been partially offset by a lower Australian-US dollar exchange rate.

A disaggregated breakdown of the differences from Budget expectations in 2014-15 and changes in the thermal coal price is shown in Charts B4.4.

Chart B4.4: Royalty Revenue Influences





Average annual revenue growth from mineral royalties is expected to be 12.4 per cent in 2015-16 and 12.1 per cent per annum in the four years to 2018-19.

Key factors underpinning this forecast include continuing weak coal prices, growth in coal export volumes and a lower Australian dollar against the US dollar (which results in an increase in royalties) over the forward estimates.

Further detail on revenue can be found in Chapter 5: Budget Position and Outlook and Appendix B5: 2014-15 Budget – Outcome and Summary of Variations.

Table B4.2: Major National Partnerships signed by New South Wales[1]

Agreement Name	2014-15 Revised $m	2015-16 Budget $m	Purpose
Health			
Essential Vaccines	66	43	This agreement supports the cost effective delivery of immunisation programs, reducing the incidence of vaccine preventable diseases in the population.
Health and Hospital Infrastructure – Regional Priority Rounds Projects	311	2	This agreement supports the redevelopment of selected regional hospitals in New South Wales. Project examples include the partial redevelopment of the Dubbo Base Hospital and the redevelopment of the Wagga Wagga Base Hospital to increase capacity.
Public Dental	39	...	This agreement helps alleviate pressures on public dental waiting lists.
Supporting Mental Health Reform	14	14	This agreement delivers improved health, social, economic and housing outcomes for individuals in New South Wales with severe and persistent mental illness by addressing service gaps and preventing ongoing cycling through the State mental health system.
Education and Skills			
Early Childhood Education	163	40	This agreement supports the delivery of universal access to quality early childhood education in the year before schooling, including for Indigenous and disadvantaged children.
Increased Local Decision Making in NSW Public Schools	10	7	This agreement supports increased authority in government schools, through greater engagement of local communities and parents.
More Support for Students with Disabilities	14	...	This agreement provides better support for students with disabilities via targeted funding for schools and teachers.
National School Chaplaincy Programme	11	11	The National School Chaplaincy Programme supports the emotional wellbeing of Australian school students.
National Quality Agenda for early childhood education and care	13	...	This agreement supports implementation of the National Quality Agenda for early childhood education and care, which incorporates the National Quality Standard, Early Years Learning Framework, rating system and associated regulatory system.
Skills Reform	142	121	This agreement supports reform of the Vocational Education and Training (VET) system to help deliver a productive and highly skilled workforce which contributes to Australia's economic future, and enable all working age Australians to develop the skills and qualifications needed to participate effectively in the labour market.
Trade Training Centres in Schools	26	6	This agreement provides students access to high quality, industry-standard trade training facilities. This will encourage students to complete school studies, and create opportunities for further education and training and future employment.

[1] This table excludes National Partnership Agreements worth less than $1million per year over the two years 2014-15 to 2015-16.

Agreement Name	2014-15 Revised $m	2015-16 Budget $m	Purpose
Community Services			
Pay Equity for Social and Community Services sector	12	18	This agreement assists eligible Service Providers to meet increased wages under the Pay Equity Orders.
Transitioning Responsibilities for Aged Care and Disability Services	62	71	This agreement provides cross billing arrangements between the Commonwealth and New South Wales for disability and aged care services.
Housing			
Homelessness (recurrent)	36	30	This agreement sustains the commitment to reducing homelessness in New South Wales.
Remote Indigenous Housing	62	16	This agreement facilitates significant reform in the provision of housing for Indigenous people in remote communities and to address overcrowding, homelessness, poor housing conditions and severe housing shortages.
Transport			
Interstate Road Transport	33	33	This agreement provides funding that is equal to total revenue received from registrations made under the Federal Interstate Registrations Scheme for interstate roads.
National Land Transport	1,532	1,769	This agreement assists economic and social development regionally and nationally by providing funding for rail and road infrastructure.
Nation Building Transport Blackspots	17	51	This agreement supports improvements in the safety of road sites which have been identified as high risk areas for serious crashes.
Environment			
Implementing Water Reform in the Murray Darling Basin	15	13	This agreement ensures that Murray-Darling Basin water reforms are implemented in the national interest of a healthy working river system, strong communities and sustainable food and fibre production.
Water for the Future	60	134	This agreement promotes more efficient water use and helps prepare communities for climate change.
Other			
Legal Assistance Services	65	75	This agreement supports a national system of legal assistance that is integrated, efficient and cost effective, and focused on providing services for disadvantaged individuals in accordance with access to justice principles of accessibility, appropriateness, equity, efficiency and effectiveness.
Natural Disaster Relief and Recovery	...	141	This agreement assists with the relief and recovery assistance following eligible natural disasters.
Natural Disaster Resilience	7	10	This agreement assists NSW communities in building resilience and self-reliance to natural disasters.
Infrastructure			
Asset Recycling Initiative[2]	...	...	This agreement assists increased investment in productivity enhancing infrastructure by encouraging the sale of state-owned assets to unlock funds and recycle the capital into additional infrastructure.

[2] The Asset Recycling Initiative is expected to provide a total of nearly $2 billion to New South Wales, with payments commencing in 2015-16.

General Government Expenses

This section provides further detail on each category of general government expenses.

Employee-related Expenses

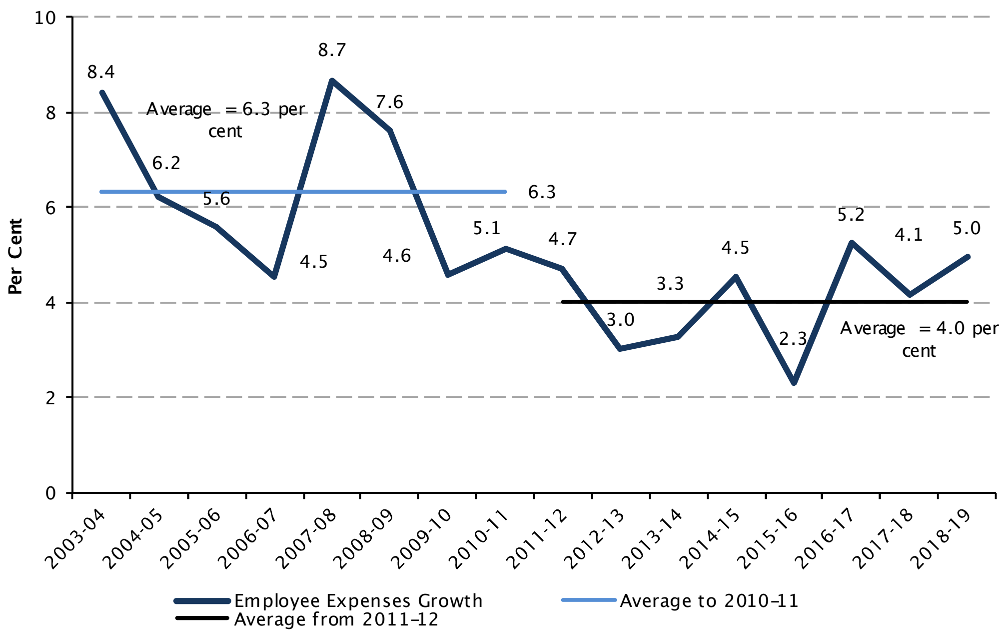
Employee expenses are comprised largely of wages and salaries and superannuation expenses. Given employee expenses is the largest category of expenditure, managing growth in employee costs while meeting standards of service delivery is a critical element of the Government's fiscal strategy.

Table B4.3: Total 4 year average growth in employee expenses (ex Superannuation)

	2013-14 Actual	2014-15 Revised	2015-16 Budget	2016-17	2017-18	2018-19
				Forward Estimates		
Employee expenses (ex. super) ($m)	27,056	28,287	28,936	30,452	31,715	33,288
Annual Growth (%)	3.3	4.5	2.3	5.2	4.1	5.0
4-year average growth (%)	4.0	3.9	3.3	3.8	4.1	4.2

Table B4.3 shows that non-superannuation employee expenses increase over the budget and forward estimates. This reflects a combination of both the natural growth in wages of 2.5 per cent as discussed below, as well as an increase in public sector employees as the Government takes on more programs and projects, requiring additional staff. Despite the volatility in annual growth in employee expenses, the four year average growth has remained relatively constant at around 4 per cent over the forward estimates.

Chart B4.5: Employee expenses growth 2003-04 to 2018-19



The combination of government initiatives, spanning 2011 to the present, including the NSW Public Sector Wages Policy, the Labour Expense Cap, and the revised Managing Excess Employees Policy, have driven employee expenses growth to historic lows. As shown in Chart B4.5, average growth in employee expenses for the eight years before 2011-12 was 6.3 per cent while the eight years from 2011-12 growth is expected to be 4.0 per cent, a fall of 2.3 percentage which is due, in part, to the government's initiatives.

Other operating expenses

Other operating expenses are the non-labour costs of providing public services and include repairs and maintenance, medications in hospitals, books in schools, fuel for police vehicles, consultants, contractors, electricity and communications.

Other operating expenses are expected to grow by 19.7 per cent in 2015-16 but this growth will moderate from 2015-16 to 2018-19 with an average of 0.5 per cent. The substantial increase in other operating expenses in 2015-16 is due to reclassification arising as a result of the purchaser-provider relationship with the Public Trading Enterprise (PTE) sector, created with the establishment of the Transport Asset Holding Entity. More moderate growth in contractors and consultant expenses and savings measures from past years now is taking effect, contributing to the slowdown over the budget year and forward estimates.

Current grants and subsidies

Current grants include subsidies for non-government schools, community organisations and local governments, as well as operating subsidies for transport. Many of the larger grant expenses reflect Commonwealth Specific Purpose Payments.

Current grants and subsidies are approximately 15.9 per cent of total expenses in 2015-16. This is expected to grow by 9 per cent in 2015-16 and then decrease substantially over the forward estimates.

Capital grants

Capital grants include transfers to PTEs and other non-government entities for capital purposes. They cover both cash and non-cash grants (such as the donation of land and infrastructure assets) and vary from year-to-year depending on the level of infrastructure activity.

Capital grant expense is expected to fall by 68.3 per cent in 2015-16 and continue to fall moderately over the forward estimates as a result of the establishment of the Transport Asset Holding Entity.

Depreciation and amortisation

Depreciation and amortisation (D&A) expense reflects the consumption of government assets through normal usage, wear and tear and obsolescence. D&A expense is expected to grow by 6.6 per cent in 2015-16. Growth in this category primarily reflects ongoing investment into critical infrastructure. Consequently, growth over the forward estimates is largely driven by depreciation of infrastructure assets held in the Transport cluster.

The share of D&A in total expenses increased from 5.0 per cent in 2011-12 to 6.4 per cent in 2015-16, and is expected to remain near that proportion over the forward estimates.

Interest

Interest expenses include interest paid on borrowings to acquire capital assets and infrastructure. With its triple-A credit rating, NSW is able to attain a relatively low cost on borrowings and the unwinding of discounts on provisions, assisted by record low interest rates. This is a key factor in the interest expense forecast falling by 1.1 per cent in 2015-16 and increase by 0.2 per cent on average over the four years to 2018-19. As a share of total expense, interest expenses are expected to average approximately 3.1 per cent over the budget and forward estimates.

Appendix B5: 2014-15 Budget – Outcome and Summary of Variations

Budget outcome for 2014-15

The Budget result for 2014-15 is estimated to be a surplus of $2.1 billion compared with a budgeted deficit of $283 million.

Total revenue is estimated to be $69.1 billion which is $2 billion or 3.0 per cent higher than the original budget estimate of $67.1 billion.

Total expenses are estimated to be $67.1 billion which is $311 million or 0.5 per cent lower than the original budget estimate of $67.4 billion.

A detailed explanation of revenue and expense variances by line item is set out in the attached table.

Summary of Variations

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Revenue from Transactions				
Taxation				
Transfer Duty	6,095	7,290	1,195	Increases in the volume of transactions and strong price growth has driven a significant increase in Transfer Duty.
Payroll Tax	7,745	7,454	(291)	Weaker employment conditions than originally forecast has led to a downwards revision in Payroll Tax.
Gambling and Betting	2,090	2,059	(30)	A Casino levy payment has been reprofiled to 2015-16. This has been offset in part by stronger revenue from club and hotel gaming devices.
Other Duties and Taxes	9,559	9,242	(317)	Aggregated net minor variances.
Total Taxation	**25,489**	**26,046**	**557**	
Commonwealth Grants				
General Purpose				
GST Revenue Grants	16,758	17,020	262	An upward revision to the GST pool and an adjustment for the underestimation of the pool in 2013-14 has meant that GST revenue has exceeded amounts forecast in the 2014-15 Budget.
Other General Purpose Grants	52	45	(7)	Minor variance to the Snowy Hydro Limited tax compensation.
Total General Purpose Grants	**16,810**	**17,065**	**255**	
National Agreements				
Ministry of Health	4,789	4,861	72	National Health Reform Agreement (NHRA) revenue from the Australian Government has been updated to reflect the most recent activity levels.
Department of Education	1,552	1,606	55	National Education Reform Agreement (NERA) revenue from the Australian government has been adjusted to reflect revised enrolment information.
Other National Agreements	1,488	1,606	118	Aggregated net minor variances.
Total National Agreements	**7,829**	**8,073**	**244**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
National Partnership Payments				
Transport for NSW	1,417	1,582	165	Adjustments to the Tintenbar to Ewingsdale and Woolgoolga to Ballina (Pacific Highway) projects has increased the amount of revenue received from the Australian Government in 2014-15. This has been offset in part by the reprofiling of the M1 Productivity package and the Bridges Renewal Program.
Ministry of Health	433	523	91	Funding for the Health and Hospital Infrastructure National Partnership Payment has been provided early from the Australian Government in 2014-15 instead of in future years.
Department of Education	304	383	78	The funding profiles of a number of Education NPPs were adjusted in the Australian Government Mid-Year Economic and Fiscal Outlook and Budget. This primarily affects the Skills Reform, National Schools Chaplaincy, Increased Local Decision Making and Trade Training Centres in Schools Agreements by bringing forward revenue from future years.
Department of Industry, Skills and Regional Development	139	92	(47)	A number of negotiations with stakeholders and the Australian Government has resulted in funding for the Water for the Future NPP being moved from 2014-15 to 2015-16.
Natural Disaster Relief and Recovery Arrangements	94	...	(94)	Funding from the Commonwealth has been delayed from 2014-15 to 2015-16 to allow the Commonwealth to perform an audit of natural disaster expenditure across the country.
Other National Partnership Payments	245	249	4	Aggregated net minor variances.
Total National Partnership Payments	**2,632**	**2,829**	**197**	
Other Grants and Subsidies				
Other Grants and Subsidies	1,029	1,045	17	Aggregated net minor variances.
Total Other Grants and Subsidies	**1,029**	**1,045**	**17**	
Total Grants and Subsidies	**28,301**	**29,013**	**712**	
Sales of Goods and Services				
Transport for NSW	667	754	87	The new employment arrangements arising from the *Government Services Employment Act 2013* have resulted in the collection of additional personnel services revenue from the State Transit Authority and Rail Corp.
TAFE Commission	420	364	(56)	Lower revenue has been received for commercial activity and delivery of training to schools, migrant education and industry programs than originally forecast.
Roads and Maritime Services	476	610	134	Higher project development costs have been recouped for Westconnex.
NSW Self Insurance Corporation	126	205	79	Higher than expected reinsurance recoveries and movement in reinsurance recoveries receivable in line with actuarial valuations has driven this increase over the original forecast.
Other	4,406	4,420	14	Aggregated net minor variances.
Total Sales of Goods and Services	**6,094**	**6,352**	**258**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Interest Income				
Crown Finance Entity	255	323	69	Interest revenue has increased in line with higher general government cash balances, mainly resulting from divestment of Government assets and better-than anticipated budget outcomes.
Workers' Compensation (Dust Diseases) Board	23	36	13	This increase is due to better than expected performance in investment markets.
Other	265	292	27	Aggregated net minor variances.
Total Interest Income	**543**	**651**	**109**	
Dividend and Income Tax Equivalent Income from Other Sectors	**2,336**	**2,410**	**74**	
Other Dividends and Distributions				
Long Service Corporation	...	54	54	Higher distributions are a result of the strong performance of investments.
NSW Self Insurance Corporation	264	602	338	These distributions are a result of the strong performance of the Treasury Managed Fund investment facility.
Other	107	124	17	Aggregated net minor variances.
Total Other Dividends and Distributions	**370**	**779**	**409**	
Fines, Regulatory Fees and Other Revenue				
Roads and Maritime Services	318	398	80	Reimbursement from the Australian Government related to the National Heavy Vehicle Regulator has been updated to reflect revised expenditure forecasts.
Builders Insurers' Guarantee Corporation	...	27	27	Additional distributions have been received from the HIH liquidators.
Local Land Services	15	47	32	Additional Australian Government funding for the Landcare program as part of a fee for service arrangement.
Office of State Revenue	548	575	27	The amount of unclaimed moneys has been revised since the 2014-15 Budget.
Mining Royalties	1,592	1,273	(319)	Forecast coal royalties have fallen due to changes to price and volume.
Other	1,508	1,572	64	Aggregated net minor variances.
Total Fines, Regulatory Fees and Other Revenue	**3,981**	**3,892**	**(89)**	
TOTAL REVENUES	**67,113**	**69,143**	**2,029**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Expenses from Transactions				
Employee				
Transport for NSW	1,296	1,483	187	The new employment arrangements arising from the *Government Services Employment Act 2013* has resulted in the Department incurring additional personnel services expense on behalf of the State Transit Authority and Rail Corporation.
Department of Finance, Services and Innovation	679	648	(31)	Delays in recruitment and vacant positions across the Office of State Revenue, Safety Return to Work and other divisions have led to lower employee related expenses.
Roads and Maritime Services	20	(244)	(263)	Labour costs associated with construction and other capital projects are reallocated to capital expenditure, not anticipated in the Budget.
NSW Self Insurance Corporation	569	527	(42)	A lower average cost of workers compensation claims have allowed a reduction in the claims expense.
Other	25,788	25,873	84	Aggregated net minor variances.
Total Employee	**28,351**	**28,287**	**(64)**	
Superannuation				
Transport for NSW	...	73	73	The new employment arrangements arising from the *Government Services Employment Act 2013* has resulted in the Department incurring additional superannuation liabilities on behalf of the State Transit Authority and Rail Corp.
Crown Finance Entity	1,414	1,615	201	This has been driven by a gross-up of defined benefit superannuation liabilities for 15% contributions tax in-line with revised accounting standards (AASB 119) and a reduction in the 10 year Commonwealth bond rate used to discount the value of defined benefit superannuation liabilities.
Other	73	11	(62)	Aggregated net minor variances.
Total Superannuation Interest Cost	**1,487**	**1,698**	**211**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Other Superannuation				
Transport for NSW	68	97	29	The new employment arrangements arising from the *Government Services Employment Act 2013* has resulted in the Department incurring additional superannuation liabilities on behalf of the State Transit Authority and Rail Corp.
Crown Finance Entity	551	688	137	Other superannuation expenses (service cost on defined benefit superannuation liabilities) have increased to $688 million mainly due to gross-up of defined benefit superannuation liabilities for 15% contributions tax in-line with revised accounting standards (AASB 119). A reduction in the expected Commonwealth bond rate used to value defined benefit superannuation liabilities has also contributed to the increase.
Other	2,079	2,054	(25)	Aggregated net minor variances.
Total Other Superannuation	**2,698**	**2,839**	**141**	
Depreciation and Amortisation				
Transport for NSW	220	196	(24)	Revised estimates for the amortisation of intangibles reflect the agency's reprofiled ICT investment program.
Ministry of Health	674	645	(29)	Revised estimates for the amortisation of intangibles reflect the agency's reprofiled ICT investment program.
NSW Police Force	156	134	(22)	The reduction in depreciation has been driven by the reprofiling of police capital expenditure.
Other	3,192	3,190	(2)	Aggregated net minor variances.
Total Depreciation and Amortisation	**4,242**	**4,165**	**(77)**	
Interest				
Crown Finance Entity	1,446	1,529	84	An increase in costs following assumption of legacy debt has resulted in higher interest expenses.
NSW Self Insurance Corporation	335	292	(43)	Unwinding of the associated interest discount on provisions.
Workers' Compensation (Dust Diseases) Board	97	49	(47)	Unwinding of the associated interest discount on provisions.
Other	421	398	(23)	Aggregated net minor variances.
Total Interest	**2,298**	**2,268**	**(30)**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Other Operating				
New South Wales Electoral Commission	71	101	29	Reimbursement fees for political parties arising from the 2015 State Election were originally budgeted to occur in 2015-16. Instead, a number of parties have submitted requests for reimbursement in 2014-15.
Transport for NSW	1,542	1,607	65	Higher than expected costs for projects managed by TfNSW on behalf of other entities. These costs are fully recouped.
Ministry of Health	4,985	4,965	(20)	New South Wales provides a reimbursement when residents are treated by a hospital in another state. This underspend is associated with a lower level of cross-border patient expenses.
Department of Education	2,012	1,863	(149)	This underspend is primarily associated with lower Australian Government funded expenses due to timing adjustments to several National Partnerships.
TAFE Commission	307	452	145	TAFE figures have been adjusted post the 2014-15 to finalise the separation of TAFE from the Department of Education.
Department of Family and Community Services	352	309	(43)	Underspends have been reallocated into Out of Home Care expenses, as well as into future years for the Metro residences transition.
Roads and Maritime Services	776	932	156	Higher WestConnex project development costs, costs associated with for the National Heavy Vehicle Regulator, and funds from hypothecated weight tax and commercial revenue being allocated to maintenance and a Land and Environment Court decision resulting in higher costs related to the Manly Wharf acquisition.
Department of Industry, Skills and Regional Development	764	705	(60)	Reduced and reprofiled Australian Government funding in 2014-15 for the Metering State Priority Project and a delay in the Basin Pipes and Healthy Floodplains project has resulted in a reduction in operating expenses.
Office of Environment and Heritage	180	202	23	Increased expenditure for bush fire related activities. This increase is offset by a corresponding increase in insurance recovery revenue.
Other	3,630	3,545	(85)	Aggregated net minor variances.
Total Other Operating	**14,620**	**14,680**	**61**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Grants and Transfers				
Current Grants and Transfers				
Transport for NSW	2,054	2,175	121	Redundancy payments and one-off salary maintenance costs of rail entities has resulted in an increase in grant payments to Transport for NSW.
Ministry of Health	1,101	1,158	57	Grants to Third Schedule Hospitals and Albury Wodonga Health to provide healthcare services has increased, as agreed in-year based on executive negotiations.
Crown Finance Entity	406	203	(202)	The rephasing of Restart NSW grants to local government and external entities and technical adjustments to natural disaster and redundancy funding to the PTE sector has reduced current grants and transfers.
Department of Education	1,767	1,481	(286)	Timing adjustments to Commonwealth National Partnerships has resulted in lower expenses in 2014-15.
Office of the NSW Rural Fire Service	42	73	31	Higher levels of fire activity in 2014-15 led to an increase in natural disaster expenditure.
Department of Family and Community Services	3,241	3,213	(28)	Funding for the Remote Indigenous Housing National Partnership has been adjusted by the Australian Government, and is subsequently reflected in the Department's grant expenses.
Roads and Maritime Services	350	434	84	Recognition of NSW contributions to the National Heavy Vehicle Regulator agreed with the Commonwealth, and funding for grants to off-network road projects and local roads for the Western Sydney Infrastructure Plan.
Department of Industry, Skills and Regional Development	366	323	(43)	Expenses under the State Investment Attraction Scheme and the Regional Industries Investment Fund have been reallocated to future years.
Hunter Development Corporation	37	...	(37)	Aboriginal land claims, artefact analysis, planning and legal issues have resulted in an delay in the Hunter Infrastructure Investment Fund grants to local councils and the University of Newcastle.
NSW Self Insurance Corporation	86	115	29	Higher commission costs in relation to Home Building Compensation Fund (HBCF) in line with the increase in gross written premiums for business as a result of building activity upturn in NSW.
Other	976	1,003	28	Aggregated net minor variances.
Total Current Grants and Transfers	**10,426**	**10,179**	**(247)**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
Capital Grants and Transfers				
Transport for NSW	2,505	2,233	(271)	Changes to the profile of a number of rail capital projects.
Office of the NSW Rural Fire Service	105	81	(24)	Capital grants for firefighting equipment have been reprofiled into future years.
Other	665	654	(10)	Aggregated net minor variances.
Total Capital Grants and Transfers	**3,274**	**2,969**	**(306)**	
Total Expenses From Transactions	**67,396**	**67,085**	**(311)**	
BUDGET RESULT – SURPLUS/(DEFICIT)	**(283)**	**2,058**	**2,340**	
Capital Expenditure				
Department of Premier and Cabinet	7	36	29	Additional funding was provided for the fit out for the new 52 Martin Place premises, including a provision for end of lease restoration costs.
Service NSW	87	67	(20)	Reprofiling of the Service NSW capital works program to better reflect the requirements for new Service Centres.
Transport for NSW	2,963	2,846	(118)	A number of various transport related programs have reprofiled expenditure into future years.
Ministry of Health	1,170	1,237	67	Favourable construction conditions have led to an acceleration of various health projects.
Department of Justice	282	228	(54)	Significant underspends in the Alcohol Related Violence program, and a number of delays due to bad weather and poor soil conditions have resulted in reduced capital expenditure in 2014-15. This has been offset in part by the acceleration of some fire and life-saving upgrades for regional and rural courts.
Department of Finance, Services and Innovation	372	316	(56)	A delay on the Office of State Revenue accommodation strategy, a reduction in State Fleet purchases, and ICT project timing adjustments has resulted in a reduced capital expenditure in 2014-15.
NSW Police Force	178	145	(33)	Capital expenditure on various projects has been reallocated in to future years.
Department of Education	405	359	(46)	Delayed project approvals from the Australian Government has resulted in capital expenditure under the Trade Training Centres National Partnership moving into future years.
Department of Family and Community Services	260	217	(43)	Costs associated with the unified ERP system and other frontline systems replacement have been reprofiled into future years.
Roads and Maritime Services	3,650	3,454	(196)	Re-profiling of capital expenditure on various transport related programs, driven in part by adjustments to Australian Government programs.
Other	831	706	(125)	Aggregated net minor variances.
Total Capital Expenditure	**10,203**	**9,610**	**(593)**	

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	$m	$m	$m	
OTHER KEY FISCAL AGGREGATES				
Sales of Non-Financial Assets				
Transport for NSW	38	8	(30)	Assets previously included in the disposal program will now be retained for future projects.
Other	444	461	16	Aggregated net minor variances.
Total Sales of Non-Financial Assets	**482**	**469**	**(13)**	
Depreciation				
Other	4,242	4,165	(77)	Reprofiled capital investment in Transport for NSW, the Ministry of Health and the NSW Police Force.
Total Depreciation	**4,242**	**4,165**	**(77)**	
Change in Inventories	**4**	**(4)**	**(8)**	
Assets Acquired Using Finance Leases	**113**	**131**	**19**	
Other Movements in Non-Financial Assets				
Transport for NSW	(2,135)	(1,876)	259	Reprofiling of non-cash capital grants to Rail Corp.
Minister Administering the Environmental Planning and Assessment Act	(63)	(18)	45	Reprofile of non-cash land grants to local government.
Other	150	176	26	Aggregated net minor variances.
Total Other Movements in Non-Financial Assets	**(2,049)**	**(1,719)**	**330**	
NET LENDING	**(3,717)**	**(1,196)**	**2,520**	

Appendix B6: Tax Expenditure and Concessional Charges Statement

The granting of more favourable tax treatment or a lower fee or service charge to certain individuals, groups or organisations provides a mechanism through which governments can pursue certain policy objectives. The inclusion of tax expenditures and concessions in the Budget recognises that such special tax or fee treatment is economically equivalent to increasing expenses, and has the same effect on the Budget's bottom line. A list of tax expenditures and concessional charges is provided in the following pages and, where possible, estimates of the costs associated with each of the major items is provided to assist comparison with the budgetary cost of direct outlays.

The tax expenditure estimates presented in this appendix measure the additional tax that would have been payable if 'benchmark' (or standard) tax structures had been applied to all taxpayers and economic behaviour had remained unchanged. Tax expenditures arise from deviations from the benchmarks, including tax exemptions, allowances and deductions, reduced tax rates, deferral of tax liabilities and tax credits.

Concessional charges are included for government agencies that provide goods and services to certain users at a lower fee or charge than to the wider community, in pursuit of economic or social policy goals. Such agencies may receive support directly from the Budget or indirectly through a reduction in their obligations to make dividend or other payments. These concessions have a budget cost, regardless of whether they are the subject of a specific intra-government transfer.

An element of judgement is required in delineating the 'concessional' and 'structural' features of a particular tax or service delivery scheme. The approach adopted in this appendix is to treat the general application of a tiered tax schedule or charging regime as a structural element – that is, it forms part of the benchmark rather than a concession to those paying less than the highest marginal rate of tax. Similarly, the existence of lower fares for children travelling on public transport, is regarded as part of the benchmark rather than as a concession. However, subsidised travel for eligible school children and senior citizens is treated as a concession.

Caution should be exercised when using the estimates in this appendix. For example, there may be inter-jurisdictional differences, reflecting the adoption of different definitions of the 'structural' and 'concessional' elements of particular taxes and charges. It is also important to recognise that the estimates do not measure the amount of additional revenue that could be collected if the concessional treatment were abolished, nor do they provide a reliable indication of the economic costs and benefits. This is because the concessions themselves cause changes in behaviour patterns and levels of activity that would not persist in their absence.

Overview of the Estimates

In 2014-15, total measured tax expenditures and concessions are expected to amount to $8.8 billion, or 12.7 per cent of total NSW revenue.

Tax Expenditures

Table B6.1 provides a summary of major tax expenditures provided by the NSW Government, that is, those valued at $1 million or greater, classified by the main revenue heads. The estimates are for the financial years 2013-14, 2014-15 and 2015-16, except for land tax which uses calendar years 2014, 2015 and 2016. The total value of major tax expenditures is estimated at $6.5 billion or 23.2 per cent of tax revenue in 2015-16.

Table B6.1: Major Tax Expenditures by Type

Tax	2013-14		2014-15		2015-16	
	Tax Exp. $m	Tax Exp. as % of tax revenue collected	Tax Exp. $m	Tax Exp. as % of tax revenue collected	Tax Exp. $m	Tax Exp. as % of tax revenue collected
Transfer Duty	2,587	42.8	2,123	29.1	1,733	22.1
General and Life Insurance Duty	876	98.0	894	99.2	929	99.5
Mortgage Duty	152	85.1	214	102.9	181	90.0
Marketable Securities Duty	82	113.8	59	118.0	43	72.9
Payroll Tax	1,333	18.8	1,375	18.4	1,427	18.2
Land Tax	656	28.1	688	27.6	742	27.9
Taxes on Motor Vehicles	491	17.3	496	16.6	520	16.6
Gambling and Betting Taxes	788	41.3	810	39.3	834	37.1
Parking Space Levy	60	58.8	65	61.9	66	61.7
Total	**7,025**	**28.9**	**6,724**	**25.8**	**6,475**	**23.2**

The fall in total tax expenditure in 2015-16 reflects a reduction in the value of transfer duty exemptions and concessions. This transfer duty component is dominated by the exemption from duty provided for corporate reconstructions, that is, for changes to the corporate legal structure or transfer of assets between different legal entities within a corporate group.

In 2014-15, corporate reconstructions are expected to account for around $1.7 billion of tax expenditures, representing approximately 78 per cent of transfer duty tax expenditures, or 24.6 per cent of all tax expenditures. In recent years, the value of these exemptions has been strongly influenced by a relatively small number of large corporate reconstructions, the timing and magnitude of which are highly variable. The contribution from these large transactions declined significantly in 2014-15, and a further decline has been assumed for 2015-16.

Excluding transfer duty exemptions for corporate reconstructions, total tax expenditures are expected to rise by $178 million in 2015-16, following a rise of $265 million in 2014-15.

Concessions

Table B6.2 classifies by function the major concessions provided by the NSW Government. The total value of major concessions, primarily to pensioners, older Australians and school students, is estimated at $2.1 billion in 2015-16.

Table B6.2: Concessions by Function

Function	2013-14 $m	2014-15 $m	2015-16 $m
Public Order and Safety	10	10	11
Education	668	685	704
Health	223	237	242
Housing and Community Amenities	472	486	525
Recreation and Culture	16	16	16
Agriculture, Forestry, Fishing and Hunting	4	4	4
Transport and Communications	581	637	621
Total	**1,974**	**2,075**	**2,123**

Education concessions, the major component of which is the school student transport scheme, account for around one-third of the total estimated cost of concessions. Transport and Communications concessions, the major component of which is transport concessions to pensioners, seniors and welfare beneficiaries, accounts for around 30 per cent of the total cost of concessions.

Housing and Community Amenities concessions account for around one-quarter of the total cost of concessions and includes concessional charges to low income households and pensioner concession card holders for water, energy and council rates.

Detailed Estimates of Tax Expenditures

Transfer Duty (including "Landholder" Duty)

The benchmark tax base includes all transfers of dutiable property as defined in Chapter 2 of the *Duties Act 1997*, including NSW land, business assets, partnership interests, and statutory licences and permissions under NSW law. Indirect acquisition of land under Chapter 4 of the *Duties Act 1997* (landholder duty) is also included.

The benchmark tax structure comprises a tiered rate scale with marginal tax rates varying from 1.25 to 5.5 per cent over 6 steps. A premium marginal rate of 7 per cent applies for residential property valued above $3 million.

Transfer Duty – Major Tax Expenditures [1]	**2013-14 $m**	**2014-15 $m**	**2015-16 $m**
Business			
Corporate reconstructions An exemption is granted for transactions between corporations within a corporate group, subject to criteria set out in Chapter 11, Part 1 of the *Duties Act 1997*.	2,223	1,657	1,230
Change in Trustee, Custodian or Responsible Entity Nominal duty only is payable on the transfer of property as a result of a change in trustee, custodian or responsible entity of a trust, special disability trust, superannuation fund, or managed investment scheme.	79	143	161
Charitable/non-profit organisations/clubs			
An exemption is granted for transactions of charitable or benevolent organisations, as set out in Section 275 of the *Duties Act 1997*.	21	52	55
Government			
Councils and county councils The transfer of property to a council or county council is exempt under the *Local Government Act 1993*.	8	6	7
Individuals/families			
First Home-New Home Scheme Exemptions and concessions are provided to eligible first home buyers for the construction or purchase of a newly built home up to a value of $650,000 or vacant land for homebuilding up to $450,000.	121	114	122

[1] For reference purposes, where "n.a." appears in any table, it means that the tax expenditure is estimated to cost more than $1 million but is not able to be costed due to a lack of data. Where the table includes an ellipsis (...) the tax expenditure has a zero value in that year.

Transfer Duty – Major Tax Expenditures [1]	2013-14 $m	2014-15 $m	2015-16 $m
Transfer of residences between spouses or de facto partners An exemption is granted, subject to the property being their principle place of residence and jointly held after transfer.	21	24	26
Transfers of matrimonial property consequent upon divorce An exemption is provided for transfers of property in the break-up of marriage, de facto or domestic relationships under the *Family Law Act 1975 (Cth)*.	81	88	95
Home Builders Bonus transfer duty concession Until 30 June 2012, an exemption was provided for purchases of dwellings up to a value of $600,000 or vacant land for homebuilding up to $400,000 where construction had not commenced.	3	1	…
'Off the plan' purchases Duty may be deferred until completion of the sale or 12 months after the contract, whichever occurs first.	n.a.	n.a.	n.a.
Other transfers of property that are exempt or attract nominal duty only			
▪ Transfer from deceased persons to beneficiaries in the estate	n.a.	n.a.	n.a.
▪ Transfer relating to persons changing superannuation funds	n.a.	n.a.	n.a.
▪ Transfer from owners to their self-managed superannuation fund	n.a.	n.a.	n.a.
Rural			
Intergenerational rural transfers An exemption is granted for transfers of rural land used for primary production between generations, and between siblings, to facilitate younger family members taking over family farms.	29	33	35
Concession for Primary Producers An exemption is provided for acquisition of an interest in a primary producer that is not 'land rich' (Section 163D of the *Duties Act 1997).*	…	3	…
Other			
Other Legislation An exemption is granted in other legislation for certain transfers of dutiable property.	1	2	2

Transfer Duty – Minor Tax Expenditures (< $1 million)

The following are exempt from transfer duty:

- transfers of title to poker machine permits where there is no change in beneficial ownership
- approved equity release schemes for aged home owners
- certain purchases of manufactured relocatable homes (caravans)
- transfers of property held in trust by order under Section 66G of the *Conveyancing Act 1919*
- the vesting of common property in a body corporate on the registration of a strata plan or strata plan of subdivision under the *Strata Schemes (Freehold Development) Act 1973* or the *Strata Schemes (Leasehold Development) Act 1986*
- call option assignments, subject to certain conditions
- certain transfers to incorporated legal practices or incorporated pharmacy practices
- transfer of a liquor licence in certain circumstances under the *Liquor Act 2007*
- transfer of property related to a joint government enterprise that has the function of allocating funds for water savings projects
- purchase of a principal place of residence by tenants of Housing NSW, the Community Housing Program administered by Housing NSW and the Aboriginal Housing Office
- transfers by a trustee back to a former bankrupt of their estate
- transfers by way of mortgage or discharge of mortgage of old system titled properties
- transfers where public hospitals are the liable party
- transfers of properties gifted to a special disability trust
- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*, not connected with a trading undertaking
- transfers for the purpose of amalgamation of clubs under the *Registered Clubs Act 1976*
- instruments executed by or on behalf of agencies within the meaning of the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947
- transfers between associations of employees or employers registered under the *Workplace Relations Act 1996 (Cth)* for the purpose of amalgamation
- transfer of property to the NSW Aboriginal Land Council, Regional Aboriginal Land Council, or Local Aboriginal Land Council
- transfers of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Act 1987*
- transfer of a principal place of residence from a corporation or special trust to certain individuals, or the transfer of any land owned by a special trust since 11 September 1990 to certain persons.

Concessional duty is charged in relation to:

- acquisitions in unit trust schemes, private companies or listed companies with land holdings in New South Wales of $2,000,000 or more, where the acquisition is for the purpose of securing financial accommodation
- buy-back arrangements of widely held unit trust schemes for the purpose re-issuing or re-offering the units for sale, subject to certain criteria
- amalgamations of certain Western Lands leases under the *Western Lands Act 1901* where transfer duty has been paid on the transfer of other such leases in the previous 3 years.

General Insurance Duty

The benchmark tax base is all premiums for general insurance policies, except insurance covering property of the Crown in right of New South Wales. The benchmark tax rate is 9 per cent of the premium paid.

General Insurance Duty – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
Exemption for WorkCover premiums	244	243	249
Marine and cargo insurance An exemption is provided for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	7	7	7
Government/public amenities			
Exemption for non-commercial ventures of local councils	n.a.	n.a.	n.a.
Individuals/families			
Concessional rates for Types B and C general insurance, as identified in Section 233 of the *Duties Act 1997* A concessional rate of 5 per cent applies to certain categories of general insurance, including motor vehicle (excluding compulsory third party), aviation, disability income, occupational indemnity and hospital and ancillary health benefits (where not covered by private health insurer). Crop and livestock insurance is taxed at a concessional rate of 2.5 per cent.	234	236	246
Compulsory third party motor vehicle insurance An exemption is provided for third party motor vehicle personal injury insurance (green slip), as per the *Motor Accidents Act 1988* and the *Motor Accidents Compensation Act 1999*.	204	213	223
Exemption for medical benefits insurance	n.a.	n.a.	n.a.

General Insurance Duty – Minor Tax Expenditures (< $1 million)

The following are exempt:

- insurance by non-profit organisations with the main aim being a charitable, benevolent, philanthropic, or patriotic purpose
- societies or institutions whose resources are used wholly or predominantly for the relief of poverty, the promotion of education, or any purpose directly or indirectly connected with defence or the amelioration of the condition of past or present members of the naval, military or air forces of the Commonwealth or their dependants or any other patriotic objects
- insurance by the NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local Aboriginal Land Council
- insurance covering mortgages or pools of mortgages acquired for issuing mortgage backed securities
- separate policies covering loss by fire of tools, implements of work or labour used by any working mechanic, artificer, handcrafter or labourer
- redundancy insurance in respect of a housing loan that does not exceed $124,000
- reinsurance.

Life Insurance Duty

The benchmark is the sum insured under all products offered by life insurance companies that provide for payment in the event of death or injury from natural causes or upon survival to a specified age. The benchmark tax rate is $1 on the first $2,000 and 20 cents for every $200 in excess of the first $2,000.

Life Insurance Duty – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Individuals/families			
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	165	172	180
Annuities			
An exemption is granted to annuities.	22	23	24

Mortgage Duty

The benchmark is the amount secured by all instruments providing a charge over property or the transfer of property, excluding mortgages for owner occupied and investment housing. The benchmark tax rate is $5 plus $4 for every $1,000 or part thereof by which the amount secured exceeds $16,000.

Mortgage Duty – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
Refinanced loans where borrower and security are unchanged A mortgage that secures the amount of the balance outstanding for the same borrower and on the same property as under an earlier mortgage is exempt to a limit of $1 million. Any additional amount above the lesser of the previously secured amount or $1 million is liable for duty.	152	214	181
Mortgage-backed securities An exemption is granted for financial institutions using pooled mortgages from their lending assets as security for borrowing funds.	n.a.	n.a.	n.a.
Fund raisings by finance companies through debenture issues An exemption is granted to companies whose sole or principal business is to provide finance to the public. Debentures issued, trust deeds and mortgages executed by “financial corporations” as defined in the legislation are not liable to duty. However, the trust deed is stamped as a Declaration of a Trust.	n.a.	n.a.	n.a.
Loan-backed securities An exemption is granted to securities issued backed by cash flow from loans (secured and unsecured).	n.a.	n.a.	n.a.
Consumer credit contracts up to $35,000	n.a.	n.a.	n.a.
Instruments creating, issuing or marketing mortgage-backed securities	n.a.	n.a.	n.a.

Mortgage Duty – Minor Tax Expenditures (< $1 million)

The following are exempt:

- additional loans secured under a mortgage if the additional loans do not exceed $10,000 in any 12 month period, excluding the 12 month period that follows the making of the initial loan
- mortgages created solely for the purpose of providing security in accordance with a condition imposed on the grant of bail in criminal proceedings

- a mortgage of any ship or vessel, or of any part, interest, share or property of or in any ship or vessel
- any mortgage made or given to the WorkCover Authority
- mortgages given by a council or county council under the Local Government Act 1993
- mortgages given by institutions for the relief of poverty and promotion of education
- mortgages given by institutions of a charitable or benevolent nature, or for the promotion of the interests of Aborigines
- mortgages given by the NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local Aboriginal Land Council
- offshore banking units (as defined in the Income Tax Assessment Act 1936 (Cth)) where a loan is executed for offshore parties
- mortgages by public hospitals
- mortgages securing an amount advanced by an employer, or related body corporate, to an employee for the purchase by the employee of shares in the employer, or related body corporate, provided the amount advanced and the total of all advances secured by the mortgage does not exceed $16,000
- agencies covered by the Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations in 1947
- mortgages by clearing houses of the Sydney Futures Exchange and Australian Options Market that do not secure an advance
- an instrument that becomes a mortgage, or evidences the terms of a mortgage that is executed for the purposes of certain money market trading operations by the person executing the instrument
- a charge over land that is created under an agreement for the sale or transfer of the land if any part of the deposit or balance of the purchase price for the land is paid to the vendor (or as the vendor directs) before completion of the sale or transfer
- an advance to a natural person or a strata corporation for the acquisition of farm machinery or a commercial vehicle that is secured by the mortgage.

Marketable Securities Duty

The benchmark is the turnover (sale price *x* quantity traded) of shares, units, derivatives and interests that are not quoted on the Australian Stock Exchange or a recognised stock exchange. The benchmark tax rate is 60 cents per $100 or part thereof, with the purchaser paying the duty.

Marketable Securities Duty – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
Corporate reconstructions			
An exemption is granted, provided certain qualifying criteria are satisfied, as set out in Section 273B of the *Duties Act 1997.*	82	59	43

Marketable Securities – Minor Tax Expenditures (< $1 million)

The following transfers are exempt:

- transfers of units in a unit trust where the purpose is to give effect to a merger or takeover of qualifying unit trusts
- share buy-backs by NSW companies
- mining companies whose operations relate solely to New South Wales if the consideration for the transfer or agreement is above the unencumbered value of the marketable securities
- transfers to parties outside a marriage where the transfer is pursuant to an order of the Family Court of Australia in order to comply with the *Corporations Act 2001* (Cth)
- transfers made to give effect to a scheme that would qualify for rollover under subdivision 124-Q of the *Income Tax Assessment Act 1997* (Cth).

Concessional duty is charged in relation to:

- transfers of unquoted marketable securities in connection with persons changing superannuation funds
- transfers of unquoted marketable securities between the beneficial owner and the trustee or nominee of the beneficial owner, subject to nominal duty only.

Motor Vehicle Stamp Duty

The benchmark taxable activity is the purchase of a new vehicle or the subsequent transfer of the vehicle. The benchmark tax rate for passenger vehicles valued up to $45,000 is $3 per $100 or part thereof, and for passenger vehicles valued over $45,000 the benchmark rate is $1,350 plus $5 per $100 above the $45,000 threshold.

Motor Vehicle Stamp Duty – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
New demonstrator motor vehicle An exemption is granted to licensed motor dealers and wholesalers under the *Motor Dealers Act 1974*.	70	73	78
Individuals/families			
Caravans and camper trailers An exemption is provided for transfers of registration of caravans and camper trailers.	21	23	24
Transfers on divorce or breakdown of a de facto relationship An exemption is granted for the transfer of registration to one of the parties to a divorce or separation in a de facto relationship.	3	2	3
Transfer of ownership of a deceased registered owner An exemption is granted for the transfer of registration to a nominated legal personal representative or to the person beneficially entitled to the vehicle in the estate.	7	7	7
Government/public amenities			
Local councils An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	10	9	10
Pensioners/concession card holders/disadvantaged			
War veterans and impaired members of the Defence Force An exemption is granted to veterans who are eligible for a totally and permanently incapacitated (TPI), extreme disablement adjustment or intermediate service pension or 70 per cent or more of the general disability pension, and to current or former members of the Defence Force with a disability, assessed as 50 or more impairment points, who have received compensation or a special rate disability pension.	2	2	2

Motor Vehicle Stamp Duty – Minor Tax Expenditures (< $1 million)

The following are exempt:

- applications to register a heavy vehicle trailer, not previously registered under the Commonwealth or another Australian jurisdiction
- applications to register a heavy vehicle trailer, previously registered in the name of the applicant under the Commonwealth or another Australian jurisdiction

- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations
- transfer of vehicles as part of a corporate reconstruction, provided both corporations are members of the same group
- vehicles specially constructed for ambulance or mine rescue work
- vehicles weighing less than 250 kg used for transporting invalids
- vehicles registered by a Livestock Health and Pest Authority, established under the Rural Lands Protection Act 1998
- vehicles registered by NSW Aboriginal Land Council, Regional Aboriginal Land Council and Local Aboriginal Land Council
- motor vehicles registered conditionally under the *Road Transport Act 2013*.

A concessional rate of duty applies to vehicles modified for use by disabled persons.

Payroll Tax

The payroll tax benchmark is aggregate annual gross remuneration in excess of $750,000 paid by a single or group taxpayer. The benchmark tax rate is 5.45 per cent.

Payroll Tax - Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
Apprentices			
A full exemption/rebate applies to wages paid to apprentices or to employees in an approved non-profit group apprenticeship scheme.	56	58	57
Trainees			
A full exemption/rebate is provided for wages paid to trainees or to employees in an approved non-profit group traineeship scheme.	37	39	38
Maternity Leave			
An exemption is granted for maternity leave payments for a period of up to 14 weeks, or its equivalent at a reduced rate of pay.	24	25	26
Redundancy payments			
An exemption is provided for the Commonwealth tax-free part of a genuine redundancy or approved early retirement scheme payment.	7	7	8

Payroll Tax - Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Charitable/non-profit organisations/clubs			
Charitable institutions An exemption is granted to non-profit charitable, benevolent, patriotic or philanthropic organisations for wages paid to employees engaged exclusively in the normal work of these institutions.	167	172	179
Not-for-profit private hospitals An exemption is granted to non-profit private hospitals for wages paid to persons engaged exclusively in work of a kind ordinarily performed by a hospital.	17	17	18
Government/public amenities			
Public hospitals, Local Health Districts and Ambulance Service of NSW An exemption is granted for wages paid to persons engaged exclusively in the normal work of these organisations.	588	606	630
Home Care Service An exemption is granted to employees of the Home Care Service.	9	9	9
Local councils An exemption is granted to councils, county councils and their wholly owned subsidiaries, except for wages paid in connection with certain activities, such as the supply of electricity, gas, water or sewerage services, or the conduct of parking stations, hostels or coal mines. A full list of exclusions can be found in the *Payroll Tax Act 2007*.	198	204	213
Schools and colleges An exemption is granted to not-for-profit schools and colleges (other than technical schools, technical colleges or those carried on by or on behalf of the State of NSW) which provide education at or below, but not above, the secondary level of education.	203	211	221
Religious institutions			
An exemption is granted for wages paid to persons engaged exclusively in work of a kind ordinarily performed by religious bodies.	27	27	28

Payroll Tax – Minor Tax Expenditures (< $1 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Forces
- wages paid to persons employed under the Community Development Employment Project administered by Aboriginal and Torres Strait Islander Corporations
- wages paid by the Australian-American Fulbright Commission
- wages paid by the Commonwealth War Graves Commission
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of the Commonwealth of Nations
- wages paid for a joint government enterprise that has the function of allocating funds for water saving projects
- wages paid by the Governor of a State
- wages paid to employees while the employees are providing volunteer assistance to the State Emergency Services or Rural Fire Brigades (but not in respect of wages paid or payable as recreation leave, annual leave, long service leave or sick leave)
- adoption leave payments for a period of up to 14 weeks
- paternity leave payments for a period of up to 14 weeks.

Land Tax

The benchmark tax base is the average of the last three years unimproved land value of all land owned, on 31 December of the previous year, that is above the indexed threshold for that year (as defined in the *Land Tax Management Act 1956*), excluding land used for owner-occupied residences, or by the Commonwealth or NSW Governments.

The benchmark tax rate for the 2015 land tax year is $100 plus 1.6 per cent of the land value between the thresholds of $432,000 and $2,641,000, and 2 per cent thereafter.

Land Tax – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
Racing clubs An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse racing, trotting or greyhound racing which is used primarily for the purposes of their meetings.	9	9	10

Land Tax – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Employer and employee organisations An exemption is granted for land owned by or held in trust for employer and employee organisations for that part not used for a commercial activity open to members of the public.	3	3	3
Co-operatives An exemption is granted for land owned by a co-operative under the *Co-operatives National Law (NSW)*.	10	10	11
Child care centres and schools An exemption is granted for land used as a residential child care centre licensed under the *Children and Young Persons (Care and Protection) Act 1998* or a school registered under the *Education Act 1990*.	4	4	5
Charitable/non-profit organisations/clubs			
Sporting clubs An exemption is provided for land owned by or in a trust for any club or body of persons which is used primarily for the purpose of a game or sport and not for the pecuniary profit of the members.	n.a.	n.a.	n.a.
Non-profit societies, clubs and associations An exemption is granted for a building (or part thereof) occupied by a society, club or association and not carried on for pecuniary profit of members.	n.a.	n.a.	n.a.
Charitable and educational institutions An exemption is granted for land owned by or in a trust for an institution, which is carried on solely for charitable or educational purposes and not for pecuniary profit of members.	n.a.	n.a.	n.a.
Friendly societies An exemption is granted for any society registered under the *Friendly Societies (NSW) Code*.	n.a.	n.a.	n.a.

Land Tax – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Government/public amenities			
An exemption is provided for land for:			
▪ Cemeteries and crematoriums	15	16	17
▪ Public and private hospitals (including nursing homes) and Local Health Districts	20	21	22
▪ Sydney Light Railway	n.a.	n.a.	n.a.
▪ Public gardens, recreation grounds or reserves	n.a.	n.a.	n.a.
▪ Land owned and used by a local council	n.a.	n.a.	n.a.
▪ Public authorities representing the Crown	n.a.	n.a.	n.a.
▪ NSW Aboriginal Land Councils, Regional Aboriginal Land Councils and Local Aboriginal Land Councils	n.a.	n.a.	n.a.
▪ Fire brigades, ambulances or mines rescue stations	n.a.	n.a.	n.a.
Individuals/families			
Early payment discount A discount of 1.5 per cent is available where the full amount of land tax is paid within 30 days of issue of the notice of assessment.	22	23	24
Pensioners/concession card holders/disadvantaged			
Retirement villages An exemption is granted for land used as retirement villages, and residential parks predominantly occupied by retired persons.	112	117	127
Boarding houses for low-income persons An exemption is granted for land used for boarding houses for which the rent charged is less than the amount prescribed by the guidelines.	6	6	7
Religious institutions			
Religious societies An exemption is provided for land owned by or in trust for a religious society carried on solely for religious, charitable or educational purposes.	14	15	16
Place of worship or residence An exemption is provided to religious societies for places of worship, or residences of clergy, ministers or orders of the society.	n.a.	n.a.	n.a.

Land Tax – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Rural			
Land used for primary production An exemption is granted for land used for primary production. To qualify, land in urban zones must be used for primary production for the purpose of profit on a continuous or repetitive basis.	441	464	500
Agricultural showgrounds An exemption is granted for land used to hold agricultural shows, which is owned by, or held in trust for, a society established for the purpose of holding, promoting and funding such shows.	n.a.	n.a.	n.a.

Land Tax – Minor Tax Expenditures (< $1 million)

The following are exempt:

- low cost accommodation within 5 km of Sydney GPO
- Primary Products Marketing Boards, Livestock Health and Pest Authorities and Agricultural Industry Service committees
- temporary absences from a home, including circumstances where a home has been destroyed due to fire, storm, earthquake, accidental or malicious damage
- community land development
- land subject to a conservation agreement in perpetuity under the *National Parks and Wildlife Act 1974* or a trust registered under the *Nature Conservation Trust Act 2001*
- land owned, held in trust or leased by the Nature Conservation Trust of NSW, or land subject to a permanent conservation or trust agreement
- land that is the subject of a biobanking agreement
- land owned by a joint government enterprise that has the function of allocating funds for water saving projects
- land used solely as a police station
- land owned by RSL (NSW Branch), being Anzac House
- principal place of residence of a person with a disability, in a Special Disability Trust.

A concession is provided for unoccupied flood liable land.

Vehicle Weight Tax

- The benchmark tax base is all vehicles (except Commonwealth vehicles) intended for on-road use. The benchmark tax rates, which vary by vehicle type, weight, usage and other factors, are updated annually by Roads and Maritime Services. For example, from 1 January 2015, charges for cars, station wagons and trucks up to 4.5 tonnes Gross Vehicle Mass are based on a 12 step graduated weight scale, ranging from:
- $200 (0 - 975kg) to $1,115 (4,325 - 4,500kgs) for private use vehicles
- $324 (0 - 975kg) to $2,109 (4,325 - 4,500kgs) for business use vehicles.

Vehicle Weight Tax – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Business			
General purpose plant Concessions are provided for machines that cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	25	27	28
Government/public amenities			
Roadwork equipment An exemption is granted for any motor vehicle or plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery owned by a local council that is used for the purposes of road repair, maintenance or construction, removal of garbage or night soil, bushfire fighting or civil defence work, or for any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	6	6	6
Federal Government vehicles Any vehicle leased to a Commonwealth Authority is exempt from tax under Section 16, Part 3, (2) (d) of *Commonwealth Vehicles (Registration and Exemption from Taxation) Act 1997 (Cth)*.	1	1	1
Concessions provided under Part 4, section 16 and 17 of the *Motor Vehicles Taxation Act 1988.*	2	2	2
Pensioners/concession card holders/disadvantaged			
Selected social security recipients An exemption is granted for any motor vehicle used substantially for non-business purposes owned by holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards or DVA Gold War Widows Cards.	268	265	277

Vehicle Weight Tax - Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Rural			
Primary producers Primary producer concessions include, for motor vehicles not greater than 4.5 tonnes of gross vehicle mass, private rates rather than business rates for cars and station wagons and 55 per cent of business rates for trucks, tractors and trailers.	26	27	28

Vehicle Weight Tax - Minor Tax Expenditures (< $1 million)

The following are exempt:

- motor vehicles (not government owned) used principally as an ambulance
- motor vehicles (not government owned) used by the State Emergency Service
- motor vehicles on which a trader's plate is being used in accordance with the *Road Transport (Vehicle Registration) Act 1997* or the regulations under that Act
- motor vehicles owned by Aboriginal Land Councils
- motor vehicles of Consular Employees and Trade Missions.

Concessions are provided as follows:

- a concessional rate of 55 per cent of business rates (or 30 per cent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle that is used solely or principally as a tow truck with a crane and hook
- a concessional rate of 88 per cent is provided for mobile cranes used for private use
- a concessional rate of tax is applied to any motor vehicle that is owned by a Livestock Health and Pest Authority and is used solely for carrying out the functions of the board
- a concessional rebate of $100 from vehicle registration is given to first and second year apprentices registered with the NSW Department of Education and Communities.

Motor Vehicle Registration Fees

The benchmark tax base is all vehicles intended for private on-road use. From 1 July 2014, the standard registration fee for light vehicles (up to 4.5 tonnes Gross Vehicle Mass) is $62 per annum but a range of other charges are levied for temporary or conditional registration, for registration transfer or cancellation, for special permits and on heavy vehicles.

Motor Vehicle Registration Fees – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders/disadvantaged			
Selected social security recipients An exemption is granted to holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards (subject to income and disability pension rate thresholds) for a single vehicle used substantially for social or domestic purposes.	50	52	54

Motor Vehicle Registration Fees – Minor Tax Expenditures (< $1 million)

- An exemption is provided for Mobile Disability Conveyance.

Gambling and Betting Taxes

The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels, which vary from 0.0 per cent to 50.0 per cent (annual rates from 1 July 2010) depending on the level of annual profits from gaming machines. The benchmark for totalisators is a tax rate of 19.11 per cent of player loss.

Gambling and Betting Taxes – Major Tax Expenditures	2013-14 $m	2014-15 $m	2015-16 $m
Charitable/non-profit organisations/clubs			
Club gaming machines Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	788	810	834

Gambling and Betting Taxes – Minor Tax Expenditures (< $1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

Parking Space Levy

The benchmark is the number of off-street parking spaces in Category 1 areas (City of Sydney, North Sydney and Milsons Point business districts) or Category 2 areas (Chatswood, Parramatta, St Leonards and Bondi Junction business districts).

The benchmark levy is indexed annually to movements in the Sydney CPI, over the year to the previous March quarter. For 2013-14, the levy is $2,210 per space in Category 1 areas and $780 per space in Category 2 areas. For 2014-15, the benchmark levy is $2,260 per space in Category 1 areas and $800 per space in Category 2 areas.

Parking Space Levy – Major Tax Expenditures	2013–14 $m	2014–15 $m	2015–16 $m
Business			
General exemptions and concessions for Category 1 and 2 areas			
An exemption is granted for certain parking spaces for bicycles and motor cycles, residents of the same or adjoining premises, use under the mobility parking scheme, loading and unloading of goods or passengers, cranes and other plant, overnight parking of emergency service vehicles, private vehicles parked on land owned by councils, religious organisations or bodies, charities or benevolent institutions, persons providing services on a casual basis, unused casual parking or unleased tenant parking.	50	54	55
Exempt parking spaces in Category 2 areas			
An exemption is granted for spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants, medical centres, car hire and sales, repair and wash establishments and funeral parlours.	10	11	11

Detailed Estimates of Concessions

Details of concessions by function are shown below. Each concession is classified by type and a distinction is drawn between major concessions ($1 million or more) and minor concessions (less than $1 million).

Public Order and Safety – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders/disadvantaged			
Court interpreting and translation services Multicultural NSW provides translation and interpreting services in criminal and family courts for holders of Pensioner Concession Cards.	4	4	4
Court fee concessions Court fees may be reduced or waived, subject to guidelines issued by the Attorney General, in circumstances where a person's capacity to pay may otherwise limit his/her access to justice.	2	2	3
Government/public amenities			
Concessions for NSW Hallmark Events The NSW Police Force does not charge for all additional police costs associated with crowd control and traffic management services for designated "NSW State Hallmark Events" such as the Royal Easter Show.	4	4	4

Public Order and Safety – Minor Concessions (< $1 million)

- The NSW Police Force does not charge for additional policing services for minor sporting events and agricultural shows in the Western Region or for some or all of the additional policing services provided for non-commercial events run by charities and not-for-profit organisations meeting appropriate criteria.

Education – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Students			
School Student Transport Scheme The School Student Transport Scheme provides subsidised travel to and from school for eligible students on government and private bus, rail, and ferry services, long distance coaches and in private vehicles where no public transport services exist.	585	603	621

Education – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders/disadvantaged			
TAFE fee concession Fee exemptions are available for Australian Aboriginal and Torres Strait Islander students and for students enrolling in Special Access courses. Students with a disability (or in receipt of a disability pension) are exempted from one course fee and pay a concession fee per subsequent course enrolment in the same year. Students in receipt of a Commonwealth benefit or allowance pay a concession fee per course per year. Fees for apprentices and trainees are capped according to eligibility for a Commonwealth rebate.	83	44	…
Smart and Skilled – VET concessions and exemptions From 1 January 2015 the Department of Education and Communities will provide fee exemptions under Smart and Skilled to Aboriginal students and students with a disability undertaking their first qualification in a calendar year. The Department will also provide concessional fees for students undertaking Certificate IV and below qualifications who are Commonwealth welfare beneficiaries and students with a disability undertaking a second or further qualification in a calendar year.	…	38	83

Health – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders/disadvantaged			
Ambulance service for concessional patients Free ambulance transport is provided to holders of Pensioner, Health Care, or Department of Veterans' Affairs Concession Cards.	200	213	218
Outpatient Pharmaceutical Scheme for concessional patients Pharmaceuticals are provided to concessional patients at a discounted price or free of charge once the safety net threshold is reached.	12	13	13
Life Support and Medical Energy Rebates Scheme NSW Trade & Investment funds a rebate for energy costs for eligible recipients and costs associated with certain life support systems.	6	6	6
Spectacles Program The Department of Family and Community Services assists those who are most vulnerable and disadvantaged in the community to acquire spectacles and other vision aids such as contact lenses.	5	5	5

Transport & Communications – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders/disadvantaged			
Public transport concessions Pensioners, seniors, welfare beneficiaries and students travel for less than full fare on bus, rail, taxi and ferry services (excluding School Student Transport Scheme).	486	503	521
Home and Community Care Program & Community Transport Program Transport for NSW provides community transport services to frail aged and younger people with disabilities, and their carers under the Home and Community Care Transport Sub-program. Transport for NSW also provides subsidised transport for people with special needs due to physical conditions, significant social disadvantaged or geographical isolation under the Community Transport Program.	66	69	73
Driver's license fee exemption Roads and Maritime Services provide a driver's license fee exemption to holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards, subject to income and disability rate thresholds, where the vehicle owned by the license holder is used substantially for social and domestic purposes. (Profile of estimates reflects the renewal pattern of three and five year driver's licenses.)	29	65	27

Housing and Associated Amenities – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Charitable/non-profit organisations/clubs			
Crown land rent concessions NSW Trade & Investment provides rent concessions to various Crown land tenure holders in circumstances where individuals or organisations experience difficulty making payments by the due date.	13	16	13
Exempt properties water rate concession NSW Trade & Investment funds a partial discount on Sydney Water Corporation and Hunter Water Corporation charges to owners of properties used for non-profit provision of community services and amenities (principally councils, religious bodies and charities):			
▪ Sydney Water Corporation	19	22	24
▪ Hunter Water Corporation	2	2	2

Housing and Associated Amenities - Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders/disadvantaged			
Low Income Household Rebate NSW Trade & Investment provides energy bill rebates to customers who hold eligible concession cards issued by the Federal Department of Human Services or the Department of Veterans' Affairs.	177	186	196
Pensioner water rate concession NSW Trade & Investment funds Sydney Water Corporation and Hunter Water Corporation to provide Pensioner Concession Card holders, who are direct customers, a rebate for their water and sewerage charges.			
▪ Sydney Water pensioners receive a 100 per cent discount on the fixed water service charge, an 83 per cent discount on the wastewater service charge, and a 50 per cent discount on the stormwater service charge.	137	141	146
▪ Hunter Water pensioners receive a rebate on the water, sewerage and stormwater service charge. The Environmental Improvement Charge is also waived.	12	12	13
Local council rates concession Local council rates are reduced for holders of Pensioner Concession Cards.	78	79	79
Individuals/families			
Energy Accounts Payment Assistance Scheme NSW Trade & Investment provides energy bill rebates to people experiencing a short term financial crisis or emergency to pay their electricity or gas bill.	14	15	16
Family Energy Rebate NSW Trade & Investment provides energy bill rebates to customers who have received the Family Tax Benefit.	3	7	14
Gas Rebate NSW Trade & Investment will provide a $90 rebate to eligible households to assist with gas bills.	...	...	21
Backlog sewerage connection fee concession NSW Trade & Investment funds Sydney Water Corporation to assist connecting selected un-sewered areas to the sewerage network, based on public health and environmental priorities.	16	5	...
Hardship and Low Income Schemes NSW Trade & Investment funds Sydney Water Corporation to provide concessions to customers in financial hardship.	1	1	1

Housing and Associated Amenities – Minor Concessions (< $1 million)

- NSW Trade & Investment funds Sydney Water to provide discounted septic pump-out fees to residences in the Blue Mountains that are residential-zoned but not connected to the sewerage network.
- NSW Trade & Investment provides funding to Essential Energy to offset the cost of concessions on water charges given to eligible customers.

Agriculture, Forestry, Fishing and Hunting – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Pensioners/concession card holders			
Fishing license concession			
NSW Trade & Investment provides recreational fishing license concessions to various eligible persons.	4	4	4

Agriculture, Forestry, Fishing and Hunting – Minor Concessions (< $1 million)

- Forestry Corporation of NSW provides discounts to charities seeking permits for non-profit events and provides discounts to pensioners for firewood.

Recreation and Culture – Major Concessions	2013-14 $m	2014-15 $m	2015-16 $m
Seniors/children/disadvantaged/special groups			
Entry to national parks			
Holders of Pensioner Concession Cards, seniors, volunteers and community groups receive free or discounted entry to National Parks.	10	10	10
Recreational vessel registration and boat driving license			
Roads and Maritime Services provide a 50 per cent concession on recreational vessel registration and recreational boating licenses to holders of Pensioner Concession Cards and Repatriation Health Cards.	4	4	4
Zoo admissions			
The Taronga Conservation Society Australia provides discounted entry to its zoological parks (including Taronga Zoo in Sydney and the Western Plains Zoo in Dubbo) for Concession Card holders, tertiary education students and school students.	2	2	2

Recreation and Culture – Minor Concessions (< $1 million)

- The Historic Houses Trust of NSW offers concessional admission charges to unemployed, children, pensioners, seniors and students.
- The Australian Museum offers free admission to children aged 16 years or under and reduced admission charges to seniors, pensioners, and the unemployed.
- The Sydney Opera House offers concessional charges on guided tours for children, pensioners, seniors, students and school group tours, and concession tickets are available to many Sydney Opera House productions for pensioners/seniors, full time students and children.
- The Museum of Applied Arts and Sciences provides concessional admission charges for children, students, seniors and the unemployed. Country residents are entitled to a concession on the Museum's household membership. Concessional rates for venue hire apply to community or charitable groups.
- The Sydney Harbour Foreshore Authority supports a number of community and cultural events by supplying venue hire and production equipment at no cost. Beneficiaries include the Serbian Festival, Thai Grand Festival, Greek Festival, Indian Festival, Buddha's Birthday Festival, Japanese Festival, Polish Festival, and the Dragon Boat Spectacular.
- The Sydney Harbour Foreshore Authority leases premises at 40 Gloucester St, the Rocks to not-for-profit organisations at less than market rate. Current tenants are, Centre for Volunteering, the Australian Youth Orchestra, and Sydney Community Foundation.
- Venues NSW provides the Newcastle Entertainment Centre & Showground to the Newcastle Agriculture, Horticulture & Industrial Association for their annual show free of charge.
- Roads and Maritime Services offers a concession on private mooring licences to holders of Pensioner Concession Cards and Repatriation Health Cards.

Appendix C: Budget Sensitivities

This appendix identifies some of the key assumptions that underpin major revenue and expense categories and the risks prevalent to NSW's revenue and expense. It is intended to enhance the transparency and accountability of the Government as it highlights the possibility of forecast error and the resultant outcome should an economic parameter vary.

Table C.1 summarises the key sensitivities of revenue and expense items and should be used as a 'rule of thumb' resultant impact from a change in a given variable.

Table C.1: Summary of Revenue and Expense Sensitivities[(a)(b)]

Material Assumptions – Revenue					
Revenue Source and Assumptions ($ millions unless otherwise specified)	2015-16 Budget	2016-17 Forward Estimates	2017-18	2018-19	2015-16 Sensitivities
	$m	$m	$m	$m	
State Tax Revenues					
Assumptions					
Dwelling sales	62	64	67	70	**+/- 1% movement in factor**
Employment	97	101	107	113	
Compensation of employees	88	92	97	102	
Royalties					
Factors affecting NSW Royalties [(c)]					
Change in coal export volumes (Mt)	12	14	16	18	**+ 1% movement in factor**
Change in coal export prices ($US)	13	15	17	19	
Change in Australian-US dollar exchange rate	(13)	(14)	(16)	(19)	
Good and Services Tax Revenues [(d)]					
Factors affecting NSW GST revenues					
NSW population	120	126	130	136	**+ 1% movement in factor**
GST pool size	173	178	182	188	
NSW relativity	...	178	182	188	

Table C.1: Summary of Revenue and Expense Sensitivities (cont)

Material Assumptions – Expense					
Expense Source and Assumptions ($ millions unless otherwise specified)	2015-16 Budget Estimate	2016-17	2017-18	2018-19	2015-16 Sensitivities
		Forward estimates			
	$m	$m	$m	$m	
Expense Growth					
Assumptions					
Change in Public sector wages and salaries	(289)	(305)	(317)	(333)	**+/- 1% movement in factor**
Change in prices of goods and services	(176)	(181)	(177)	(178)	
Government Services Demand Growth					
Assumptions					
Change in health and transport expense funding	(31)	(31)	(32)	(32)	**+/- 0.1% movement in factor**

Material Assumptions – Net Financial Liabilities					
Net Financial Liabilities Source and Assumptions ($ millions unless otherwise specified) (f)	2015-16 Budget	2016-17	2017-18	2018-19	2015-16 Sensitivities
		Forward estimates			
	$m	$m	$m	$m	
Superannuation Liabilities					
Assumptions					
Change in Public sector wages and salaries	(210)	(370)	(500)	(610)	
Change in Sydney CPI	(620)	(1,150)	(1,660)	(2,200)	**+/- 1% movement in factor**
Change in investment return (e)	350	740	1,170	1,640	
Change in discount rate (e)	9,900	...	...	...	

(a) A positive value (for example, from increased dwelling sales) improves the budget result, whereas a negative value weakens the budget result.
(b) This table assumes a 1 per cent change to the relevant factor in 2015-16 (unless specified otherwise). This table assumes a +1 percentage point change in each year.
(c) Royalty sensitivities do not include changes to non-coal revenue or to the composition rates of coal production.
(d) The GST pool is currently estimated at $61.0 billion in 2016-17. The NSW adjusted population share (population multiplied by relativity) is estimated to be 29.3 per cent. Note that relativities for 2015-16 are already set and so no sensitivity is calculated. Note a -1 per cent movement may not equal a +1 per cent movement.
(e) Effect of a 1 percentage point increase in the indicated factor (discount rate, interest rate or rate of return).
(f) A positive effect (e.g. improved investment returns) reduces NFL (improves the financial position), while a negative effect (e.g. higher public sector wages) increases NFL (weakens the financial position).

Appendix D: Historical Fiscal Indicators

This Appendix reports the key fiscal indicators for the general government and total state sectors from 1996-97. Data are presented in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, consistent with the financial statements presented in Appendix B1 Statement of Finances.

The 2015-16 Budget improves the presentation of historical data that was previously presented in the *Key Fiscal Indicators* tables of previous Budgets. This Budget also extends the period of historical data to be reported from 1996-97.

The below tables are contained in this Appendix.

Table D.1 General Government Sector Operating Statement Aggregates

Table D.2 General Government Sector Balance Sheet and Financing Indicators

Table D.3 Total State Sector Operating Statement Aggregates

Table D.4 Total State Sector Balance Sheet and Financing Indicators

Table D.5 New South Wales Credit Metrics

Historical data from 2008-09 are consistent with data published in annual Outcomes Reports and Total State Sector Accounts. As Outcomes Reports and Total State Sector Accounts prior to 2008-09 were prepared in accordance with Government Finance Statistics, historical data prior to 2008-09 reflect data that have been backcast to be consistent with AASB 1049. The historical series have also been adjusted from 2005-06 to incorporate the retrospective application of amended AASB 119 *Employee Benefits*.

Table D.1: General Government Sector Operating Statement Aggregates

	Tax Revenue			Total Revenue			Expenses			Net Operating Balance		Gross Capital Expenditure		Net Lending/ (Borrowing)		GSP[c] (current prices)
	$m	Per cent of GSP	Per cent growth – nominal	$m	Per cent of GSP	Per cent growth – nominal	$m	Per cent of GSP	Per cent growth – nominal	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP	$m
1996–97	11,724	5.8	n.a.	26,089	12.8	n.a.	25,278	12.4	n.a.	811	0.4	2,607	1.3	(581)	(0.3)	203,479
1997–98	12,897	6.0	10.0	27,335	12.7	4.8	26,017	12.1	2.9	1,317	0.6	2,736	1.3	(420)	(0.2)	214,438
1998–99	14,115	6.2	9.4	28,950	12.8	5.9	27,900	12.3	7.2	1,050	0.5	3,002	1.3	(123)	(0.1)	226,094
1999–00	15,185	6.3	7.6	30,556	12.7	5.5	28,530	11.8	2.3	2,026	0.8	2,733	1.1	1,345	0.6	241,501
2000–01	13,337	5.2	(12.2)	32,091	12.6	5.0	30,584	12.0	7.2	1,507	0.6	2,859	1.1	545	0.2	254,818
2001–02	13,210	5.0	(1.0)	33,843	12.7	5.5	32,263	12.1	5.5	1,580	0.6	3,102	1.2	588	0.2	265,726
2002–03	14,146	5.0	7.1	36,070	12.9	6.6	34,315	12.2	6.4	1,755	0.6	3,349	1.2	464	0.2	280,598
2003–04	15,018	5.0	6.2	37,657	12.5	4.4	36,502	12.2	6.4	1,155	0.4	3,332	1.1	44	0.0	300,134
2004–05	15,300	4.8	1.9	39,085	12.4	3.8	38,844	12.3	6.4	241	0.1	3,343	1.1	(660)	(0.2)	315,744
2005–06	15,902	4.8	3.9	42,652	12.8	9.1	41,472	12.5	6.8	1,180	0.4	3,949	1.2	(317)	(0.1)	332,716
2006–07	17,697	5.0	11.3	44,720	12.7	4.8	44,651	12.6	7.7	69	0.0	4,295	1.2	(1,775)	(0.5)	353,263
2007–08	18,554	4.9	4.8	47,449	12.6	6.1	47,298	12.5	5.9	151	0.0	4,689	1.2	(1,798)	(0.5)	377,737
2008–09	17,885	4.5	(3.6)	49,684	12.5	4.7	51,258	12.9	8.4	(1,574)	(0.4)	5,264	1.3	(3,940)	(1.0)	396,065
2009–10	19,129	4.6	7.0	56,344	13.6	13.4	56,453	13.7	10.1	(109)	(0.0)	7,286	1.8	(3,736)	(0.9)	413,565
2010–11	20,395	4.6	6.6	57,168	12.9	1.5	57,015	12.9	1.0	153	0.0	7,046	1.6	(4,097)	(0.9)	442,492
2011–12	20,660	4.5	1.3	59,003	12.7	3.2	59,604	12.8	4.5	(551)	(0.1)	5,881	1.3	(3,255)	(0.7)	464,271
2012–13	21,980	4.6	6.4	60,130	12.6	1.9	61,891	13.0	3.8	(1,731)	(0.4)	7,872	1.6	(4,138)	(0.9)	477,694
2013–14	24,295	4.9	10.5	66,005	13.4	9.8	64,757	13.1	4.6	1,247	0.3	8,546	1.7	(1,236)	(0.3)	492,478
2014–15[a]	26,046	5.1	7.2	69,143	13.5	4.8	67,085	13.1	3.6	2,058	0.4	9,610	1.9	(1,196)	(0.2)	512,200
2015–16[b]	27,855	5.2	6.9	72,143	13.6	4.3	69,624	13.1	3.8	2,520	0.5	9,369	1.8	(1,783)	(0.3)	532,100
2016–17[b]	28,678	5.1	3.0	75,663	13.6	4.9	72,469	13.0	4.1	3,194	0.6	8,325	1.5	(153)	(0.0)	557,700
2017–18[b]	30,085	5.1	4.9	76,157	13.0	0.7	73,567	12.5	1.5	2,590	0.4	7,830	1.3	(1)	(0.0)	586,900
2018–19[b]	31,343	5.1	4.2	77,315	12.5	1.5	75,058	12.2	2.0	2,257	0.4	10,438	1.7	(2,747)	(0.4)	617,500

(a) Revised
(b) Estimate
(c) Gross State Product

Table D.2: General Government Sector Balance Sheet and Financing Indicators

	Borrowings[c]		Interest expense		Net Debt[d]		Net Financial Liabilities[e]	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	13,604	6.7	1,551	5.9	11,478	5.6	29,860	14.7
1997-98	14,795	6.9	1,490	5.4	10,823	5.0	29,441	13.7
1998-99	17,680	7.8	1,362	4.7	10,392	4.6	28,377	12.6
1999-00	15,857	6.6	1,348	4.4	9,771	4.0	24,590	10.2
2000-01	12,432	4.9	1,021	3.2	6,893	2.7	23,651	9.3
2001-02	11,211	4.2	868	2.6	5,422	2.0	24,502	9.2
2002-03	10,570	3.8	803	2.2	3,638	1.3	25,418	9.1
2003-04	11,189	3.7	789	2.1	2,970	1.0	25,072	8.4
2004-05	11,872	3.8	1,190	3.0	2,826	0.9	31,363	9.9
2005-06	12,404	3.7	1,209	2.8	1,483	0.4	31,334	9.4
2006-07	13,060	3.7	1,289	2.9	3,645	1.0	28,050	7.9
2007-08	13,874	3.7	1,320	2.8	5,663	1.5	33,263	8.8
2008-09	16,662	4.2	1,488	3.0	8,170	2.1	53,056	13.4
2009-10	19,075	4.6	1,674	3.0	9,161	2.2	57,557	13.9
2010-11	22,530	5.1	1,877	3.3	7,960	1.8	55,022	12.4
2011-12	26,885	5.8	2,082	3.5	14,127	3.0	79,512	17.1
2012-13	29,060	6.1	2,220	3.7	11,907	2.5	69,451	14.5
2013-14	31,040	6.3	2,249	3.4	6,869	1.4	69,715	14.2
2014-15[a]	31,643	6.2	2,268	3.3	6,655	1.3	76,964	15.0
2015-16[b]	32,028	6.0	2,244	3.1	9,875	1.9	75,984	14.3
2016-17[b]	32,227	5.8	2,242	3.0	12,270	2.2	69,175	12.4
2017-18[b]	32,238	5.5	2,253	3.0	13,112	2.2	64,496	11.0
2018-19[b]	35,422	5.7	2,259	2.9	15,799	2.6	64,653	10.5

(a) Revised
(b) Estimate
(c) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost
(d) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements
(e) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities

Table D.3: Total State Sector[c] Operating Statement Aggregates

	Revenue	Expenses	Net Operating Balance		Gross Capital Expenditure		Net Lending/ (Borrowing)	
	$m	$m	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	36,796	35,962	834	0.4	4,263	2.1	(765)	(0.4)
1997-98	37,962	36,079	1,883	0.9	4,441	2.1	(89)	(0.0)
1998-99	36,343	35,062	1,282	0.6	5,149	2.3	(628)	(0.3)
1999-00	38,970	36,315	2,655	1.1	5,467	2.3	669	0.3
2000-01	43,625	41,192	2,434	1.0	5,365	2.1	1,269	0.5
2001-02	42,263	39,872	2,391	0.9	6,088	2.3	56	0.0
2002-03	44,627	42,911	1,715	0.6	6,699	2.4	(689)	(0.2)
2003-04	46,488	45,232	1,255	0.4	6,708	2.2	(991)	(0.3)
2004-05	48,548	48,197	351	0.1	6,986	2.2	(2,163)	(0.7)
2005-06	52,009	50,412	1,597	0.5	8,378	2.5	(2,132)	(0.6)
2006-07	54,819	52,511	2,309	0.7	9,805	2.8	(2,769)	(0.8)
2007-08	58,761	57,588	1,173	0.3	11,216	3.0	(4,776)	(1.3)
2008-09	60,550	61,309	(356)	(0.1)	13,276	3.4	(8,102)	(2.0)
2009-10	65,658	64,132	2,570	0.6	16,347	4.0	(7,256)	(1.8)
2010-11	68,613	69,312	(201)	(0.0)	14,869	3.4	(7,828)	(1.8)
2011-12	69,854	70,140	249	0.1	13,076	2.8	(6,619)	(1.4)
2012-13	70,009	70,358	49	0.0	14,149	3.0	(6,837)	(1.4)
2013-14	76,085	73,301	2,794	0.6	13,877	2.8	(3,099)	(0.6)
2014-15[a]	75,238	72,690	2,558	0.5	13,779	2.7	(3,070)	(0.6)
2015-16[b]	76,425	75,691	735	0.1	16,492	3.1	(6,644)	(1.2)
2016-17[b]	80,079	78,377	1,702	0.3	17,623	3.2	(7,160)	(1.3)
2017-18[b]	81,674	80,651	1,023	0.2	16,735	2.9	(6,271)	(1.1)
2018-19[b]	83,518	82,733	785	0.1	17,731	2.9	(7,260)	(1.2)

(a) Revised

(b) Estimate

(c) Includes Public Financial Enterprises and therefore differs from the Non-Financial Public Sector estimates shown in Appendix B1 Statement of Finances

Table D.4: Total State Sector[c] Balance Sheet and Financing Indicators

	Borrowings[d]		Interest expense		Net Debt[e]		Net Financial Liabilities[f]	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	24,574	12.1	2,411	6.6	19,547	9.6	42,125	20.7
1997-98	25,859	12.1	2,348	6.2	19,395	9.0	41,705	19.4
1998-99	29,548	13.1	1,965	5.4	19,043	8.4	41,259	18.2
1999-00	26,701	11.1	1,986	5.1	18,228	7.5	36,959	15.3
2000-01	25,789	10.1	1,906	4.4	18,106	7.1	38,474	15.1
2001-02	25,740	9.7	1,567	3.7	16,447	6.2	39,769	15.0
2002-03	26,707	9.5	1,626	3.6	15,497	5.5	42,562	15.2
2003-04	27,466	9.2	1,675	3.6	15,357	5.1	42,891	14.3
2004-05	30,675	9.7	2,143	4.4	16,660	5.3	54,499	17.3
2005-06	29,829	9.0	2,234	4.3	15,518	4.7	54,541	16.4
2006-07	35,748	10.1	2,040	3.7	19,982	5.7	53,237	15.1
2007-08	38,524	10.2	2,863	4.9	21,774	5.8	60,023	15.9
2008-09	50,031	12.6	3,172	5.2	29,437	7.4	85,419	21.6
2009-10	59,278	14.3	3,534	5.4	33,345	8.1	94,985	23.0
2010-11	61,992	14.0	4,200	6.1	32,426	7.3	92,758	21.0
2011-12	72,343	15.6	4,222	6.0	43,740	9.4	124,612	26.8
2012-13	76,601	16.0	3,952	5.6	41,574	8.7	114,995	24.1
2013-14	82,297	16.7	4,062	5.3	40,363	8.2	117,643	23.9
2014-15[a]	82,883	16.2	1,047	1.4	41,431	8.1	126,300	24.7
2015-16[b]	85,466	16.1	1,008	1.3	44,909	8.4	124,956	23.5
2016-17[b]	86,873	15.6	1,084	1.4	47,001	8.4	117,639	21.1
2017-18[b]	89,641	15.3	1,290	1.6	49,759	8.5	114,894	19.6
2018-19[b]	95,124	15.4	1,375	1.6	53,667	8.7	116,341	18.8

(a) Revised

(b) Estimate

(c) Includes Public Financial Enterprises and therefore differs from the Non-Financial Public Sector estimates shown in Appendix B1 Statement of Finances

(d) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost

(e) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements

(f) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities

Table D.5: New South Wales Credit Metrics

	Gross Debt/ Receipts[c]	Gross Interest Paid/Receipts[d]	Non- Commercial Gross Debt/ Revenues[e]
1996-97	78.3	6.6	81.0
1997-98	73.7	6.3	76.8
1998-99	77.4	5.7	85.5
1999-00	66.1	4.9	71.9
2000-01	59.3	4.1	57.4
2001-02	55.1	3.6	50.1
2002-03	51.9	3.4	48.2
2003-04	51.4	3.3	46.8
2004-05	53.3	3.3	50.6
2005-06	51.5	3.3	39.6
2006-07	58.3	3.3	40.8
2007-08	54.8	3.3	44.5
2008-09	62.4	3.3	56.0
2009-10	62.4	3.5	57.9
2010-11	72.7	3.8	59.0
2011-12	76.1	4.2	66.7
2012-13	80.4	4.3	75.0
2013-14	79.9	4.2	72.8
2014-15[a]	79.5	4.2	67.9
2015-16[b][f]	83.5	4.1	67.8
2016-17[b][f]	84.4	4.1	67.5
2017-18[b][f]	84.8	4.1	67.4
2018-19[b][f]	87.8	4.1	70.8

(a) Revised
(b) Estimate
(c) Gross debt as ratio to operating receipts in Non-Financial Public Sector
(d) Interest paid as a ratio of total operating receipts in Non-Financial Public Sector. Three year average
(e) Total state gross non-commercial debt as ratio to general government revenues
(f) Excludes non-recourse debt associated with WestConnex

Appendix E: Performance and Reporting Under the Fiscal Responsibility Act

The *Fiscal Responsibility Act 2012* (FRA) requires the Budget to include a report on performance against the FRA's object, targets and principles and an explanation of any departures with a plan to restore compliance.

These tables report on the object, targets and principles of the FRA.

Object	Status
The object of the FRA is to maintain the State's triple-A credit rating.	New South Wales triple-A ratings were reaffirmed by international credit rating agencies Moody's and Standard and Poor's in 2014.
Targets	**Status**
Hold expense growth below long-run revenue growth	Historical long-term average annual revenue growth was estimated at 5.6 per cent in the 2011-12 Long Term Fiscal Pressures Report (refer to page 4-9 in that report). Over the four years of the 2015-16 Budget, expense growth is projected to average 2.8 per cent per annum – 2.8 percentage points below target.
Eliminate the State's unfunded superannuation liabilities by 2030	The most recent triennial actuarial review of superannuation liabilities was completed as at 30 June 2012. Based on the current Crown funding plan, the review concluded that liabilities were on track to be fully funded by 2030 in line with the target. Latest estimates indicate this is still the case with the PTE sector as a whole now fully funded, based on the AAS25 measurement. This follows the high rate of earnings achieved in 2012-13, 2013-14 and the current year to date. The next triennial actuarial review is due to commence with an effective date of 30 June 2015 and will update the funding position to reflect the latest market conditions and outlook. Further discussion on unfunded superannuation liabilities can be found in Chapter 2 Fiscal Strategy and Budget Priorities.

Principles	Status
Responsible and sustainable spending, taxation and infrastructure investment	The 2015-16 Budget delivers historically low average expense growth over the budget and forward estimates that is below long-term average revenue growth. These outcomes will deliver significant budget surpluses that can fund the Government's large infrastructure spending program in a sustainable way. Taxation policies remain stable and predictable.

Principles	Status
Effective financial and asset management	Since coming to office a key objective of the Government has been to improve financial and asset management of the State. A significant program of reform, initially informed by Commission of Audit reviews of the State's finances and public sector management, has seen the delivery of: ▪ heightened accountability of Ministers and agency CEOs in maintaining their expenses to budget ▪ expense growth brought under control ▪ private sector provision of public services and introduction of contestability in the delivery of services ▪ infrastructure priorities being determined on the basis of the best economic and social outcomes through Infrastructure NSW ▪ better use of existing infrastructure ▪ divestment of assets that are not core to the delivery of public services and the sale of surplus property assets.
Achieving intergenerational equity	Funding infrastructure by operating surpluses and asset recycling strategies reduces the need for borrowings to be funded by future generations. The effect of Government policies on intergenerational equity is also measured by the change in the long term fiscal gap from one budget to the next.

Against all these measures, performance in 2014-15 and the strategy and measures in this budget comply with the requirements of the FRA. There are no departures from the object, target and principles in this budget.

Glossary

ABS Government Finance Statistics GFS Manual (ABS GFS)	The ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods as updated from time to time.
Appropriation	The funds appropriated by Parliament from the consolidated fund to Ministers for the purposes of funding agency activities (either recurrent or capital).
Budget result (net operating balance)	The budget result represents the difference between expenses and revenues from transactions for the general government sector. This measure is equivalent to the net operating balance adopted in accounting standard AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting*.
Capital expenditure	This is expenditure relating to the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements).
Capital grants	Amounts paid or received for capital purposes for which no economic benefits of equal value are receivable or payable in return.
Cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets (less distributions paid for the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors).
Cash surplus/(deficit) (ABS GFS)	As above, less the value of assets acquired under finance leases and similar arrangements.
Comprehensive Result (Change in net worth)	Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.
Consolidated Fund	The fund is established under s39 of the *Constitution Act 1902* to collect public monies collected on behalf of the State.
Current grants	Amounts paid or received for current purposes for which no economic benefits of equal value are receivable or payable in return.
Fiscal aggregates	These are analytical balances that are useful for macroeconomic purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 *Whole-of-Government and General Government Sector Financial Reporting* prescribes the net operating balance, net lending/borrowing (fiscal balance), change in net worth (comprehensive result), net worth, and cash surplus/(deficit).

Fiscal gap	The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.
Fiscal Responsibility Act 2012 (FRA)	The Act sets out both medium-term and long-term fiscal targets and principles providing a framework for budgeting in New South Wales.
General government sector (GGS)	This is an ABS classification of agencies that provide public services (such as health, education and police), or perform a regulatory function. General government agencies are funded in the main by taxation (directly or indirectly).
Government finance statistics (GFS)	A system of financial reporting developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.
Government Sector Employment Act 2013 (GSE Act)	The *Government Employment Act 2013* came into force on 24 February 2014, replacing the *Public Sector Employment and Management Act 2002*, providing transparent governance and employment arrangements.
Grants for on-passing	All grants paid to one institutional sector (for example, a state government) to be passed on to another institutional sector (for example, local government or a non-profit institution). For New South Wales, these primarily comprise grants from the Commonwealth Government to be on-passed to specified private schools, and to specified local government authorities.
Gross state product (GSP)	The total market value of final goods and services produced within a state.
Interest expense	Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings. Where discounting is used, the carrying amount of a liability increases in each period to reflect the passage of time. This increase is also recognised as an interest expense.
National Agreement (please also see National Specific Purpose Payments)	National Agreements define the objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services across a particular sector. The sectors include; Health, Education, Skills and Workforce, Disability and Indigenous.

National Partnership Payment (NPP)	An Australian Government grant to States and Territories to support the delivery of specified outputs or projects, to facilitate reforms or to reward the delivery of nationally significant reforms. Each NPP is supported by a National Partnership Agreement which defines mutually agreed objectives, outputs and performance benchmarks.
National Specific Purpose Payments (SPP)	An Australian Government grant made to the States and Territories under the associated National Agreement. These grants must be spent in the key service delivery sector (Health, Education, Skills and Workforce, Disability and Indigenous) for which it is provided. States are free to allocate the funds within that sector to achieve the mutually agreed objectives specified in the associated National Agreement.
Net acquisition of non-financial assets	This is purchases (or acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Purchases and sales (or net acquisitions) of non-financial assets generally include accrued expenses and payables for capital items. Other movement in non-financial assets include non-cash capital grant revenue/expenses such as developer contribution assets.
Net financial assets	See net financial worth.
Net debt	Net debt equals the sum of financial liabilities (deposits held, advances received, loans and other borrowings) less the sum of financial assets (cash and deposits, advances paid and investments, loans and placements).
Net financial liabilities (NFL)	This is the total liabilities less financial assets, other than equity in PNFCs and PFCs. It is a more accurate indicator than net debt of a jurisdiction's fiscal position. This is because it is a broader measure than net debt in that it includes significant liabilities other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth. For the general government sector NFL, excluding the net worth of other sectors results in a purer measure than net financial worth as, in general, the net worth of other sectors of government is backed up by physical assets.
Net financial worth	Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets less liabilities. It is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. It includes all classes of financial assets and liabilities, only some of which are included in net debt.
Net interest on the net defined benefit liability/asset	This is the change during the period to the net defined benefit liability/asset that arises from the passage of time.

Net lending/(borrowing)	This is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
Net operating balance (budget result)	This is calculated as revenue from transactions less expenses from transactions.
Net worth	This is an economic measure of wealth and is equal to total assets less liabilities.
Nominal dollars/prices	This shows the dollars of the relevant period. No adjustment is made each time period for inflation.
Non-financial public sector (NFPS)	This is a sub-sector formed by the consolidation of the general government sector and public non-financial corporations (PNFC) sector.
Operating Result	This is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.
Other economic flows	These are the changes in the volume or value of an asset or liability that do not result from transactions (that is, revaluations and other changes in the volume of assets).
Payables	A liability that includes short and long term trade creditors, and accounts payable.
Public Finance and Audit Act 1983	An Act to make provision with respect to the administration and audit of public finances and for other purposes.
Public Private Partnerships (PPP)	The creation of an infrastructure asset through private sector financing and private ownership for a concession period (usually long term). The Government may contribute to the project by providing land or capital works, through risk sharing, revenue diversion or purchase of the agreed services.
Public financial enterprise (PFE)	An ABS classification of agencies that have one, or more, of the following functions: ▪ that of a central bank ▪ the acceptance of demand, time or savings deposits or ▪ the authority to incur liabilities and acquire financial assets in the market on their own account. For GFS purposes these are referred to as public financial corporations (PFC).

Public non-financial corporations (PNFC)	An ABS classification of Public Trading Enterprises (PTE) where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.
Public trading enterprise (PTE)	Government controlled agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation. For GFS purposes, the ABS classifies and refers to these as the public non-financial corporations (PNFC) sector.
Receivables	An asset that includes short and long term trade debtors, accounts receivable and interest accrued.
Services	These are the 'end products' or direct services that are delivered to clients or recipients, the broader community or another government agency. They are expected to contribute to Government priorities.
Service groups	Services that are grouped together on the basis of the results they contribute to, the client group that they serve, common cost drivers or other service measures. There should be a clear 'line of sight' between the service groups and the services and activities that are costed and managed as part of internal business planning.
Service group statement	Each agency service group statement in Budget Paper No. 3 *Budget Estimates* includes a service description as well as service measures, expense and capital expenditure information.
State-owned corporation (SOC)	Government entities (mostly PTEs) which have been established with a governance structure mirroring as far as possible that of a publicly listed company. NSW state owned corporations are scheduled under the *State Owned Corporations Act 1989* (Schedule 5).
Superannuation interest cost	This is the net interest on the net defined benefit liability/asset determined by multiplying the net defined benefit liability/asset by the discount rate (government bond rate)
Other superannuation expense	This includes all superannuation expenses from transactions except superannuation interest cost. It generally includes all employer contributions to accumulation schemes and the current service cost, which is the increase in defined benefit entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are disclosed as an other economic flow.
Surplus/deficit (net result)	In Budget Paper No.3 *Budget Estimates* this is the agency accounting result which corresponds to profit or loss in private sector financial reports. It equals the net cost of services adjusted for government contributions. This is not the same as the budget result or the GFS cash surplus/(deficit).

Total Asset Management (TAM)	An agency's TAM plan sets out its asset expenditure priorities and funding projections over a rolling ten year period, to ensure physical asset management plans are aligned with service priorities and performance targets, and are financially sustainable. TAM covers the acquisition, maintenance, operation and disposal of all physical assets, including land, buildings, infrastructure, plant and equipment, and information technology.
Total expenses	The total amount of expenses incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year. It does not include expenditure on the purchase of assets. It also excludes losses, which are classified as other economic flows.
Total revenues	This is the total amount of revenue due by way of taxation, Commonwealth Government grants and from other sources (excluding asset sales) regardless of whether a cash payment is received. It excludes gains, which are classified as other economic flows.
Total state sector	This represents all agencies and corporations owned and controlled by the NSW Government. It comprises the general government, public trading enterprises (also referred to as the public non-financial corporations) and public financial enterprises.
Uniform Presentation Framework (UPF)	The uniform presentation framework provides uniformity in presentation of financial information so that users of the information can make valid comparisons between jurisdictions.

To gain a better understanding of the terminology and key aggregates used in these Budget Papers, a glossary of terms can be found in Note 36 of the *Report on State Finances 2013-14*.

The Treasury Statement in relation to the Estimated Financial Statements for the 2015-16 Budget

Scope

The 2015-16 Budget presents financial statements for the general government sector. These include:

- General Government Sector Operating Statement
- General Government Sector Balance Sheet
- General Government Sector Cash Flow Statement and
- Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit)

The statements have been prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions. Collectively the Statements and Statement of Significant Accounting Policies and Forecast Assumptions are termed the 'Estimated Financial Statements'.

The Estimated Financial Statements cover the revised estimates for the current year ending 30 June 2015, and estimates for the Budget year ending 30 June 2016 and the three forward years ending 30 June 2017, 2018 and 2019.

Best available information

The practicalities associated with preparing Budget papers make it is necessary to rule off at a point in time so that all information is internally consistent. The Estimated Financial Statements have been prepared to reflect existing operations, the impact of new Government policy decisions and year-end projections provided by agencies based on end-April data. They have also been prepared to take into account other economic and financial data available to Treasury up to 18 June 2015, including Commonwealth Government funding decisions announced in the 2015-16 Commonwealth Budget.

Any estimates or assumptions made in measuring revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time. Assumptions are detailed under the headings *Material Economic and Other Assumptions* and *Summary of Other Key Assumptions*.

Professional judgement

The prospective nature of the Estimated Financial Statements means it is necessary to apply professional judgement in their preparation. That judgement includes an informed assessment of the most likely economic and financial outcomes including spending and revenue profiles.

Differences between underlying assumptions and eventual outcomes can reflect the reality of an uncertain operating environment and the impact of many variables over which the Government has little or no control.

In my opinion, the Estimated Financial Statements have been properly prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions and the methodologies used to determine those assumptions are reasonable.

Philip Gaetjens
Secretary
The Treasury

19 June 2015

2015-16 Budget Estimated Financial Statements

The following pages form part of the estimated financial statements subject to assurance review.

General Government Sector Operating Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
Revenue from Transactions						
Taxation	24,295	26,046	27,855	28,678	30,085	31,343
Grants and Subsidies						
- Commonwealth General Purpose	15,894	17,065	17,346	17,864	18,214	18,828
- Commonwealth Specific Purpose Payments	7,449	8,073	8,619	9,262	9,681	9,997
- Commonwealth National Partnership Payments	3,963	2,829	2,712	3,794	2,587	1,622
- Other Grants and Subsidies	1,026	1,045	1,098	1,062	783	887
Sale of Goods and Services	5,677	6,352	8,212	8,856	8,496	8,256
Interest	609	651	508	482	481	479
Dividend and Income Tax Equivalents from Other Sectors	2,260	2,410	1,468	1,081	946	831
Other Dividends and Distributions	700	779	424	452	472	505
Fines, Regulatory Fees and Other	4,133	3,892	3,901	4,132	4,411	4,566
Total Revenues from Transactions	**66,005**	**69,143**	**72,143**	**75,663**	**76,157**	**77,315**
Expenses from Transactions						
Employee	27,056	28,287	28,936	30,452	31,715	33,288
Superannuation						
- Superannuation Interest Cost	1,762	1,698	1,476	1,478	1,499	1,447
- Other Superannuation	2,694	2,839	2,926	3,066	3,024	3,050
Depreciation and Amortisation	3,954	4,165	4,440	4,645	4,880	5,009
Interest	2,249	2,268	2,244	2,242	2,253	2,259
Other Property	...	...	...	...	...	...
Other Operating	14,345	14,680	17,567	18,118	17,742	17,821
Grants and Subsidies						
- Current Grants and Subsidies	9,644	10,179	11,092	11,570	11,605	11,388
- Capital Grants	3,052	2,969	941	898	849	796
Total Expenses from Transactions	**64,757**	**67,085**	**69,624**	**72,469**	**73,567**	**75,058**
Transactions from Discontinuing Operations	...	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,247**	**2,058**	**2,520**	**3,194**	**2,590**	**2,257**

General Government Sector Operating Statement (cont)

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 Forward Estimates $m	2018-19 Forward Estimates $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Superannuation	...	...	...	...	...	...
Gain/(Loss) from Other Liabilities	(689)	(684)	137	392	244	118
Other Net Gains/(Losses)	285	581	155	95	100	171
Share of Earnings from Associates (excluding Dividends)	118	(16)	(15)	(11)	(17)	(8)
Dividends from Asset Sale Proceeds	...	118	100	...	...	...
Deferred Income Tax from Other Sectors	(458)	...	...	...	...	...
Other	(42)	(27)	105	125	67	24
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(785)**	**(28)**	**483**	**602**	**394**	**305**
Operating Result	**462**	**2,030**	**3,002**	**3,796**	**2,984**	**2,562**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result						
Superannuation Actuarial Gains/(Loss)	(83)	(4,757)	5,024	9,819	6,106	3,498
Deferred Tax Direct to Equity	...	...	...	(0)	...	...
Revaluations	3,790	6,049	3,364	3,397	3,379	3,392
Share of Earnings from Associates from Revaluations	(401)	...	...	...	...	...
Items that may be Reclassified Subsequently to Operating Result						
Net Gain/(Loss) on Equity Investments in Other Sectors	3,978	4,562	7,033	9,034	5,756	5,159
Net Gain/(Loss) on Equity Investments in Other Sectors Discontinued	148	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	(3)	...	...	...	...	...
Other	(21)	(1,248)	(2,831)	(3,466)	(1,963)	(1,463)
Other Economic Flows - Other Comprehensive Income	**7,408**	**4,605**	**12,590**	**18,784**	**13,278**	**10,587**
Comprehensive Result - Total Change in Net Worth [(a)]	**7,870**	**6,635**	**15,592**	**22,580**	**16,262**	**13,149**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**7,870**	**6,635**	**15,592**	**22,580**	**16,262**	**13,149**
Less: Net Other Economic Flows	(6,623)	(4,578)	(13,073)	(19,386)	(13,672)	(10,892)
Equals: Budget Result - Net Operating Balance	**1,247**	**2,058**	**2,520**	**3,194**	**2,590**	**2,257**
Less: Net Acquisition of Non-Financial Assets						
Purchases of Non-Financial Assets	8,432	9,479	9,186	8,216	7,705	7,018
Sales of Non-Financial Assets	(517)	(469)	(687)	(400)	(474)	(535)
Less: Depreciation	(3,954)	(4,165)	(4,440)	(4,645)	(4,880)	(5,009)
Plus : Change in Inventories	(25)	(4)	1	(2)	8	(1)
Plus : Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	114	131	183	109	125	3,420
- Other	(1,567)	(1,719)	60	69	107	110
Equals: Total Net Acquisition of Non-Financial Assets	**2,484**	**3,254**	**4,302**	**3,347**	**2,591**	**5,003**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(1,236)**	**(1,196)**	**(1,783)**	**(153)**	**(1)**	**(2,747)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(b)]	8,546	9,610	9,369	8,325	7,830	10,438

(a) Total change in net worth' is before transactions with owners as owners, and before revisions to equity from changes to accounting policies. Therefore it may not equal the movement in balance sheet net worth.

(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using finance leases.

General Government Sector Balance Sheet

	June 2014	June 2015	June 2016	June 2017	June 2018	June 2019
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalent Assets	9,966	10,881	5,723	5,059	5,441	5,090
Receivables	6,833	7,470	6,699	6,277	6,098	5,773
Tax Equivalents Receivable	206	102	21	19	40	76
Investments, Loans and Placements						
Financial Assets at Fair Value	9,562	10,865	11,369	11,671	12,219	12,869
Other Financial Assets	4,607	3,232	4,885	2,919	1,037	1,115
Advances Paid	944	1,033	1,175	1,301	1,378	1,354
Deferred Tax Equivalents Assets	4,695	4,650	4,786	4,939	5,042	5,101
Equity						
Investments in Other Public Sector Entities	84,695	88,943	95,976	105,007	110,761	115,918
Investments in Associates	4,039	3,897	3,882	3,870	3,854	3,846
Other Equity Investments	10	10	10	10	10	10
Total Financial Assets	**125,557**	**131,082**	**134,525**	**141,072**	**145,879**	**151,153**
Non-Financial Assets						
Inventories	248	244	245	243	251	250
Forestry Stock and Other Biological Assets	7	7	7	7	7	7
Assets Classified as Held for Sale	106	300	42	103	68	47
Investment Properties	137	142	142	142	142	142
Property, Plant and Equipment						
Land and Buildings	64,100	67,334	69,672	70,064	70,619	70,911
Plant and Equipment	9,533	10,373	10,407	10,451	10,388	10,255
Infrastructure Systems	74,239	78,970	83,686	89,337	94,446	102,471
Intangibles	2,356	2,661	2,984	2,940	2,691	2,370
Other Non-Financial Assets	2,061	2,392	2,817	3,456	3,960	4,269
Total Non-Financial Assets	**152,790**	**162,423**	**170,003**	**176,742**	**182,572**	**190,721**
Total Assets	**278,346**	**293,505**	**304,528**	**317,814**	**328,451**	**341,874**
Liabilities						
Deposits Held	117	122	113	100	86	73
Payables	5,553	5,748	4,976	4,746	4,755	4,856
Tax Equivalent Payables	40	48	81	49	18	27
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	13	11	9	7	6	4
Borrowings at Amortised Cost	31,028	31,632	32,019	32,220	32,233	35,417
Advances Received	791	901	885	893	861	734
Employee Provisions	14,435	15,179	15,222	15,184	15,211	15,464
Superannuation Provisions [(a)]	48,262	54,053	49,735	40,379	34,519	31,084
Deferred Tax Equivalent Provisions	488	532	537	528	522	523
Other Provisions	7,934	8,365	8,565	8,788	9,103	9,441
Other Liabilities	1,918	2,512	2,390	2,345	2,298	2,265
Total Liabilities	**110,578**	**119,102**	**114,533**	**105,239**	**99,614**	**99,889**
NET ASSETS	**167,768**	**174,403**	**189,995**	**212,575**	**228,837**	**241,985**
NET WORTH						
Accumulated Funds	20,085	16,733	22,047	32,316	39,564	44,283
Reserves	147,683	157,669	167,948	180,258	189,273	197,703
TOTAL NET WORTH	**167,768**	**174,403**	**189,995**	**212,575**	**228,837**	**241,985**
OTHER FISCAL AGGREGATES						
Net Financial Worth	**14,979**	**11,979**	**19,992**	**35,833**	**46,265**	**51,264**
Net Debt[(b)]	**6,869**	**6,655**	**9,875**	**12,270**	**13,112**	**15,799**
Net Financial Liabilities[(c)]	**69,716**	**76,964**	**75,984**	**69,175**	**64,496**	**64,653**

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.

(b) Net debt comprises the sum of deposits held, advances received and borrowing, minus the sum of cash deposits, advances paid, and financial assets at fair value.

(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

General Government Sector Cash Flow Statement

	2013-14 Actual $m	2014-15 Revised $m	2015-16 Budget $m	2016-17 Forward Estimates $m	2017-18 $m	2018-19 $m
Cash Receipts from Operating Activities						
Taxes Received	24,081	26,247	27,909	28,708	30,107	31,379
Receipts from Sales of Goods and Services	6,316	6,275	8,522	9,281	8,921	8,823
Grants and Subsidies Received	28,272	28,898	29,866	31,981	31,264	31,316
Interest Receipts	550	631	467	442	435	435
Dividends and Income Tax Equivalents	2,806	2,306	2,128	1,435	1,032	916
Other Receipts	7,441	7,684	6,486	6,692	6,941	7,273
Total Cash Receipts from Operating Activities	**69,467**	**72,041**	**75,378**	**78,539**	**78,700**	**80,142**
Cash Payments from Operating Activities						
Payments for Employees	(26,297)	(27,897)	(29,232)	(30,309)	(31,488)	(32,991)
Payments for Superannuation	(3,392)	(3,438)	(3,698)	(4,081)	(4,277)	(4,435)
Payments for Goods and Services	(15,750)	(16,590)	(19,927)	(20,327)	(19,824)	(19,830)
Grants and Subsidies Paid	(8,556)	(9,151)	(9,597)	(9,913)	(9,805)	(9,439)
Interest Paid	(1,614)	(1,733)	(1,684)	(1,682)	(1,651)	(1,639)
Other Payments	(4,482)	(3,850)	(3,440)	(3,527)	(3,557)	(3,647)
Total Cash Payments from Operating Activities	**(60,090)**	**(62,660)**	**(67,578)**	**(69,840)**	**(70,601)**	**(71,981)**
Net Cash Flows from Operating Activities	**9,376**	**9,381**	**7,800**	**8,699**	**8,099**	**8,162**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	605	450	697	400	474	535
Purchases of Non-Financial Assets	(8,325)	(9,332)	(9,184)	(8,313)	(7,737)	(6,986)
Net Cash Flows from Investments in Non-Financial Assets	**(7,720)**	**(8,881)**	**(8,487)**	**(7,913)**	**(7,263)**	**(6,451)**
Cash Flows from Investments from Financial Assets for Policy Purposes						
Receipts	2,875	965	222	203	212	267
Payments	(305)	(1,398)	(3,071)	(3,694)	(2,268)	(1,725)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**2,570**	**(433)**	**(2,849)**	**(3,491)**	**(2,056)**	**(1,458)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	724	9,095	495	2,721	2,515	460
Payments for Purchases of Investments	(4,984)	(8,202)	(2,181)	(636)	(658)	(682)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(4,260)**	**893**	**(1,686)**	**2,085**	**1,857**	**(223)**
Net Cash Flows from Investing Activities	**(9,410)**	**(8,422)**	**(13,023)**	**(9,319)**	**(7,463)**	**(8,132)**
Cash Flows from Financing Activities						
Advances Received	98	154	23	38	39	29
Advances Repaid	(54)	(61)	(53)	(53)	(53)	(94)
Proceeds from Borrowings	2,204	1,281	640	480	430	513
Repayments of Borrowings	(444)	(1,215)	(533)	(543)	(726)	(879)
Deposits Received (net)	(956)	4	(9)	(14)	(14)	(14)
Other Financing (net)	15	(8)	(0)	(2)	...	...
Net Cash Flows from Financing Activities	**863**	**155**	**69**	**(92)**	**(323)**	**(445)**
Net Increase/(Decrease) in Cash Held	**829**	**1,114**	**(5,154)**	**(712)**	**313**	**(415)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	9,376	9,381	7,800	8,699	8,099	8,162
Net Cash Flows from Investments in Non-Financial Assets	(7,720)	(8,881)	(8,487)	(7,913)	(7,263)	(6,451)
Cash Surplus/(Deficit)	**1,656**	**500**	**(687)**	**786**	**836**	**1,711**

Derivation of ABS GFS General Government Sector Cash Surplus/(Deficit)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	Actual	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m	$m
Cash Surplus/(Deficit)	**1,656**	**500**	**(687)**	**786**	**836**	**1,711**
Assets Acquired under Finance Leases	(114)	(131)	(183)	(109)	(125)	(3,420)
Other Financing Arrangements[(a)]	(195)	(129)	(12)	97	32	(32)
ABS GFS Surplus/(Deficit)	**1,347**	**240**	**(882)**	**773**	**743**	**(1,741)**

(a) Comprises movements in payables and receivables of a capital nature

Statement of Significant Accounting Policies and Forecast Assumptions

Scope of the Estimated Financial Statements

The Budget Papers present the Estimated Financial Statements of the General Government Sector including revised estimates for the current year ending 30 June 2015, estimates for the Budget year ending 30 June 2016 and the three forward years ending 30 June 2017, 2018 and 2019.

These comprise the General Government Sector Operating Statement, General Government Sector Balance Sheet, General Government Sector Cash Flow Statement and Derivation of ABS GFS General Government Sector Cash Surplus / (Deficit). 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 are prepared for the NSW General Government Sector, which is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005 (cat. No. 5514)* (ABS GFS Manual) as amended from time to time.

The General Government Sector 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 services to general government agencies.

The scope of the General Government Sector is outlined in Appendix B3 of Budget Paper 1.

Basis of Preparation

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

They have been prepared to reflect existing operations and the impact of new policy decisions taken by the New South Wales Government (where their financial effect can be reliably measured). The 2014-15 Budget is derived from the 2014-15 Budget Papers. The revised estimates for 2014-15 are based on actual results at 30 April 2015, and updated year end projections provided by agencies. They have also been prepared to take into account other economic and financial data available to Treasury up to 18 June 2015, including Commonwealth Government funding decisions announced in the 2015-16 Commonwealth Budget.

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

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

Accounting Policies

Australian Accounting Standards do not include requirements or provide guidance on the preparation or presentation of prospective financial statements. However, recognition and measurement principles within Australian Accounting Standards 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 business asset transactions until they are finalised. The financial impact of future planned discontinuing operations or restructures are not recognised due to the commercial-in-confidence nature of the transactions.

The Estimated Financial Statements adopt the accounting policies expected to be used in preparing general purpose financial statements for 2014-15. With the exception of those matters below, the policies are not materially different from those applied in the *Total State Sector Accounts 2013-14*. Note 1 of the *Total State Sector Accounts 2013-14* sets out the significant accounting policies, including the principles of consolidation and the recognition and measurement policies for revenues, expenses, other economic flows, assets and liabilities.

Change in Accounting Policies

The following Australian Accounting Standards have been adopted in 2014-15, impacting on the State's financial estimates as follows.

Revisions to Standards relating to Consolidations, Joint Arrangements and Associates

The State has adopted the following new and revised standards relating to consolidations, joint arrangements and associates on 1 July 2014: AASB 10 Consolidated Financial Statements; AASB 11 Joint Arrangements; AASB 12 Disclosure of Interests in Other Entities; AASB 127 Separate Financial Statements; and AASB 128 Investments in Associates and Joint Ventures.

AASB 10 introduced a revised definition of control and provided several new principles in assessing whether control exists. AASB 11 requires joint arrangements to be accounted for based on their contractual arrangements, and distinguishes between joint operations and joint ventures. AASB 12 contains the disclosure requirements associated with 'other entities' (i.e. subsidiaries, associates and joint ventures) that were previously located in AASB 127, 128 and 131 and Interpretations 112 and 113.

The impact of any changes to control relationships on the Estimated Financial Statements, arising from these new and revised standards, is not expected to be significant. The General Government Sector does not consolidate Public Non-Financial Corporations and Public Financial Corporations that it controls on a line by line basis; and instead, recognises an equity investment in those entities and a gain or loss for changes in the carrying amount of the investment.

Presentation of the Estimated Financial Statements

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

AASB 1049 harmonises generally accepted accounting principles (GAAP, i.e. Australian accounting standards) with Government Finance Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics. This occurs by requiring that:

- 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 (i.e. Budget result) is the net result of harmonised GFS-GAAP transactions for the general government sector.

In the operating statement:

- the *net operating balance* (i.e. the Budget result) is the net result of income and expense *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 financial statements adopt the recognition, measurement and disclosure requirements of GAAP
- where options exist in GAAP, the financial statements adopt the option that is aligned with GFS, to minimise differences between GAAP and GFS
- 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 financial statements, including disclosure of contingent assets and liabilities, are not required to be presented within the meaning of Australian Accounting Standards as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

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 to the nearest million dollars.

Presentation Changes

There has been a minor presentation change within the Balance Sheet since the release of the 2014-15 Budget Papers to separately disclose 'Financial Assets at Fair Value' and 'Other Financial Assets' that are not recorded at fair value under the heading 'Investments, Loans and Placements'. This presentation remains consistent with GAAP and GFS presentation requirements.

Definitions

Key technical terms, including fiscal aggregates, are defined in the Glossary to Budget Paper No 1.

Material Economic and Other Assumptions

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table B2.1.

Key economic performance assumptions [(a)]

	2013-14 Outcomes	2014-15 Forecasts	2015-16 Forecasts	2016-17 Forecasts	2017-18 and 2018-19 Projections[(b)]
New South Wales					
Real state final demand	2.7	3¼	3½	3½	
Real gross state product	2.1	2½	3	3	2¾
Employment	0.6	1¼	1¾	1¾	1¼
Unemployment rate [(c)]	5.7	6	5¾	5¾	
Sydney CPI[(d)]	2.5	1¾	2½	2¾	2½
- through the year to June quarter[(d)]	2.8	1¾	2½	2¾	
Wage price index	2.5	2¼	2½	2¾	3½
Nominal Gross State Product[(e)]	3.1	4	4	4¾	

(a) Per cent change, year average, unless otherwise indicated.

(b) Average across 2017-18 and 2018-19.

(c) Year average, per cent.

(d) 2014-15 includes a ¾ of a percentage point detraction from the abolition of the carbon tax. 2014-15 to 2016-17 include a ¼ of a percentage point contribution from tobacco excise increases.

(e) Nominal GSP measures the *value* of production whereas real GSP measures the *volume* of production. The difference is a measure of the average change in prices for goods and services produced.

Source: ABS 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 General Government Sector'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.

Revenues from Transactions

Taxation

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. For example for payroll tax, this involves an assessment of the outlook for employment and wages. Forecasts of government guarantee fees take into account an assessment of the level of debt of public non-financial corporations 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 revenue

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

The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Australian Government. For 2015-16, the GST forecast is based on the assessed relativity for New South Wales in 2015-16 and the Australian Government's population projections. The assessed relativity is the average of the past three years annual per capita relativities (2011-12, 2012-13 and 2013-14) as published by the Commonwealth Grants Commission.

After 2015-16, the State's share of GST is based on assessed relativities in a particular year and the Australian Government's population and GST pool projections. The forecast per capita annual relativities are based on the projected relative fiscal capacity of New South Wales compared to other States and Territories.

Sales of goods and services

Revenue from the sale of goods and services is forecast taking into account factors including estimates of changes in demand for services provided or expected unit price variations based on proposed fee increases imposed by general government agencies and/or indexation.

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenues are estimated by public financial and non-financial corporations based on expected profitability and the agreed dividend policy at the time of the Budget.

Fines, regulatory fees and other revenues

Fines, regulatory fees and other revenues include estimates of fines issues by the Courts, estimated traffic infringement fines, estimated revenue from enforcement orders, regulatory fees, contributions and royalty revenue for which estimates are 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

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 Government'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 approved initiatives and required efficiency savings.

Superannuation expense (and liabilities)

Superannuation expenses comprise:

- for the defined contribution plan, the forecast accrued contribution for the period, and
- for defined benefit plans, the forecast service cost and the net interest expense. This excludes the re-measurements, (i.e. actuarial gains and losses and return on plan assets excluding the gross interest income) 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 Government Bond 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 Commonwealth Government bond 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.

The table below sets out the major financial assumptions used to estimate the superannuation expense and liability in respect of defined benefit superannuation for the budget and forward estimates period.

Superannuation Assumptions – Pooled Fund / State Super Schemes

	2014-15 %	2015-16 %	2016-17 %	2017-18 %	2018-19 %
Liability discount rate	2.77	3.02	3.79	4.33	4.55
Expected return on investments	15.3	8.60	8.60	8.60	8.60
Expected salary increases[(a)]					
– SSS and SASS Members [(b)]	2.25	2.50	2.50	2.50	2.50
– PSS Members [(b)]	2.25	2.50	2.50	2.50	2.50
Expected rate of CPI	1.50	2.50	2.75	2.75	2.50

(a) Taking the increased Superannuation Guarantee Contribution into account, total remuneration will increase by 2.5 per cent.

(b) SSS – State Superannuation Scheme, SASS – State Authorities Superannuation Scheme, PSS – Police Superannuation Scheme

Depreciation and amortisation

Property, plant and equipment is depreciated (net of its residual value) over its useful life. Depreciation is generally allocated on a straight-line basis.

Depreciation is forecast on the basis of known asset carrying valuations, the expected economic life of assets, assumed new asset investment and asset sales programs. The 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. The depreciation expense may also be impacted by future changes in useful lives, carrying value, residual value or valuation methodology.

Certain heritage assets, including original artworks and collections and heritage buildings, may not have a limited useful life 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 under the straight line method. Intangible assets with an indefinite life are not amortised, but tested for impairment annually.

Interest expense

The forecasts for the interest expenses are based on:

- payments required on the current general government sector debt,
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for NSW Treasury Corporation bonds, and
- the unwinding of discounts on non-employee provisions.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the 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 the application of government policy. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expense

Grant and subsidy expenses generally comprise cash contributions to local government authorities and non-government organisations. For the general government sector they include grants and subsidies paid to the Public Non-Financial Corporation and Public Financial Corporations sectors. The forecast grant payments are determined 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 non-financial physical assets. The forward estimates include the estimated impact of revaluations of non-financial physical assets.

Superannuation actuarial gains / losses

The forecast gain or loss on defined benefit superannuation is based on the revised estimates of the margin of forecast fund earnings in excess of the expected discount rate.

Net gain on equity investments in other sector entities

The gain or loss on equity investments in other sector entities is based on estimates of the public financial corporation and public non-financial corporation 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 owners are based on the Treasury *Commercial Policy Framework*.

Assets

Land and buildings, plant and equipment, and infrastructure

The estimates of non-financial physical assets over the forecast period are at fair value and take into account planned acquisitions, disposals, and the impact of depreciation and revaluations. New investments in assets are valued at the forecast purchase price and, where appropriate, recognised progressively over the estimated construction period. The forward estimates include the estimated impact of revaluations of non-financial physical assets. These estimates are based on an examination of expected cost trends.

The Estimated Financial Statements also include provisions for future capital expenditure. These include agency estimates of approved projects and future new works held within agencies, as well as a central estimate for future new works still to be approved at the agency level. The central estimate for future new works is based upon historical trends.

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.

Employee provisions

Employee provisions are forecast based on expected staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee benefits are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the Government'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 (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 claim 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.

AUDITOR-GENERAL
NEW SOUTH WALES

INDEPENDENT ASSURANCE PRACTITIONER'S REPORT

Estimated Financial Statements

To the Secretary of Treasury

You requested I undertake a limited assurance review of the reasonableness of estimates and forecasts included in the 2015-16 Budget Papers. My review was conducted in accordance with Australian Auditing and Assurance Standards.

My review covers the revised budget for the year ending 30 June 2015, the budget for the year ending 30 June 2016, and the three forward years ending 30 June 2017, 2018, and 2019 of the NSW General Government Sector (the estimated financial statements). The estimated financial statements comprise the operating statement, balance sheet, cash flow statement, derivation of ABS GFS cash surplus/deficit and a statement of significant accounting policies and forecast assumptions. The subject matter immediately precedes this report. All other 2015-16 Budget Paper content has not been subject to my review.

The estimated financial statements have been prepared by Treasury for the NSW Treasurer for inclusion in the 2015-16 Budget Papers. I disclaim any assumption of responsibility for any reliance on this report, or on the estimated financial statements to which it relates, to any person other than the Secretary, or for any purpose other than that for which it was prepared.

Unqualified Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe:

- the estimated financial statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the estimated financial statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

Actual results for the NSW General Government Sector are likely to be different from those forecast in the estimated financial statements since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, I express no opinion as to whether the forecasts will be achieved.

Secretary's Responsibility for the estimated financial statements

The Secretary is responsible for the preparation and presentation of the estimated financial statements. This responsibility includes preparation on a basis consistent with the stated accounting policies and assumptions as well as the development of reasonable methodologies to determine those assumptions. It also includes such internal control as the Secretary determines is necessary to enable preparation of the estimated financial statements that are free from material misstatement, whether due to fraud or error.

Assurance Practitioner's Responsibility

My responsibility is to express a conclusion on the estimated financial statements based on my review. I conducted my review in accordance with Australian Auditing and Assurance Standards applicable to the review of prospective financial information. Those standards require I comply with relevant ethical requirements relating to such engagements, and conduct the review in order to state whether anything has come to my attention that causes me to believe:

- the estimated financial statements have not been prepared on a basis consistent with the accounting policies on which they are stated to be based
- the estimated financial statements have not been prepared on the basis of the assumptions stated
- the methodologies used to determine those assumptions are unreasonable.

A review is limited primarily to making inquiries of relevant personnel and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, an audit opinion is not expressed.

Forecasts relate to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions upon which forecasts are based, such evidence is generally future oriented and therefore less certain in nature. Given the nature of the evidence available in assessing the reasonableness of the assumptions, I cannot obtain the level of assurance necessary to express a reasonable assurance conclusion on those assumptions. The conclusion expressed in this report has been formed on the above basis. Accordingly, I provide a lesser level of assurance on the reasonableness of the assumptions. No opinion is expressed on whether the forecasts will be achieved.

Electronic Publication of the Reviewed Financial Statements

This review report relates to the estimated financial statements for the years ending 30 June 2015, 2016, 2017, 2018 and 2019 of the NSW General Government Sector included in the 2015-16 Budget Papers and NSW Budget website. The Secretary of Treasury is responsible for the integrity of the website. I have not been engaged to report on the integrity of that website. The review report refers only to the subject matter described above. It does not provide a conclusion on any other information that may have been hyperlinked to/or from these statements. If users of the historical and estimated financial statements are concerned with the inherent risks arising from publication on a website, they are advised to refer to a hard copy of the 2015-16 Budget Papers to confirm the information contained in the website version of those statements.

Independence

In conducting my review, I have complied with the independence requirements of the Australian Auditing and Assurance Standards and relevant ethical pronouncements. The *Public Finance and Audit Act 1983* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit related services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.

A T Whitfield

A T Whitfield PSM
Acting Auditor-General

19 June 2015
SYDNEY

Cover images courtesy of Transport for NSW; NSW Health; the NSW Police Force; the Department of Education; Anson Smart, Destination NSW; and James Horan, Destination NSW.