NSW Budget

2018-19 Half-Yearly Review

Released by The Hon. Dominic Perrottet MP, Treasurer,
and Minister for Industrial Relations

This statement is released in compliance with section 8 of the *Public Finance and Audit Act 1983*. This section requires the Treasurer by 31 December in each year, to publicly release a statement (the Half-Yearly Review) containing:

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

Section 8 also requires the Half-Yearly Review to be based on actual results as at the end of the previous October.

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

Budget Paper No. 1 *Budget Statement* contains the full details of the 2018-19 Budget, as well as budget scope and other explanatory information. All financial statements presented are prepared in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Notes to using this report

The Budget year refers to 2018-19, while the forward estimates period refers to 2019-20, 2020-21 and 2021-22. Figures in tables, charts and text have been rounded. Discrepancies between totals and sums of components reflect rounding. Percentage changes are based on unrounded estimates.

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1. OVERVIEW

2018-19 Half-Yearly Review Highlights

- The fundamentals of the NSW Budget and economy remain strong:
  - The lowest unemployment rate of any state and the highest labour force participation rate in New South Wales' history
  - Surpluses over the four years to 2021-22, averaging $1.3 billion per year
  - A balance sheet that goes from strength to strength, with negative net debt of $11.2 billion at June 2018 (the lowest net debt of any state and the lowest net debt in New South Wales history) and negative $7.7 billion at June 2019 (a $10.3 billion improvement since Budget)
  - The State's triple-A credit rating was reaffirmed in September 2018.
- Given this strong fiscal position, the NSW Government continues to support families with the cost of living. Since the Budget, the Government has also invested in critical services that support the community, including drought relief and increased funding for police and education.
- The Government is delivering a record infrastructure program, investing $89.7 billion over the next four years.
- While continuing to improve services and infrastructure for the community today, the Government has maintained a responsible approach to fiscal management. It is investing in the NSW Generations Fund to enable future generations to share in the dividends of today's strong fiscal position.

The 2018-19 Half-Yearly Review provides an update on the fiscal and economic position of New South Wales since the 2018-19 Budget (June 2018). The Half-Yearly Review also details new policy measures since the Budget.

A solid economic outlook and strength in the labour market

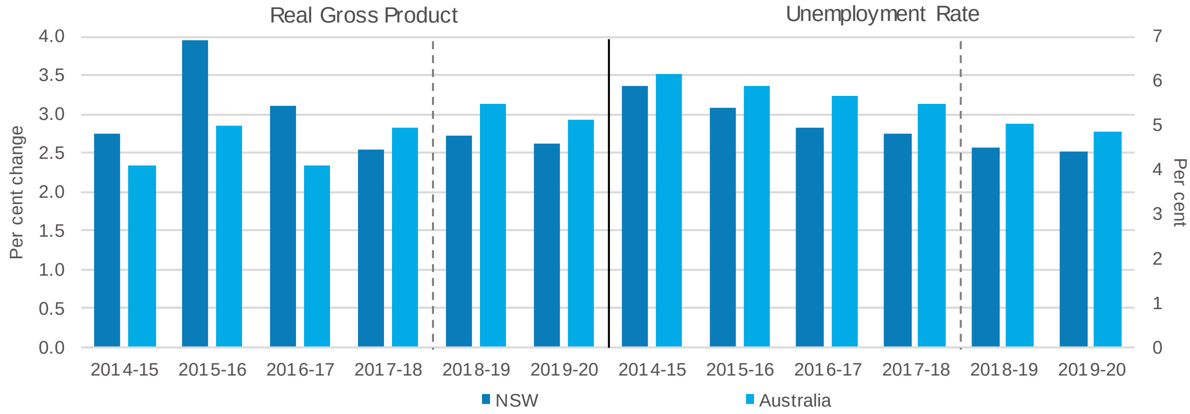
The NSW economy has demonstrated impressive strength over a sustained period. Gross State Product per capita has grown by an average 1.6 per cent a year since 2014-15, the highest of any state.

The NSW economy grew by 2.6 per cent in 2017-18. This result followed three years of growth in New South Wales that was well above long-term trends (see Chart 1.1).

The State has maintained its mantle as the best place to live and get a job. New South Wales boasts the lowest unemployment rate of any state at 4.4 per cent, a title it has held since mid-2015. In the last year alone, employment expanded by around double its long-run average – equating to approximately 150,000 more people employed. These conditions are encouraging even more people to participate in the labour market. The State's participation rate is now at a record high of 65.2 per cent.

Economic growth for 2018-19 is expected to be 2¾ per cent, which is above the long-term average. The foundations that underpin this growth include rising business investment, high public demand and favourable external conditions – including above-trend growth in the Australian and global economies and a lower Australian dollar.

Chart 1.1: Strong labour market is laying a foundation for economic growth



Source: ABS 5220.0, ABS 6202.0 and NSW Treasury

While the turn in the housing market has materialised into lower transfer duties, it has not yet translated into a material impact in the real economy – although risks remain. The effects of the drought are also flowing into lower farm production and rural exports.

In 2019-20, the NSW economy is expected to continue growing at a level consistent with the historical average of 2½ per cent. This is ¼ of a percentage point lower than forecast in the Budget. The revised forecast takes into account the impact of weaker housing market conditions, which are expected to have a delayed economic impact.

The State has a large pipeline of infrastructure investment. This will continue to be a pillar for growth in the years ahead.

The strong conditions in the labour market are expected to continue. Employment is forecast to grow by 3 per cent in 2018-19, well in excess of population growth. Lower unemployment rates at both the state and national level should gradually flow into higher wages growth.

Building for the future on a strong fiscal position today

Over the four years to 2021-22, budget surpluses in New South Wales are expected to average $1.3 billion per year.

A key pillar of the Government's fiscal strategy has been to re-invest surpluses into critical infrastructure such as roads, schools, hospitals and public transport.

Surpluses have also enabled the Government to quickly respond to the needs of the NSW community. Since the Budget the Government has announced new policy measures that support the community. These include:

- a $500 million Emergency Drought Relief Package
- 1,500 new police – the biggest single increase for the NSW Police Force in more than 30 years – as part of a record investment to keep our community safe
- an additional $6.4 billion to 2027 for schools across the State, as part of the National School Reform Agreement (Gonski 2.0)

- cost of living measures (see Box 1.1) that complement key initiatives announced in the 2018-19 Budget:
  - broadening the Toll Relief Program so that drivers will receive a 50 per cent discount off their motor vehicle registration if they spend between $15 and $24.99 on average per week on tolls
  - annual indexation of transfer duty thresholds to the Sydney Consumer Price Index (CPI), saving around $330 on an average dwelling purchased by 2021-22.
- additional investment in roads, public transport, regional rail and commuter car parks. The capital expenditure program is now forecast to be $89.7 billion over four years, a $2.5 billion increase since the Budget.

NSW Generations Fund – a first of its kind sovereign wealth fund for New South Wales

The Government has significantly invested in the NSW Generations Fund since the Budget, taking the initial balance from $3 billion to $10 billion (see Box 1.2 and Section 3.7 Managing the State's assets and liabilities). This increase was made possible by the successful WestConnex transaction in August 2018.

To ensure the benefits from WestConnex continue to be shared by everyone in New South Wales, the NSW Generations Fund now includes the State's residual 49 per cent interest in WestConnex. This decision creates an ongoing source of income for the NSW Generations Fund.

The NSW Government's overall active approach to balance sheet management will support its ongoing infrastructure program without saddling future generations with a debt burden. As the Fund grows, up to 50 per cent of investment returns will support local communities through the My Community Dividend initiative. It will empower residents across the State, giving them an opportunity to nominate and vote for projects that will enhance their community.

My Community Dividend will be open for applications in April 2019.

Box 1.1: The Government continues to focus on easing the cost of living

As part of the 2018-19 Budget the Government announced a range of new initiatives aimed at helping families with the cost of living. Initiatives include the 'One-click energy switch', reductions in caravan motor vehicle weight tax and Compulsory Third Party (CTP) reforms to reduce the cost of Green Slips.

The 2018-19 Half-Yearly Review builds on the groundwork announced in the Budget and introduces further measures that support NSW families with the cost of living. These initiatives include:

- Broadening the Toll Relief Program – in addition to existing free registration for drivers who spend more than $25 a week on average in tolls, drivers who spend between $15 and $24.99 on average over the course of a year will receive a 50 per cent reduction on motor vehicle registration
- Indexation of transfer duty thresholds – from 1 July 2019, transfer duty thresholds will be indexed annually to movements in the Sydney Consumer Price Index (CPI).

Table 1.1 outlines the take up and savings available for these initiatives since the 2017-18 Budget.

Table 1.1: Cost of living initiatives

Cost of living Initiative	Description
Creative Kids Rebate	From 1 January 2019, families will be eligible to receive $100 each year for each school-aged child to access creative and cultural activities.
Active Kids Rebate	From 1 January 2018, families have been eligible to receive up to $100 each year for each school-aged child to participate in registered sports organisations. • Since January 2018, $53 million has been redeemed by families.
Toll Relief Program	The 2018-19 Budget announced free vehicle registration to owners of privately registered light vehicles that spend $25 or more per week, on average, over a year. Drivers could save between $277 to $729 on their car registration. • Since July 2018, $20.4 million in savings have been claimed by drivers.
First homeowners grant	Since 1 July 2017, first home buyers have been fully exempt from transfer duty (on both new and existing properties) valued up to $650,000, with transfer duty reductions up to a maximum of $800,000. The First Home Owners Grant applies to buyers of new homes up to $600,000 and to those building a new home up to $750,000. • As at October 2018, more than 43,200 people have saved up to $34,360 each on the cost of their first home equivalent to almost half a billion in duty concessions in total over the past year.
Energy switch service	Launch of a new 'One-click energy switch' website to assist consumers find the best alternative energy deals. • Since July 2018, savings of $1.7 million have been identified for customers, with an average saving of $433. • There have been around 47,000 visits to the service since it's commenced.
CTP reforms	Reductions in the cost of Compulsory Third Party (CTP) Green Slip for vehicle owners. • In November 2018 the Government announced further reductions to premiums, taking the statewide premium to an average of $501 – the lowest since 2011 • Since 1 December 2017, $206 million has been paid in refunds. • The average saving is more than $120.
Cost of living advisory service	Service NSW has commenced a cost of living advisory service to promote easy access to available rebates and concessions across government. • Since July 2018, savings of $4.7 million has been identified for NSW citizens.
Energy Affordability Package	The Government has increased energy rebates up to 20 per cent, including the Low Income Household Rebate, the Family Energy Rebate, the Gas Rebate, the Medical Energy Rebate, the Life Support Rebate and the Energy Accounts Payment Assistance. Residents have already claimed over $390 million in rebates since 1 July 2017, significantly helping them lower their energy cost.
Caravan registration	From 1 November 2018, motor vehicle weight tax was reduced for caravans by 40 per cent. This now aligns with other states and territories.
Reform of parking and other fines	From 1 January 2019, 42 parking fines issued by State authorities will be reduced by 25 per cent. From 31 January 2019, there will be a ten minute grace period if at least one hour of parking is covered by a paid ticket or coupon. From 1 March 2019, councils and universities will be able to opt-in to charge lower amounts for 52 classes of parking fines.
Start Strong	From 1 January 2019, parents will be able to access preschool for three-year olds, making NSW the first state in Australia to do so, saving families on average $825 a year.
Baby Bundle	From 1 January 2019, parents will be eligible to receive a baby bundle for babies born in NSW. This bundle will help parents with the cost of essential items, with a retail value of approximately $300.

The Government's fiscal and policy measures will help to ensure that the NSW fiscal position remains strong despite headwinds in the housing market.

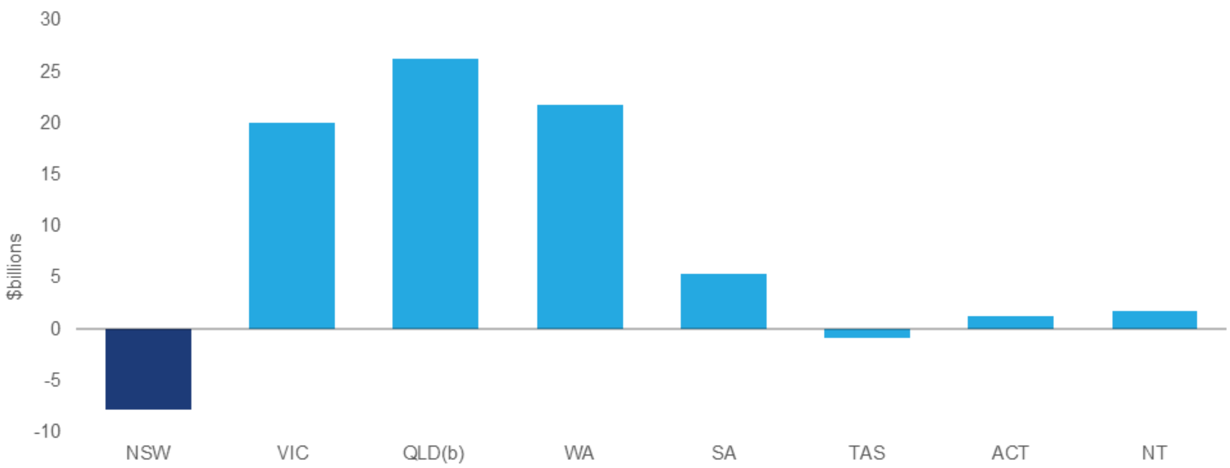
The 2018-19 surplus is projected to be $1.1 billion.

- Revenue for 2018-19 is forecast to be $661.8 million higher than in the Budget. This reflects stronger payroll taxes, royalties and a one-off increase in transfer duty associated with the WestConnex transaction.
- Expenditure for 2018-19 is projected to be $967.7 million higher than in the Budget. This is largely driven by the Government's Emergency Drought Relief Package and further investment in public transport.

The State's net debt was the lowest in the country at negative $11.2 billion at June 2018 (see Chart 1.2). Net debt is projected to be negative $7.7 billion in June 2019, which is significantly lower than the projection at Budget. This projection follows the successful WestConnex transaction in August 2018 and the depositing of WestConnex proceeds into the NSW Generations Fund.

Since the Budget both Moody's and S&P Global have re-affirmed the State's triple-A credit rating.

Chart 1.2: Lowest net debt of all jurisdictions across Australia as at June 2019 [(a)]



(a) 2018-19 is based on 2018-19 Budget except for NSW which is based on 2018-19 Half-Yearly Review.
(b) QLD reported net debt is adjusted for its superannuation assets treatment, making all states and territories comparable.

Source: State Budget Outcomes 2017-18 and Budget Papers 2018-19

With record levels of investment and record low negative net debt, the State's net worth is projected to grow to $314.7 billion by 30 June 2022. This is an increase of $8.8 billion since the Budget and the highest of any state in Australia.

Box 1.2: NSW Generations Fund – investing for the future and for today

With the seeding of the NSW Generations Fund, the Government became the first State in Australia to create a genuine vehicle for intergenerational equity. New South Wales now has a powerful tool to help ensure its disciplined financial management today better prepares the State for the challenges that lie ahead. At the same time, the Fund delivers for today's citizens through the My Community Dividend initiative.

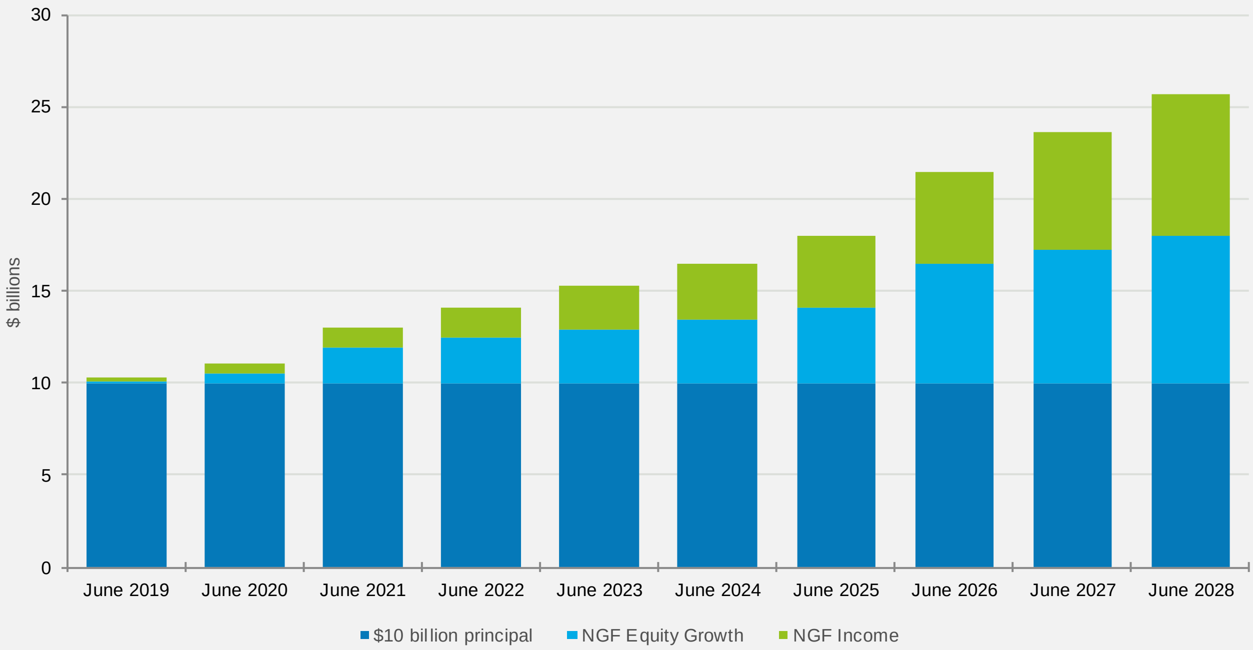
My Community Dividend will empower residents across New South Wales by giving them the opportunity to nominate and vote for projects that will enhance their communities. Each of the State's 93 electorates will be able to vote for projects valued between $20,000 and $200,000. This funding range bridges a gap between small and medium sized grant programs. It gives residents across the State the power to develop and choose projects that suit the needs of their community.

My Community Dividend will open for applications in April 2019, with anybody over the age of 16 eligible to start voting for community projects from July 2019.

As the NSW Generations Fund delivers for communities today, it will continue to grow for generations tomorrow. The $10 billion ring-fenced debt retirement fund is projected to grow to more than $25 billion by the end of the next decade, helping further strengthen the State's balance sheet and ensuring intergenerational equity for the people of New South Wales.

Both credit rating agencies and investors view positively fiscal commitments that are captured in legislation (including the maintenance of the triple-A credit rating in the *Fiscal Responsibility Act 2012*). By locking in the $10 billion and any returns for debt retirement in the *NSW Generations Funds Act 2018*, both Moody's and S&P Global have recognised the impact of the NSW Generations Fund in managing the State's debt burden. As such, the Fund is helping New South Wales by strengthening the State's balance sheet and contributing positively to the quality of NSW's credit rating.

Chart 1.3: Projected size of the NGF future debt retirement fund



Source: NSW Treasury.

2. ECONOMIC OUTLOOK

2.1 A robust economic outlook, but risks are rising

The NSW economy grew by 2.6 per cent in 2017-18, consistent with trend and a solid outcome following three years of well-above-trend growth. Labour market conditions in the State continue to outperform the rest of Australia. The State's unemployment rate fell to a decade low of 4.4 per cent in October 2018 and employment growth is around double its long-run average.

The foundations are in place for above-trend economic growth of 2¾ per cent in 2018-19, despite a slightly lower than expected outcome in 2017-18. This forecast is underpinned by higher business investment and public demand. Favourable conditions for trade-exposed businesses are further supporting growth, owing to greater economic integration with Asia, above-trend global and national economic growth, a lower Australian dollar and higher commodity prices.

While the economic outlook for 2018-19 is unchanged from the Budget, drought conditions are expected to detract a ¼ of a percentage point from economic growth in 2018-19, while weaker housing market conditions are expected to dampen consumption and (eventually) dwelling investment. Nonetheless, a stronger than expected labour market is providing an offset, while above-average population growth and an elevated construction pipeline should moderate the effects of a weaker housing market, at least in the near term.

Further ahead, economic growth in 2019-20 is expected to ease close to the trend of 2½ per cent. This is ¼ of a percentage point lower than forecast at Budget and mainly reflects the delayed impact of weaker housing market conditions.

The drivers of growth are shifting. Over the next two years, the economy will be driven less by household consumption and dwelling investment and more by business investment and exports. The public sector is expected to remain a key source of strength. This is underpinned by a record pipeline of public infrastructure, including the announcement of further new projects since the Budget.

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

	2017-18	2018-19	2019-20	2020-21	2021-22
	Outcome	Revised Forecast	Revised Forecast	Revised Projection	Revised Projection
Real state final demand	3.4	3	2¾ (3)		
Real gross state product	2.6	2¾	2½ (2¾)	2½	2½
Employment	3.1	3 (1¾)	1½	1¼	1¼
Unemployment rate [(b)]	4.8	4½ (4¾)	4½ (4¾)	4½ (4¾)	4½ (4¾)
Sydney consumer price index	2.0	2 (2¼)	2¼	2½	2½
Wage price index	2.1	2½	2¾	3	3 (3¼)
Nominal gross state product	4.5	4½ (4)	4¼	4¾ (5)	5
Population [(c)]	1.5	1.5 (1.6)	1.5	1.5 (1.4)	1.4

(a) Per cent change, annual average, unless otherwise indicated. Budget forecasts in parenthesis where different.
(b) Annual average, per cent.
(c) Per cent change through the year to 30 June. 2017-18 is a forecast. Forecasts rounded to nearest 0.1 percentage point.

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

Strong momentum in the labour market has continued into 2018-19. Leading indicators suggest healthy labour demand in the near term, albeit at a slightly slower pace than before – consistent with firm economic activity. Tighter labour market capacity at both the State and national level is expected to gradually flow into faster wages growth.

A key risk to the outlook is the way in which households respond to falling house prices, particularly at a time when debt levels are high and banks are tightening lending standards. This risk is tempered by strong jobs growth.

While the outlook for the global economy remains favourable, rising political tensions and hikes in trade tariffs are beginning to negatively impact indicators of economic activity. The balance of risks has shifted more to the downside since the Budget – with heightened policy uncertainty, financial market volatility and an escalation of trade tensions. Reflecting these developments, global institutions recently have pared back their outlook for growth.

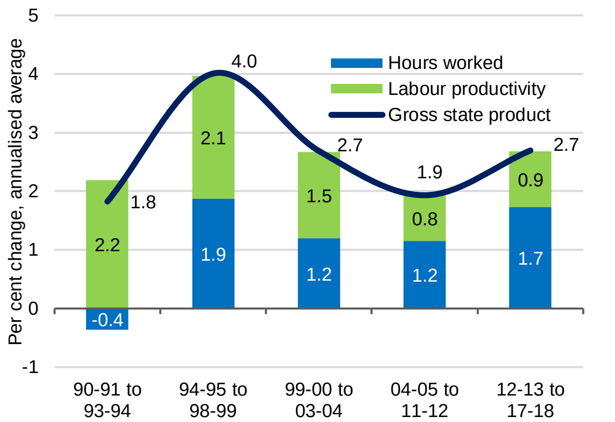
2.2 Strength in the labour market

Robust employment growth, a record participation rate and full-employment

The NSW labour market is operating at around full-employment. The unemployment rate has fallen to a 10-year low of 4.4 per cent in October 2018. At the same time, employment growth has increased to 3.6 per cent per annum. These conditions have encouraged a record workforce participation rate, led by females (see Box 2.1).

Employment growth has been broad-based across most industries. The foundation for employment growth over the last year has been healthcare and social assistance (reflecting ongoing expansion of the National Disability Insurance Scheme (NDIS)), along with construction and its supporting industries (given high levels of construction activity).

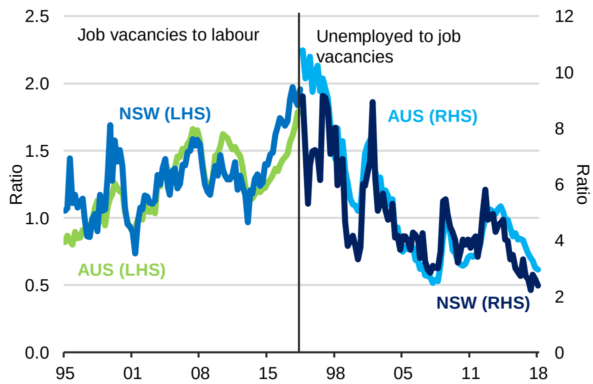
Chart 2.1: Hours worked the key driver of growth with modest productivity[(a)]



(a) National Productivity cycles, first cycle shortened due to data limitations.

Source: ABS 6202.0 and 5220.0 and NSW Treasury

Chart 2.2: Job Vacancies at record levels in a very tight labour market [(a)]



(a) Job Vacancies derived between May-08 to Nov-09, due to a suspension in the survey.

Source: ABS 6202.0, 6354.0 and NSW Treasury

Over the last four years, employment growth has generally exceeded expectations. Employment growth has averaged 2.8 per cent, well above the long-run average of 1.6 per cent and faster than its historic relationship with economic growth. The strength has been fuelled by modest wages growth, strong demand in labour intensive service industries and above-trend population growth. This employment growth has benefited thousands across the State.

Leading indicators of labour demand suggest recent momentum will continue in the near term. Job vacancies are at a record high. At the same time, the number of unemployed persons to fill these vacancies is close to a record low (see Chart 2.2). Employment is forecast to grow by 3 per cent in 2018-19 (up from 1¾ per cent forecast at Budget). Growth is then expected to slow to 1½ per cent in 2019-20, in line with labour supply.

Productivity growth, conversely, has disappointed, contributing less than its long-run average to economic growth (see Chart 2.1). This reflects the growth in labour intensive industries, lower levels of labour-enhancing capital investment and weak global productivity growth. Productivity growth will need to lift to improve the prosperity of NSW households. The NSW Government is committed to this and has established the NSW Productivity Commission.

The NSW Productivity Commission is currently pursuing efficiency-enhancing reforms (see Box 2.3). These include changes to payroll tax administration, which will benefit around 27,500 businesses across the State by lowering costs and cutting red tape.

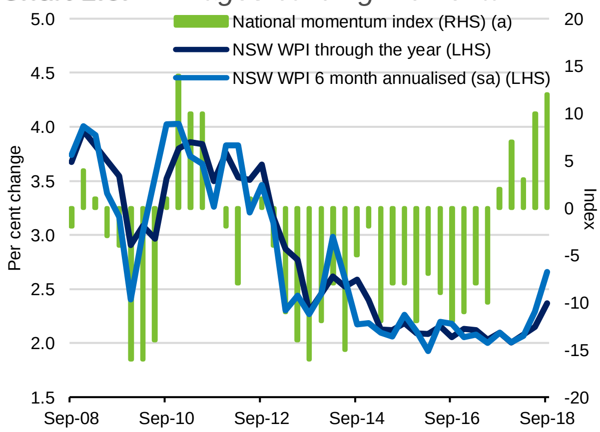
Wages growth gathers momentum, temporary factors hold back inflation

Wages growth is expected to accelerate over the next four years. This is mainly due to robust labour market conditions (nationally and locally), fewer wage freezes, larger bonus payments, higher advertised salaries and a broadening of wage pressures across industries.

The Wage Price Index (WPI) experienced a notable lift in the September quarter 2018. The NSW WPI grew 2.4 per cent through the year, which was the fastest increase in four years (see Chart 2.3). This improvement was supported by the Fair Work Commission's larger-than-usual increase to minimum and award wages of 3.5 per cent in 2018-19 and the renegotiation of several enterprise bargaining agreements.

The national unemployment rate is now the lowest in almost seven years. Since the Budget, it has fallen to 5 per cent. At the same time the national underemployment rate has also declined. This lower spare labour market capacity is forecast to flow into faster wages growth. However, this is expected to be a gradual acceleration, as has been the experience internationally.

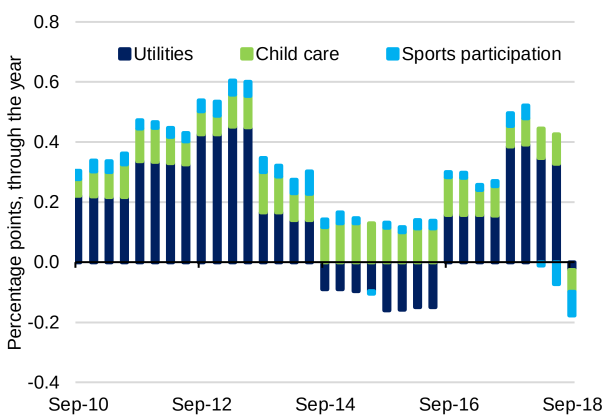
Chart 2.3: Wages building momentum



(a) A net balance of the industries with noticeably stronger growth less those with notably weaker growth compared to the previous year.

Source: ABS 6345.0 and NSW Treasury

Chart 2.4: Temporary factors curb inflation[(a)]



(a) Percentage point contribution to inflation

Source: ABS 6401.0 and NSW Treasury

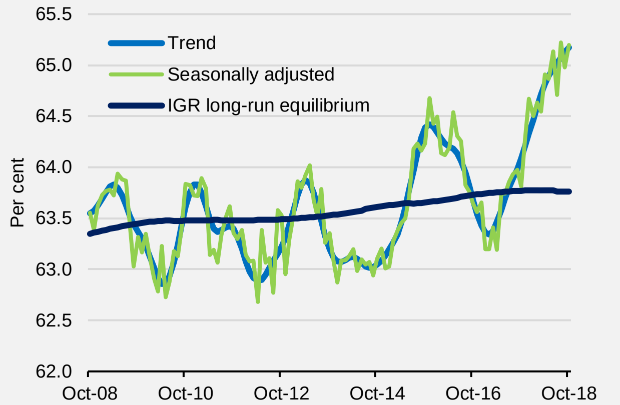
Inflation is expected to rise over the next four years – driven by higher wages, a lower Australian dollar and increasing global inflationary pressures. Several temporary factors are curbing inflation in the near term. These include the introduction of the Commonwealth Government's childcare subsidy package (which saw child care costs fall by 7.6 per cent in the September quarter), a moderation in utility price growth (following electricity price determinations) and NSW Government policies to support families with the cost of living, including the Active Kids program. Chart 2.4 highlights these temporary factors that have been influenced by policy.

While the expectation remains for inflation to lift, multiple factors could potentially constrain this. They include intense competition in the retail sector, lower petrol prices, government policy initiatives and weaker conditions in the housing market (via both lower rents and building costs).

Box 2.1: Record participation: a reflection of firm demand and shifting behaviours

The participation rate has reached new highs in recent months (65.2 per cent in October) and is well above the projection from the 2016 NSW Intergenerational Report (see Chart 2.5). This projection was based on underlying participation trends by age and sex, along with the impact of an ageing population.

Chart 2.5: NSW participation at a record high



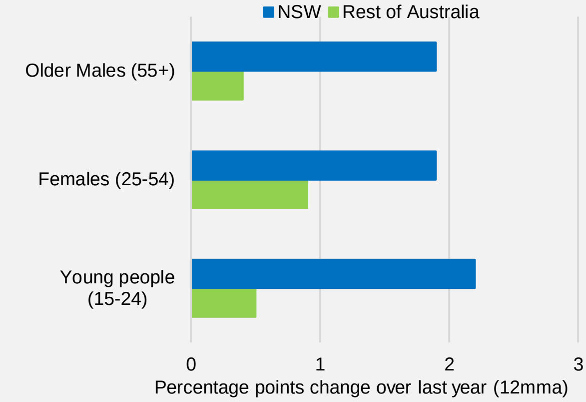
Source: ABS 6202 and NSW Treasury

This outcome is more striking when considered against an unemployment rate that currently sits below estimates of full employment. This implies the labour market has been more than capable of absorbing the record share of people in the labour force.

In the long run, changes in labour force participation are largely driven by structural factors, such as education, health, fertility, childcare arrangements, workplace flexibility, housing affordability, retirement decisions and population ageing. In the near term, however, swings in labour demand (cyclical factors), migration (age composition) and shifts in long term trends, can have an impact on participation as well.

Not all cohorts respond to cyclical factors in the same way. According to the Reserve Bank of Australia, while males and females tend to have a similar response to changes in labour demand, there are notable differences across age groups.[1] Young people (15-24), 25 to 54 year old females and older (55+) males tend to be the most sensitive to changes in labour demand.

Chart 2.6: Workforce participation has responded to labour demand

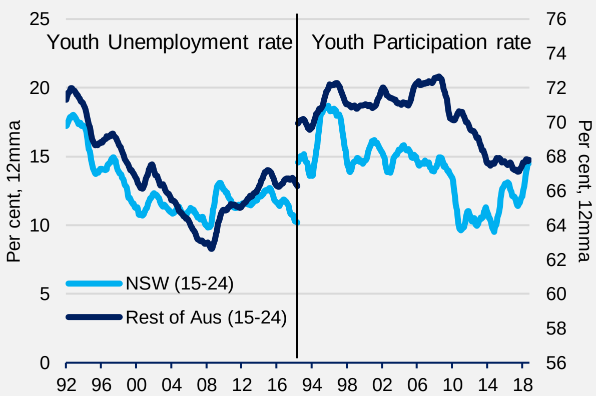


Source: ABS 6291.0.55.001 and NSW Treasury

That aligns with the experience in New South Wales, where employment growth for these cohorts has been very strong, and their participation rate has increased considerably (see Chart 2.6).

Changes in youth participation have been a stand out, increasing more than 2 percentage points over the last year, compared to around ½ a percentage point in the rest of Australia. The NSW youth participation rate is now closer to the rest of Australia than it has been for over two decades (see Chart 2.7).

Chart 2.7: Closing the gap on youth participation



Source: ABS 6291.0.55.001 and NSW Treasury

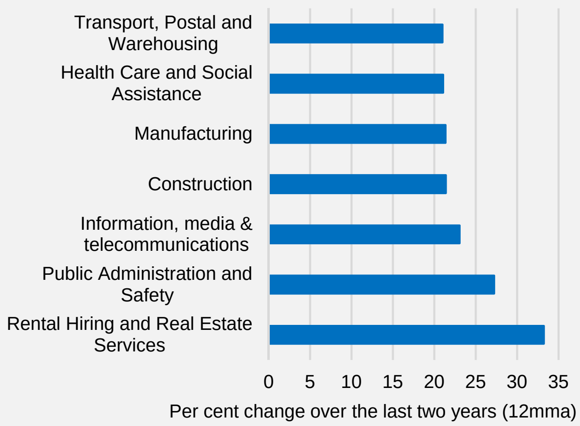
[1] Evans R, Moore A and Rees D, 'The Cyclical Behaviour of Labour Force Participation', Bulletin – September 2018, Reserve Bank of Australia.

Greater youth participation has steered better social and economic outcomes

Strong labour demand has driven the youth unemployment rate down to 10.2 per cent in the year to October 2018. This is its lowest rate in almost a decade and well below the rest of Australia at 12.8 per cent (See Chart 2.7).

There has been a shift in the source of demand for younger workers. While jobs in retail, tourism and hospitality account for a large share of youth employment—partly due to flexible working arrangements—recent demand has been more diverse, including in higher income industries (see Chart 2.8). This partly reflects the previous strength in the housing sector.

Chart 2.8: *Youth employment is broad-based (top seven industries)*



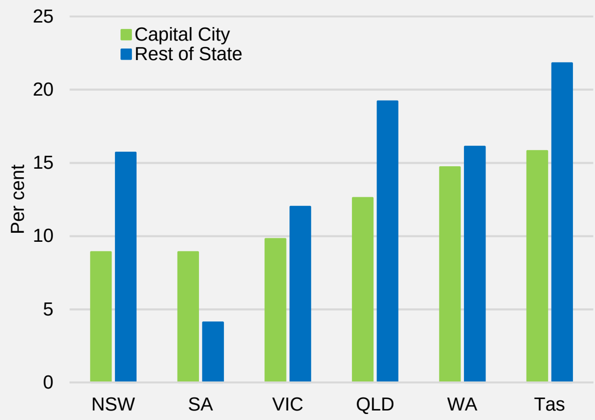
Source: ABS unpublished data and NSW Treasury

Continuing to improve educational and labour market outcomes for young people is crucial, as evidence suggests that prolonged unemployment for young people can have a permanent effect on lifetime employment and earnings.

A measure of youth economic participation is the proportion of youth not engaged in study or employment.

Of the state capital cities, Sydney has the equal lowest levels of youth disengagement (see Chart 2.9). Youth disengagement levels are generally higher outside of capital cities, which suggests there is potential to encourage further participation in work and study in regional areas.

Chart 2.9: *Sydney has the equal lowest share of youth* not *engaged in work or study among the state capitals*



Source: ABS 6227.0 and NSW Treasury

The long term trend towards part-time employment for young workers, much of which relates to a rise in educational participation, continues to evolve. However, the share of youth not engaged in full-time study that are in part-time work, is also growing. This suggests that there is still more to do to increase economic opportunities for young people.

Achieving better outcomes for individuals through gainful employment leads to lower crime and substance abuse and provides a pathway out of poverty. Lifting youth participation also supports long-term economic growth and fiscal sustainability, in part by reducing the costs of negative social outcomes linked to unemployment.

2.3 The household sector prevailing over headwinds

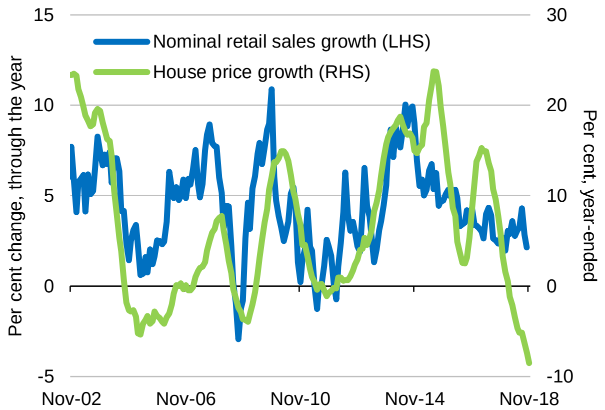
Households are adjusting to an easing housing market and increased debt

Household consumption was solid in 2017-18, growing by 2.6 per cent. Discretionary spending has also increased as a proportion of overall consumption growth, although this did ease in the September quarter 2018.[2]

Consumers are saving less to support their consumption, with the net household saving rate now the lowest since the start of the global financial crisis. The savings rate is 2.6 per cent, which compares to the 8.7 per cent peak in 2011-12.

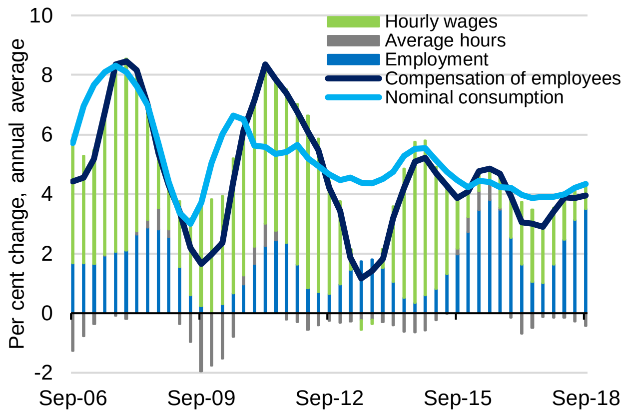
One potential explanation of a lower saving rate is soaring house prices over recent years, which materially increased wealth. Sydney's median house price increased by 86 per cent in the 5½ years to mid-2017.

Chart 2.10: Wealth effect has seen some disconnect from spending



Source: ABS 8501.0, Corelogic and NSW Treasury

Chart 2.11: Employment growth has sustained labour income growth



Source: ABS 5206.0, ABS 6202.0 and NSW Treasury

Higher house prices have coincided with a sharp lift in housing construction. Increased housing completions are normally associated with increased expenditure on household items, as new homes are finished. Yet, the impact of higher house prices (via wealth effects and demand for household goods) has been difficult to attribute. As Chart 2.10 illustrates, households appeared to respond to higher property prices early in the cycle (2011-2014), but there appears to be a disconnect as the price cycle has matured.

This apparent disconnect raises questions about how households will respond to recent declines in house prices (see Box 2.2). Lower house prices normally decrease the likelihood that households will continue running down their savings rate. That said, consumer spending remained relatively resilient in 2017-18. It is likely that strong labour market conditions have played a role in holding up consumption (see Chart 2.11), along with the elevated pipeline of dwelling construction.

2 Discretionary spending includes tobacco, alcohol, clothing, furnishings, vehicle purchases, transport services, recreation and culture, hotels, cafes and restaurants. All other spending is considered essential.

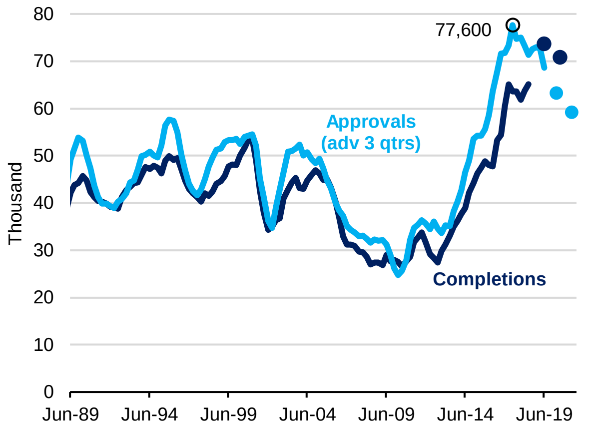
Historical trends suggest that a fall in household wealth, absent of other factors, will eventually flow through to a material negative impact on consumption. However, there are limited reasons to suggest this time could be different – wealth gains remain positive for many households and the economy and labour market conditions are expected to perform well. These factors could mean the impact of falling house prices is delayed, or that it is less severe than history suggests. Indicators of consumer spending momentum have ticked lower this financial year, which could be a sign of a shift in fortunes.

Looking ahead, household consumption is expected to grow at a rate that is below average – more in line with income growth. There are material risks to this outlook. Higher debt levels mean households are susceptible to economic shocks. These shocks could include higher interest rates, a spike in unemployment or steeper falls in house prices.

Impacts of housing market on construction activity

Falling house prices and lower housing turnover are expected to have only a limited impact on dwelling construction activity in the next two years. An elevated construction pipeline and solid demand for housing, fuelled by strong population growth, will continue to provide underlying support over the period.

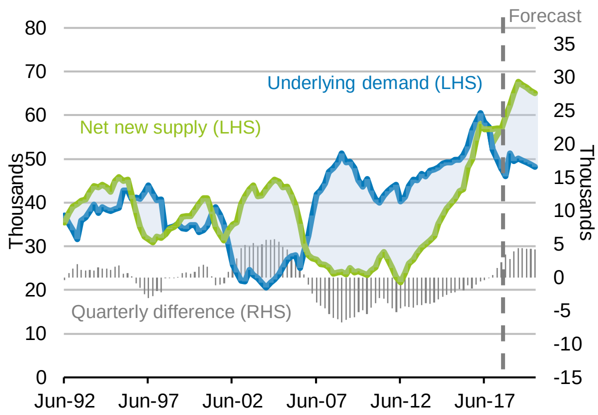
Chart 2.12: Housing completions to hit another record high in 2018-19[(a)]



(a) Dots are forecasts.

Source: ABS 8752.0 and NSW Treasury

Chart 2.13: Housing supply will continue to exceed demand



Source: ABS 8752.0, ABS 3101.0 , ABS 6416.0 and NSW Treasury

In contrast to other trends in the housing market, residential building approvals have held up better than anticipated since the Budget, albeit falling from their prior peak of 78,000 in the 12 months to September 2016. There has been an increase in the overall turnaround time for apartment construction, which along with the stronger than expected residential approvals, should further extend the duration of the housing construction cycle.

The outlook for approvals and completions has been revised up slightly since the Budget. Dwelling completions are expected to peak in 2018-19 at a little over 70,000 (see Chart 2.12). Dwelling investment forecasts have also been revised up modestly but construction activity is still expected to contract over the next two years. This contraction in investment is expected to cut around ¼ of a percentage point per annum from economic growth.

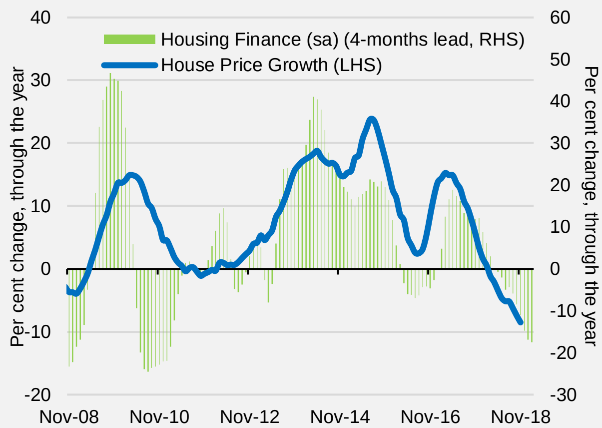
Box 2.2: Housing market conditions

Following several years of impressive growth, Sydney house prices have been declining from their peak in mid-2017. In November 2018, Sydney median house prices were around 9 per cent lower than the peak. This is the largest downturn in house prices experienced since the early 1980s (when consistent data became available).

However, to put this in context, the declines have only partially unwound a large accumulation of housing wealth since 2011 (house prices are still around 70 per cent higher than in late-2011).

Both softer demand and increasing housing supply are contributing to the current price decline, but unlike most previous house price downturns, this one has not been driven by a weakening labour market or high interest rates. Drivers have included tighter credit conditions (particularly for investors), affordability challenges (caused by previous house price increases and weak wages growth) and low rental yields.

Chart 2.14: Housing finance weakness points to further house price declines



Source: ABS 5609.0, Corelogic and NSW Treasury

The future trajectory of house prices is difficult to predict. Historically, timely measures such as housing finance approvals and the auction clearance rate have provided some guidance.

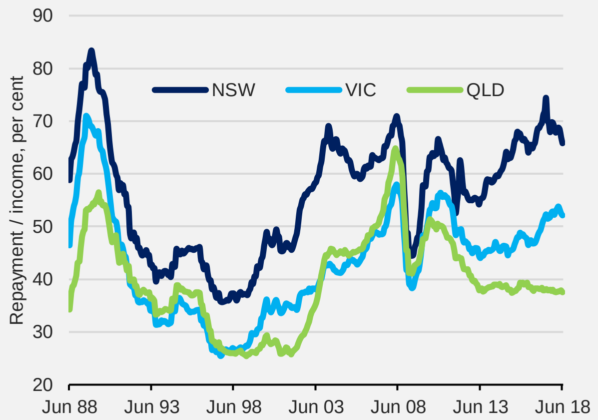
The auction clearance rate in Sydney has dropped below 50 per cent—reflecting a 'buyers' market'

Housing finance approvals have also slowed considerably, primarily driven by a pull back in investors, with targeted prudential tightening and expectations of price declines. Demand by owner-occupiers has also softened recently. Consequently, house prices are forecast to fall further over the coming months.

Positive fundamentals, including pent-up demand, low interest rates, above-trend population growth and improving income growth should eventually stabilise house prices. See section 3.2 (in Chapter 3) for the impact on transfer duty forecasts.

The rental market is showing a similar trend. The rental vacancy rate in Sydney has lifted steadily towards 3 per cent, which is a level consistent with a balanced market—having been considered a tight market for more than a decade. Higher vacancy rates have slowed rental price growth (to 1.9 per cent) and offer more opportunity for renters to live where they wish. However, lower rental price growth will also weigh on investor demand.

Chart 2.15: Sydney housing affordability has improved with lower prices[3]



Source: Corelogic, ABS 6302.0 and NSW Treasury

Lower house prices have helped to improve housing affordability (see Chart 2.15). Furthermore, consumer surveys have recently recorded a notable increase in NSW respondents saying it was 'a good time to buy a dwelling'.

3 New buyers: the ratio of average mortgage repayments to average weekly earnings (using a median capital city house price, 80 per cent LVR, standard variable mortgage rate at the time of purchase and a 25 year repayment period).

2.4 Investment to be the cornerstone of growth in New South Wales

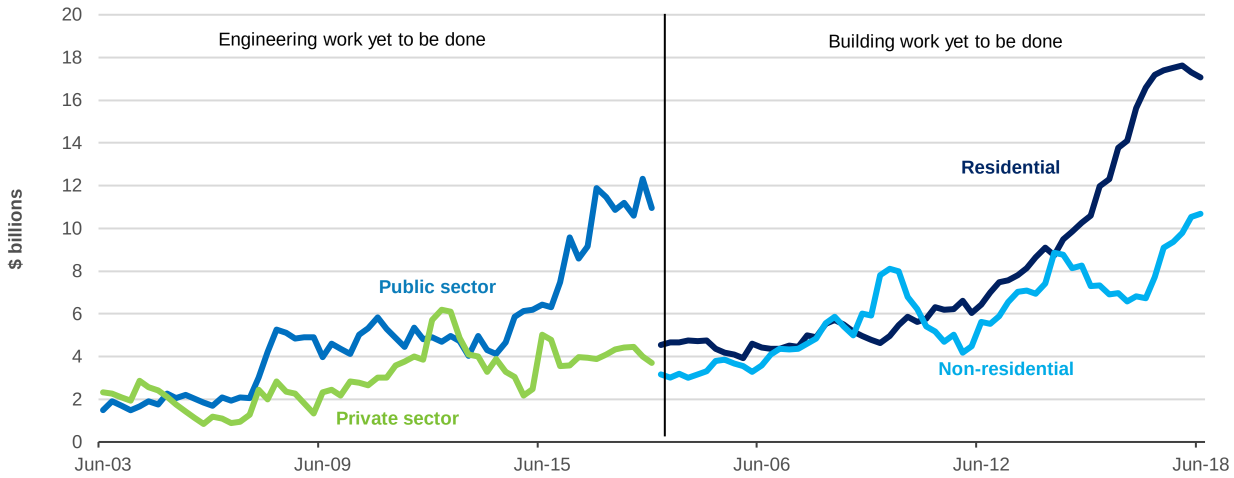
Major infrastructure projects continue to boost public investment

Growth in public investment contributed ½ a percentage point to economic growth in 2017-18, around five times its historical average. This injection is an important offset at a time when housing construction is cooling.

Going forward, economic growth will continue to be boosted by the public sector. Growth drivers include the State's record $89.7 billion four-year capital program and the expansion of services such as the NDIS. Major capital projects will bolster the pipeline of public sector work under construction, which is already at unprecedented levels (see Chart 2.16). Additionally, the Emergency Drought Relief Package should provide a further boost to the economy in 2018-19.

Capacity constraints have led to pressures on project delivery. Looking forward, these temporary drags are expected to dissipate, which would present upside potential to public investment. As public infrastructure investment ramps up, there is a risk that these capacity constrains worsen. So far, there has been only modest evidence of broad based constraints. Construction wage pressures have remained muted, but broader measures of input costs have been picking up.

Chart 2.16: Record NSW construction pipeline



Source: ABS 8752.0 & 8765.0 and NSW Treasury

Firm foundations should see above average business investment continue

New South Wales has witnessed stronger-than-average business investment. Business investment grew by 7.1 per cent in 2017-18.

Leading indicators are pointing to continued strong performance in the two years ahead. A large pipeline of committed construction projects will be a major source of support, while other indicators (such as capacity utilisation and capital expenditure intentions) indicate a strong investment environment. Profit growth has improved significantly. Trade exposed businesses should see the benefits of positive external demand conditions – forecasts for the next two years indicate above-trend growth both in the global and national economies.

Private sector engineering work increased by more than a third in 2017-18. This growth was distributed across a range of sectors, including a notable lift in the roads and electricity utilities sectors (see Chart 2.17). These sectors have been supported by the transfer of public assets, as well the trend towards private sector delivery of publicly-led infrastructure (such as the NorthConnex Motorway). Additionally, the private sector has been delivering a much larger share of public sector engineering work—around three quarters of the total in 2017-18.

Box 2.3: Boosting productivity – reforming payroll tax administration

When the Government established the NSW Productivity Commission it made improvements to payroll tax administration the first priority. The resulting review collected and considered the views of businesses, administrators and tax experts and delivered a report recommending reforms to streamline and modernise the payroll tax system.

On 21 November 2018, the Government announced it would implement all 12 review recommendations. These reforms will enhance productivity and assist businesses by simplifying processes and reducing the costs and paperwork of payroll tax compliance.

Under the current system, all businesses with an annual payroll over $850,000 need to calculate and make a monthly payment. From 1 July 2019, businesses with annual payroll tax liabilities up to $20,000 will have the option to pay just once a year. Businesses with annual liabilities up to $150,000 will have the option to make pre-set monthly instalments. These reforms are expected to save businesses around $10.0 million a year.

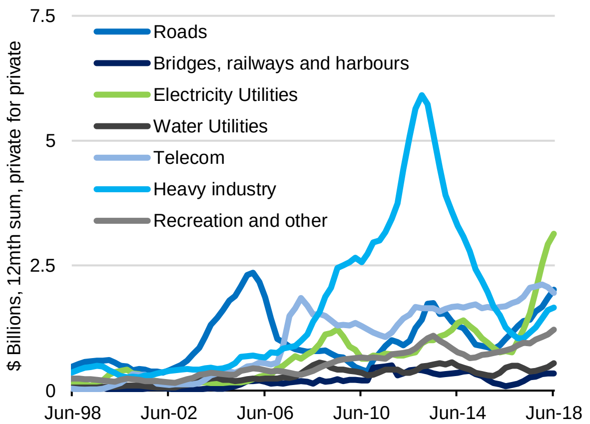
During the public consultation process, businesses also asked for an extra week to complete the annual reconciliation and expressed their frustrations with having to use a different payment reference number every month. Effective from the next reconciliation, the timeframe will be extended by one week and, from 1 July 2020, businesses will be provided with a single payment reference number.

Other reforms will include reducing the penalty tax rate by 50 per cent for businesses that comply quickly when first identified, improving education and guidance materials, reviewing definitions and making the audit process more transparent.

The State's infrastructure pipeline remains strong. This suggests private engineering work will continue to experience solid growth in the near term.

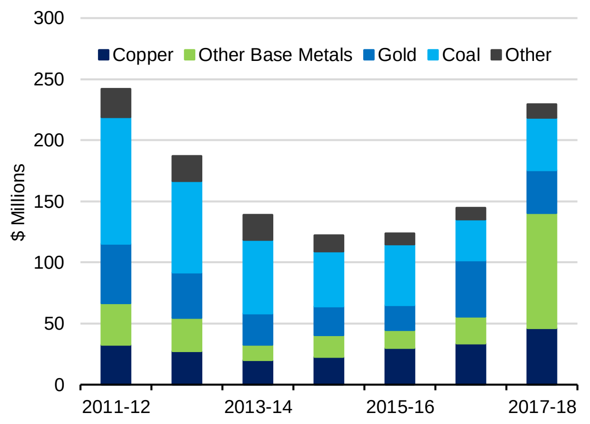
Further boosting the investment outlook is the large number of committed and proposed renewable energy projects. There is also an improved outlook for mining investment, led by strong global conditions and elevated commodity prices.

Chart 2.17: Broad-based strength in private engineering work done



Source: ABS 8762.0 and NSW Treasury

Chart 2.18: Mineral exploration—base metals the new driver



Source: ABS 8412.0 and NSW Treasury

Mineral exploration is booming in New South Wales – in fact, it has returned to previous highs. The last time mineral exploration was this elevated it corresponded with a substantial rise in physical asset investment by the mining sector. As Chart 2.18 shows, recent exploration has focussed on base metals (such as cobalt and nickel) rather than coal. These base metals are core components of rechargeable batteries, which is likely to be a global growth market.

Other private construction (non-residential building) was softer than expected in 2017-18, given the substantial pipeline of work already committed. While this could reflect capacity constraints (similar to the delays in public infrastructure), signalling some downside risk to near term growth, building approvals have remained high and capacity should improve as residential construction moderates. Office approvals are leading the way, consistent with strong employment growth in service industries, a very low office vacancy rate, and rapid price and rental growth. Recreation, accommodation and education approvals continue to hold up, supported by healthy growth in service exports, particularly in tourism and education.

2.5 Downside risks to the economic outlook are building

Some of the downside risks to the global economy identified in the Budget have either begun to materialise or have increased in likelihood. Consistent with this, global institutions have begun revising down their expectations for global economic growth. Trade tensions, geopolitical uncertainties and financial risks tend to underpin the evolving view of the outlook. Amplifying the downside risks is the fact that around the world there now is much less scope for monetary and fiscal policy to respond to potential economic shocks.

Emerging market risks have become a heightened concern. Some highly indebted economies (Turkey, Argentina and Brazil being prime examples) remain exposed to capital outflows, triggered by higher interest rates and US dollar appreciation. Currencies in these economies have come under severe pressure this year, contributing to volatility in financial markets.

Global growth could face disruption as loose monetary conditions are gradually tightened and the effects of fiscal stimulus in the United States eventually fade. In China, authorities have shown a willingness to stimulate the local economy, which could present some upside potential for Chinese demand for imports. However, risks around higher debt levels, overcapacity, shadow (unregulated) banking and the weaker housing market continue to play out.

Domestic risks over the next two years centre around softening prices in the housing market and tighter lending standards, as well as their potential flow on to household consumption.

Risks in the housing sector are heightened by possible reactions to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Several factors could see conditions in the housing market deteriorate more than expected, including the prospect of additional tightening of lending standards.

Other risks facing the domestic economy include a more severe slowdown in construction activity, particularly if capacity constraints bite harder than expected. Additionally, there is potential for weaker housing market conditions to have a greater impact on the economy, mainly if negative wealth effects come more into line with historical experience. This could be exacerbated if labour market conditions deteriorate.

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3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

The 2018-19 Half-Yearly Review continues to project surpluses across the four years to 2021-22, with average surpluses of $1.3 billion per year (see Table 3.1 below). This projected average surplus is down $292 million compared to the Budget and takes into account lower transfer duty.

Table 3.1: General government operating position and outlook

	2016-17	2017-18	2018-19	2018-19	2019-20	2020-21	2021-22
	Actual	Actual	Budget	Revised	Forward Estimates		
Revenue ($m)	78,139	80,672	81,081	81,743	84,222	86,861	89,230
Revenue growth (%)		3.2	0.8	1.3	3.0	3.1	2.7
Expenses ($m)	72,551	76,491	79,656	80,623	83,203	85,513	87,665
Expense growth (%)		5.4	4.1	5.4	3.2	2.8	2.5
Budget Result ($m)	5,724	4,181	1,425	1,120	1,018	1,348	1,566
Per cent of GSP		0.7	0.2	0.2	0.2	0.2	0.2

Investing in services, while keeping a tight lid on expense growth

Since the Budget, the Government has announced major initiatives to ensure the people of New South Wales continue to get the services they need, including:

- an Emergency Drought Relief Package to help our farmers respond to the drought
- an additional 1,500 police to continue keeping our communities safe
- investment in education through the National Education Schools Reform (Gonski 2.0), which will ensure needs-based funding for public schools across the State (see Box 3.6).
- broadening of the toll relief program to assist families with the cost of living
- changes to workers compensation to support NSW firefighters, including volunteer firefighters

To ensure a sustainable future, the Government continues to manage expense growth in line with the *Fiscal Responsibility Act 2012* (see Table 3.2). Since the Act came into force in 2012 the Government has maintained expense growth below long-term revenue growth. The Government remains on track to meet the targets over the four years to 2021-22 (see Chart 3.1).

Table 3.2: Fiscal objective and targets

Requirements of the *Fiscal Responsibility Act 2012*	Target met?	Explanation
Objective: Maintain the triple-A credit rating		
S&P Global	✓	Reaffirmed AAA with a stable outlook in September 2018
Moody's	✓	Reaffirmed Aaa with a stable outlook in September 2018
Target 1: Annual expense growth less than long-term average revenue growth of 5.6%	✓	Annual expense growth is less than long-term average revenue growth (5.6 per cent) across the forward estimates
Target 2: Elimination of the State's unfunded superannuation liability by 2030	✓	NSW is on track to be fully funded by 2030 as outlined in the 2018 triennial review completed in October 2018

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

Revenue pressures emerge as transfer duty declines

Revenue for 2018-19 is projected to be $81.7 billion, which is an upward revision of $661.8 million since the Budget. This is primarily due to a one-off increase in transfer duty from the WestConnex transaction.

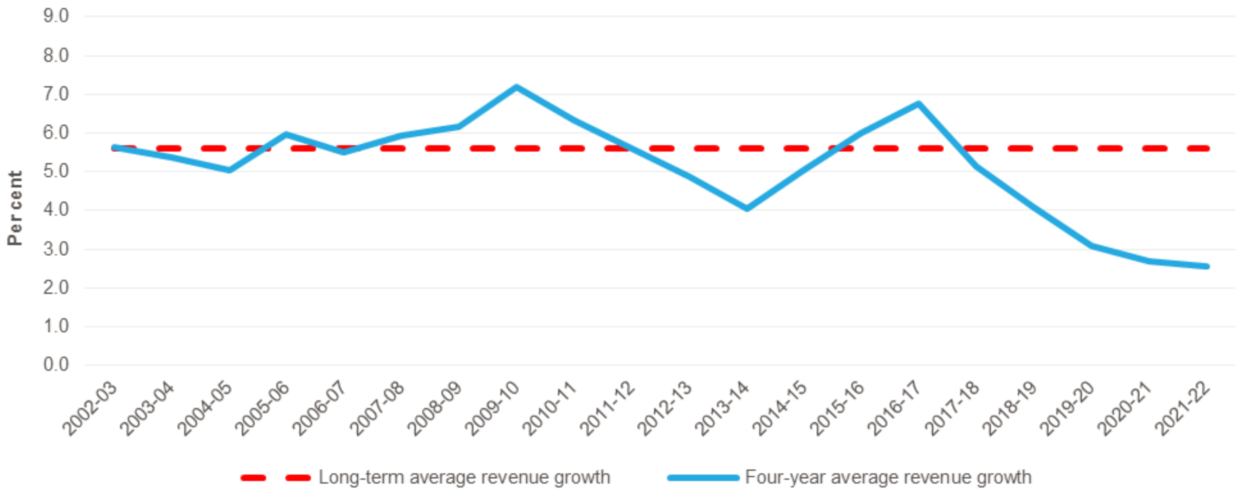
Since the Budget, revenue has been revised up by $2.9 billion over the four years to 2021-22. This is primarily due to forecast increases in payroll tax, GST and royalties. These revenue increases more than offset an expected decline in transfer duty, caused by the weaker housing market.

The next four years are expected to see a change in revenue drivers. Over the past four years strong revenue growth was primarily driven by:

- one-off asset recycling revenues (for example, transfer duty and Commonwealth asset recycling incentive payments)
- strong growth in the NSW economy flowing through to strong state taxation growth.

The outlook for the next four years will be more challenging. Falls in transfer duty will place pressure on revenue growth (see Chart 3.2 and Section 3.2 of this chapter).

Chart 3.2: Four-year average revenue growth compared to long-term revenue growth



The NSW balance sheet leads the nation

The State's balance sheet is the strongest in the nation, on multiple measures. New South Wales has the lowest net debt and highest net worth of any jurisdiction in Australia.

The State's strong balance sheet will provide the Government with the ability to respond to economic shocks. The NSW Generations Fund has also been established to support intergenerational equity, by ensuring future generations are not burdened with excessive debt.

The State's balance sheet allows the Government to continue leading the nation when it comes to building the infrastructure that a growing state needs. A record infrastructure program ($69.4 billion in the general government sector, or $89.7 billion in the non-financial public sector) is being funded primarily from non-debt sources. See Box 3.2 for more detail on the State's infrastructure funding.

Table 3.3: General government capital and fiscal outlook

	2017-18	2018-19	2018-19	2019-20	2020-21	2021-22
	Actual	Budget	Revised	Forward Estimates		
Capital Expenditure ($m)	12,121	17,329	18,536	18,729	17,326	14,769
Per cent of GSP	2.0	2.7	2.9	2.8	2.5	2.0
Net Lending/(Borrowing) Result ($m)	(2,762)	(10,263)	(11,598)	(11,797)	(8,890)	(6,330)
Per cent of GSP	(0.5)	(1.6)	(1.8)	(1.8)	(1.3)	(0.9)
Net Debt ($m)	(11,195)	2,559	(7,712)	5,676	15,502	22,471
Per cent of GSP	(1.9)	0.4	(1.2)	0.9	2.2	3.1
Net Worth ($m)	254,179	270,127	275,962	286,943	302,307	314,706
Per cent of GSP	42.1	42.9	43.7	43.6	43.8	43.4

The net borrowing position over the next four years is expected to average $9.7 billion per year, reflecting the call on the balance sheet of funding the Government's record infrastructure program.

In June 2018 New South Wales recorded a record low negative net debt of $11.2 billion. This heralded the third consecutive year of negative net debt for the State.

Historically low net debt levels are forecast to continue this year, with negative $7.7 billion projected for June 2019 ($10.3 billion lower than projected in the Budget). This projected result is primarily due to the successful WestConnex transaction in August 2018 (see Box 3.1).

Looking ahead to June 2022, net debt is projected to grow to $22.5 billion. This is a modest increase when considered alongside the record state infrastructure program, because the infrastructure program will be predominantly funded from non-debt sources (see Box 3.2).

Box 3.1: WestConnex transaction paves the way for New South Wales

On 31 August 2018, the Government announced it had awarded a 51 per cent stake in Sydney Motorway Corporation (the entity delivering WestConnex) to Sydney Transport Partners, under a 42-year concession.

The $9.26 billion in net proceeds, including stamp duty, will be used to help offset the Government's cost of the M4-M5 Link (through the NSW Generations Fund) as well as future infrastructure across the State.

Net worth, a measure of the Government's overall financial position, was recorded at $254.2 billion at June 2018. This means New South Wales is the first state to achieve a net worth of a quarter of a trillion dollars (see Box 3.14 for more details on this historic outcome).

The NSW Generations Fund

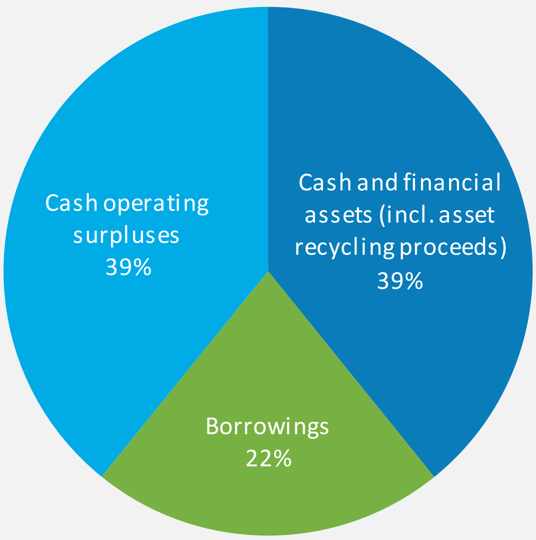
The Budget launched a sovereign wealth fund: the NSW Generations Fund. Since the Budget was handed down the Government has increased the initial balance of the fund from $3.0 billion to $10.0 billion. This increase is primarily the result of the Government's sale of a 51 per cent interest in WestConnex (see Box 1.2 in Chapter 1).

Box 3.2: Maintaining the triple-A whilst delivering record infrastructure investment

In September 2018, Moody's and Standard & Poor's both reaffirmed a triple-A credit rating for New South Wales.

Consistent with the commitment to maintain a triple-A credit rating, the Government has used its strong operating position and successful asset recycling strategy to fund a record $89.7 billion infrastructure program, while keeping borrowings to a minimum (see Chart 3.3).

Chart 3.3: Funding of the capital program across the budget and forward estimates[(a)]



(a) Source: General government sector cash flow statement as published in Appendix A.

3.2 Revenue outlook

General government revenue is forecast to be $81.7 billion in 2018-19, which is $661.8 million higher than forecast in the Budget. This upward revision primarily reflects an uplift in taxation, Commonwealth grants and royalties. This is partially offset by lower sales of goods and services this year.

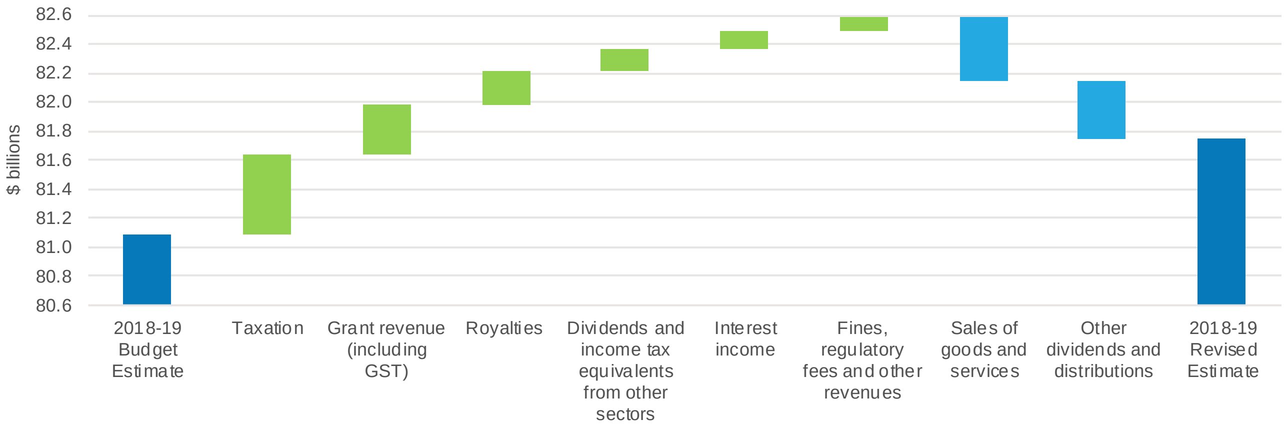
Over the four years to 2021-22, general government revenue is expected to be $2.9 billion higher than forecast in the Budget. The revised forecasts include higher levels of payroll tax (partially due to recent employment growth in New South Wales), increased mineral royalties (driven by higher coal prices) and an upward revision to GST. These increases are partially offset by lower-than-expected transfer duty.

General government revenue is expected to increase by 2.6 per cent per year over the four years to 2021-22. This rate is slightly higher than forecast in the Budget. Table 3.4 provides a summary of revenue in the general government sector.

Table 3.4: General government sector revenue

	2017-18	2018-19		2019-20	2020-21	2021-22	% Average growth p.a. 2017-18 to 2021-22
	Actual	Budget	Revised	Forward Estimates			
	$m	$m	$m	$m	$m	$m	
Revenue from transactions							
Taxation	31,326	31,146	31,709	32,430	34,316	35,377	3.1
Grant revenue (including GST)	31,860	32,110	32,455	32,789	34,335	36,048	3.1
Sales of goods and services	8,508	9,513	9,072	9,685	9,440	9,282	2.2
Interest income	558	323	452	322	307	270	(16.6)
Dividends and income tax equivalents from other sectors	1,578	1,823	1,971	1,640	1,289	809	(15.4)
Other dividends and distributions	2,114	1,322	923	1,585	1,665	1,763	(4.4)
Royalties	1,763	1,914	2,141	1,989	1,869	1,843	1.1
Fines, regulatory fees and other revenues	2,967	2,929	3,022	3,782	3,639	3,839	6.7
Total revenue	**80,672**	**81,081**	**81,743**	**84,222**	**86,861**	**89,230**	**2.6**

Chart 3.4: 2018-19 changes in revenue – 2018-19 Budget to Half-Yearly Review



Policy measures affecting revenue since the 2018-19 Budget

The NSW Government has announced new revenue measures and initiatives since the Budget to help ease the cost of living for NSW residents. The cost of these initiatives are more than offset by increased distributions from the NSW Generations Fund. In total, new policy decisions will decrease general government revenue by $78.7 million in 2018-19 and $1.7 billion over the four years to 2021-22. These include:

- **Broadening the Toll Relief program.** From 1 July 2019, the Government's Toll Relief program will be broadened to assist with the cost of living. In addition to the existing free registration when drivers spend $25 a week or more on tolls, eligibility will be extended so that drivers who spend between $15 and $24.99 per week, on average, receive 50 per cent off their motor vehicle registration for one vehicle. NSW tolls paid from 1 July 2018 will be used to determine the revised eligibility. The broadening of toll relief is expected to cost $342.1 million over the three years to 2021-22.
- **Indexing transfer duty thresholds to the Consumer Price Index**. From 1 July 2019, transfer duty thresholds will be indexed to the Sydney Consumer Price Index. This is forecast to save property buyers a total of $185.0 million over the three years to 2021-22 (see Box 3.3).
- **Primary producer heavy vehicle registration rebate**. From 1 July 2018 to 30 June 2020, free registration charges will apply to all eligible customers who register or renew the registration on their heavy vehicle. This measure will reduce weight tax revenue by $69.0 million over two years.
- **The NSW Government's Emergency Drought Relief Package**. The Emergency Drought Relief Package will provide assistance to farmers to help manage the effects of the current drought. In total, the package includes forgone revenue totalling $68.0 million. This includes free registration for Class 1 agricultural vehicles – including bulldozers, tractors and harvesters – costing $7.0 million in 2018-19. A waiver of Local Land Services annual rates will also be provided, reducing revenue by $50.0 million. The waiver includes general rates as well as rates for animal health, pest management, the meat industry, routine stock movement permits and stock identification. The relief package will also waive interest on loans under the NSW Farm Innovation Fund, reducing interest revenue by $11.0 million in 2018-19.
- **Point of consumption tax**. Legislation to establish a point of consumption tax was passed by the NSW Parliament on 24 October 2018. In addition to the changes announced in the Budget, the legislation included measures to ensure a level playing field and avoid instances of double taxation, by allowing selected offsets to betting tax liabilities. Relative to the Budget forecasts, these changes will reduce revenue to Government by $6.6 million in 2018-19 and $52.6 million over the four years to 2021-22.
- **Better Business Reforms.** As part of the NSW Government's Better Business Reforms, licence holders across 13 categories in the home building sector will no longer be required to renew their licence every three years. In addition, the reforms will help more than 400,000 licensees who will now be able to have their licences issued or renewed for one, three or five-year periods. The new licence arrangements for the home building sector will lower the cost of doing business to the sector by $20.8 million over the four years to 2021-22.

- **Reform of parking and other fines**. As part of its review of fines, the NSW Government has reduced a second tranche of 42 parking fines by 25 per cent, which will come into effect from 1 January 2019 for State-issuing authorities. In addition, fine amounts for a range of offences across different NSW regulations in parks will be standardised from 31 January 2019. Two out-of-date offences under the *Road Rules 2014* and the *Passenger Transport Regulation* will also be removed. In combination, these measures will reduce fine revenue by $17.5 million over the four years to 2021-22 (see Box 3.5). These measures build upon those announced in the Budget, which included a 25 per cent reduction to the top 10 parking fines (by revenue) issued by State agencies from 1 July 2018.
- **NSW Generations Fund**. The total opening fund size of the NSW Generations Fund has been increased from the $3.0 billion announced in the Budget to $10.0 billion, primarily driven by the WestConnex transaction. As a result of this measure, forecast distributions from the Fund have been revised up by $1.1 billion over the four years to 2021-22.
- **Workers compensation reforms**. The NSW Government is committed to providing the best possible protection and support for firefighters and their families when they need it most. Workers compensation legislation has been amended to assist NSW firefighters who are diagnosed with prescribed cancers and who meet applicable minimum employment periods. The additional costs of emergency services will be largely recovered through increases in the emergency services levy, insurance duty and local government contributions, increasing revenue by $602.9 million over the four years to 2021-22.
- **Additional compliance activity.** Commencing from 1 January 2019, Revenue NSW will conduct additional compliance activity through better data analytics. This is expected to provide an additional $72.1 million over the four years to 2021-22.
- **Rural Fire Service capabilities**. To help firefighters prepare for the 2019-20 bushfire season, the NSW Government will acquire one large air tanker aircraft and two twin-engine fixed-wing lead and scanning aircraft for the Rural Fire Service. This measure, which will increase expenditure on emergency services, will be largely recovered from insurer contributions through the emergency services levy and council contributions. As a result, the emergency services levy and insurance duty is expected to increase by a one-off amount of $21.3 million in 2020-21 to recover expenditure under this measure in 2018-19. Emergency services council contributions are also forecast to increase by $3.1 million in 2019-20 as a result of this measure.
- **New grant revenue**. Since the Budget, the NSW Government will receive an additional $4.5 million in revenue from new Commonwealth grants over the three years to 2020-21. This includes new agreements on National Electronic Recording and Reporting, Encouraging More Clinical Trials and Suicide Prevention.
- **Regional Rail Program**. Regional Rail Fleet Replacement was previously undertaken by the public non-financial corporations sector and will now be transferred to the general government sector. This measure will decrease fee for service revenue by $336.3 million over the four years to 2021-22.
- **More Trains, More Services Stage Two**. Transport for NSW will deliver new intercity and Waratah trains, which will increase fee for service revenue from RailCorp (under the Transport Asset Holding Entity) by $1.0 billion over the three years to 2021-22.

Table 3.5: Revenue reconciliation – 2018-19 Budget to Half-Yearly Review

	2018-19	2019-20	2020-21	2021-22
		Forward Estimates		
	$m	$m	$m	$m
Revenue - 2018-19 Budget	**81,081**	**83,709**	**85,728**	**88,668**
Policy changes since Budget				
Broadening the Toll Relief program	...	(68)	(101)	(173)
Indexing transfer duty thresholds to CPI	...	(30)	(60)	(95)
Primary producer heavy vehicle registration rebate	(33)	(36)	...	...
The NSW Government's Emergency Drought Relief Package	(68)	...	...	...
Point of consumption tax	(7)	(14)	(15)	(16)
Better Business Reforms	(5)	(5)	(5)	(5)
Reform of parking and other fines	(1)	(6)	(6)	(6)
NSW Generations Fund	35	286	347	398
Workers compensation reforms	20	169	251	164
Additional compliance activity	4	19	27	22
Rural Fire Service capabilities	...	3	21	...
New grant revenue	3	2	0	...
Regional Rail Program	(31)	(63)	(52)	(189)
More Trains, More Services Stage Two	...	309	460	240
Other	5	6	5	(3)
Total policy changes	**(79)**	**572**	**871**	**335**
Parameter changes since Budget				
Transfer duty	247	(1,116)	(701)	(729)
Payroll tax	306	329	350	358
Land tax	(57)	(19)	(64)	(133)
Other taxes	89	146	244	142
Royalties	228	128	35	66
GST	(96)	78	310	733
Other	24	396	89	(209)
Total parameter changes	**741**	**(58)**	**262**	**227**
Total variations	**662**	**513**	**1,133**	**562**
Revenue 2018-19 HYR	**81,743**	**84,222**	**86,861**	**89,230**

Taxation revenue

State taxation revenue is forecast to be $31.7 billion in 2018-19, which is $562.1 million higher than forecast in the Budget.

Payroll tax is the State's largest source of taxation revenue, providing 29.8 per cent of the total in 2018-19. Despite the recent moderation in the NSW housing market, transfer duty remains the second largest taxation source and is expected to provide 25 per cent of total taxation revenue.

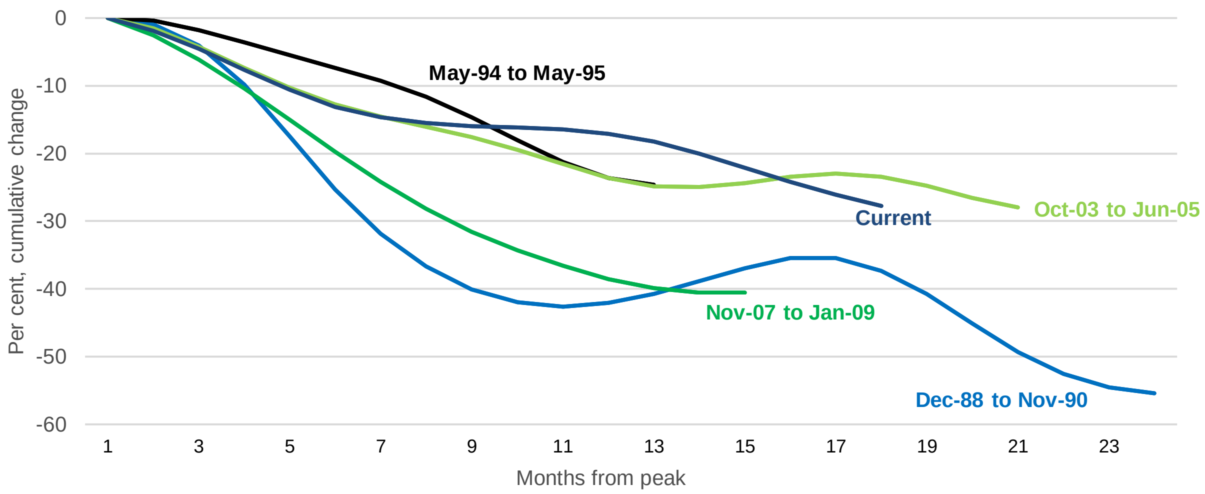
Table 3.6: Taxation revenue

	2017-18 Actual $m	2018-19 Budget $m	2018-19 Revised $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m	% Average growth p.a. 2017-18 to 2021-22
Stamp duties							
Transfer duty	8,666	7,693	7,940	7,187	8,004	8,396	(0.8)
Insurance	983	980	950	1,008	1,075	1,105	3.0
Motor vehicles	834	850	813	834	860	889	1.6
Other	(1)	0	0	0	0	0	
	10,482	**9,523**	**9,703**	**9,029**	**9,939**	**10,390**	**(0.2)**
Payroll tax	8,835	9,150	9,456	9,922	10,399	10,854	5.3
Land tax	3,735	4,293	4,241	4,612	4,738	4,747	6.2
Taxes on motor vehicle ownership and operation							
Weight tax	2,242	2,264	2,211	2,285	2,425	2,513	2.9
Vehicle registration and transfer fees	436	445	451	457	475	488	2.8
Other motor vehicle taxes	41	44	42	45	47	49	4.5
	2,719	**2,753**	**2,704**	**2,787**	**2,947**	**3,050**	**2.9**
Gambling and betting taxes							
Racing	112	141	141	179	165	175	11.8
Club gaming devices	779	803	797	822	849	877	3.0
Hotel gaming devices	793	833	862	909	956	1,006	6.1
Lotteries and lotto	356	359	410	424	432	440	5.5
Casino	294	296	277	386	299	309	1.2
Other gambling & betting	16	16	14	15	16	17	1.8
	2,350	**2,447**	**2,502**	**2,735**	**2,717**	**2,823**	**4.7**
Other taxes and levies							
Health insurance levy	204	212	209	215	221	229	2.9
Parking space levy	106	110	106	107	111	114	1.7
Emergency services levy contributions	794	780	780	967	1,131	981	5.4
Emergency services council contributions	124	131	153	180	156	159	6.4
Waste and environment levy	769	568	701	727	724	759	(0.3)
Government guarantee fee	287	313	309	336	381	413	9.5
Private transport operators levy	23	77	76	77	77	32	8.5
Pollution control licences	20	28	28	21	21	22	2.3
Other taxes	877	761	740	716	754	804	(2.1)
	3,204	**2,979**	**3,103**	**3,345**	**3,576**	**3,513**	**2.3**
Total taxation revenue	**31,326**	**31,146**	**31,709**	**32,430**	**34,316**	**35,377**	**3.1**
Annual change	*1.7%*	*-0.6%*	*1.2%*	*2.3%*	*5.8%*	*3.1%*	

Since the Budget:

- **Payroll tax** has been revised up by $305.5 million in 2018-19 and by $1.3 billion over the four years to 2021-22. This is driven by higher than anticipated collections to date, supported by an improvement in labour market conditions.
- **Transfer duty** revenue has been revised up by $247.0 million in 2018-19. This figure has been boosted by a one-off increase in transfer duty from the WestConnex transaction. Transfer duty has been revised down by $2.5 billion over the four years to 2021-22. Sydney median house prices are around 9 per cent lower than at their peak. However, the mix of transactions currently occurring is supporting the average transacted price, which is forecast to fall by 5.4 per cent from its peak. Residential transaction volumes in 2018-19 and 2019-20 are expected to be 15 per cent lower than in 2017-18. Overall, transfer duty revenue is expected to follow the path of milder downturns in recent decades (Chart 3.5). The housing market continues to be supported by strong employment, population growth, income growth and historically low interest rates. Average transacted residential property prices are expected to stabilise by the middle of 2019, before returning to growth in line with general inflation (Sydney CPI) by late 2020. Transaction volumes are forecast to return to trend levels by the end of 2020.
- **Foreign investor transfer duty surcharge** has been revised up by $41.0 million in 2018-19 and by $161.0 million over the four years to 2021-22. This reflects stronger-than-anticipated surcharge collections in the first quarter of 2018-19, although this lift is partially offset by a downward revision to the residential property market outlook.

Chart 3.5: Historical downturns in transfer duty revenue (excluding large transactions, trend)



Source: Revenue NSW, NSW Treasury

Box 3.3: Transfer Duty Reform

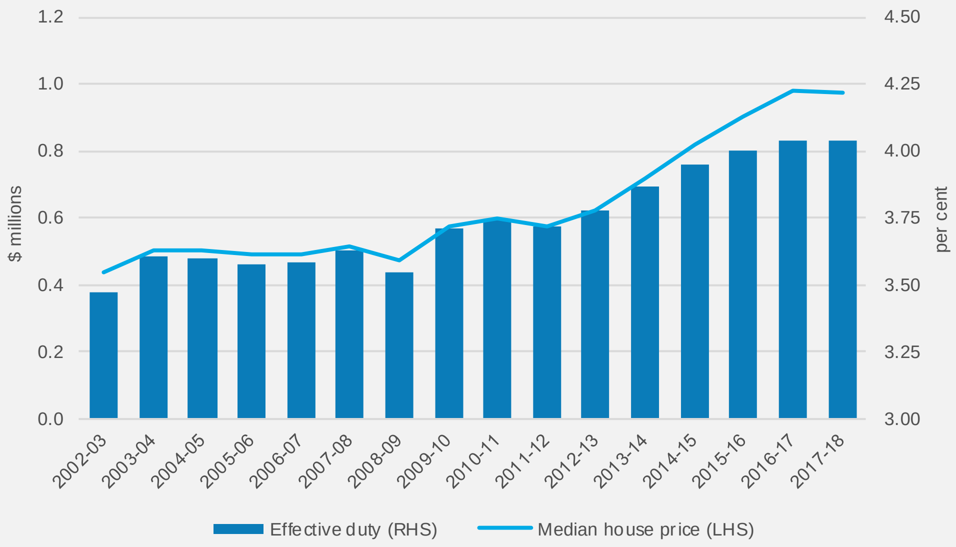
The Government's decision to index transfer duty brackets to the Sydney Consumer Price Index is an important step that will mitigate the impact of bracket creep for property buyers.

Transfer duty is progressively applied to property transfers, with more expensive transfers attracting a higher rate of duty. In the absence of indexation, inflation will lead to an increase in the effective rate of transfer duty each year as property prices are pushed into higher tax brackets, even when the real value of the property has not changed (Chart 3.6).

With the exception of the 2004 introduction of additional duty on residential properties valued over $3 million, transfer duty brackets have not changed since 1986. If bracket indexation had been in place from 1986, the tax payable on a $1 million property would be around $8,000 lower than it is today.

The immediate tax cuts resulting from this reform are relatively modest over the short term, with the duty payable on an average dwelling expected to fall by around $330 by 2021-22. However, the benefits to home purchasers are expected to grow over time.

Chart 3.6: The effective duty on a typical house has grown over time



Source: NSW Treasury, ABS

- **Land tax** has been revised down by $52.7 million in 2018-19 and down by $200.7 million in the four years to 2021-22. The 2018-19 revision reflects a lower revenue outcome in 2017-18 (which influences the forecast) and weaker-than-expected land tax surcharge. The revenue updates for the four years to 2021-22 reflect a downward revision to residential land value growth. This is partially offset by stronger-than-expected growth in commercial land values and additional compliance activity.
- **Taxes on motor vehicle ownership and operation** have been revised down by $49.0 million in 2018-19 and $448.0 million over the four years to 2021-22. This primarily reflects the broadening of the Toll Relief program and new concessions for primary producers affected by drought conditions.
- **Gambling and betting taxes** have been revised up by $54.8 million in 2018-19 and $294.2 million in the four years to 2021-22, primarily due to higher forecast revenue from lotteries duty.
- **Waste and environment levy** has been revised up by $133.4 million in 2018-19 and by $726.7 million over the four years to 2021-22. This revision reflects updated forecasts for leviable waste volumes.

Grant revenue

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

Grant revenue is forecast to be $32.5 billion in 2018-19, which is $344.6 million higher than in the Budget. Over the four years to 2021-22, grant revenue is expected to total $135.6 billion. Since the Budget:

- **GST revenue** has been revised down by $96.0 million in 2018-19 and up by $1.0 billion over the four years to 2021-22. The revision to 2018-19 is due to a lower-than-expected GST pool in 2017-18. The revision over the three years to 2021-22 is driven by a combination of factors including a downward revision to transfer duty revenue and revised expectations for royalties. Recent changes to the GST Horizontal Fiscal Equalisation system have also been factored into the updated forecasts for 2021-22, when the changes begin to take effect. These changes are detailed in Box 3.4. Looking forward, risks to forecast GST revenues are mixed. On the upside, better outcomes in other States may result in New South Wales keeping more GST. On the downside, weaker growth in national consumption expenditure relative to the forecast in the 2018-19 Commonwealth Budget could reduce the size of the GST pool.
- **National Agreement payments** are expected to be $191.2 million higher in 2018-19, due primarily to the 2016-17 hospital funding reconciliation process where New South Wales will receive an additional $189.0 million in 2018-19.
- **National Partnership payments** are expected to provide $9.7 billion in revenue over the four years to 2021-22. Since the Budget, $23.9 million has been brought forward into 2018-19 under the Project Agreement for Small Business Regulatory Reform to support the expansion of the Easy to Do Business Program. This reflects the agreed implementation schedule between New South Wales and the Commonwealth.
- **Other grants and Commonwealth payments** are forecast to be $219.6 million higher in 2018-19 and $783.0 million higher over the four years to 2021-22. This is largely due to a reclassification of other revenues to other grants and subsidies in the Ministry of Health.

Box 3.4: Securing a strong GST deal for NSW taxpayers

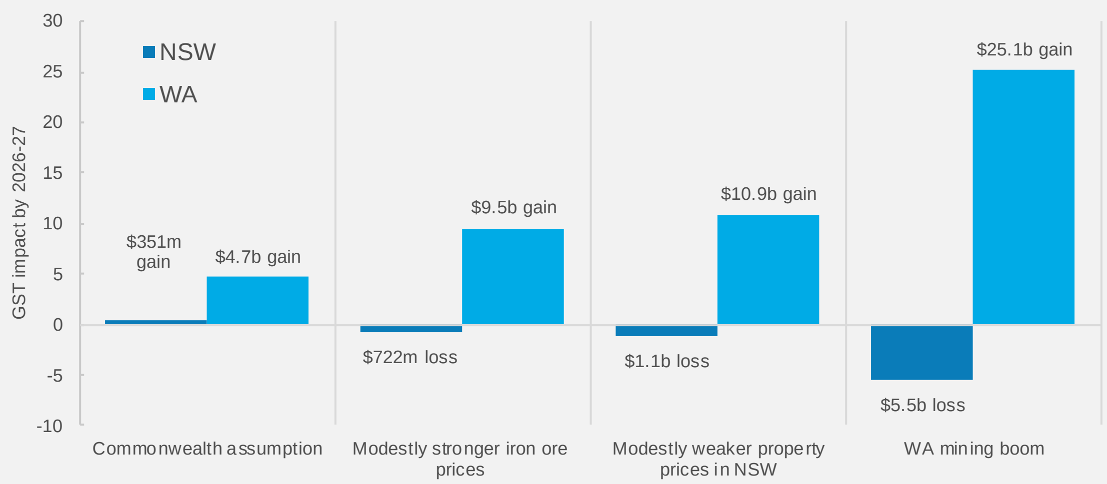
The Commonwealth Government's changes to Australia's system of Horizontal Fiscal Equalisation (HFE), legislated in November 2018, will significantly alter the distribution of GST from 2021-22. The reforms will phase in over six years. They deliver a system of reasonable, rather than full, equalisation. The reforms will also provide Western Australia a guarantee that its entitlement will fall no lower than 70 per cent of its population share from 2019-20, rising to 75 per cent from 2024-25.

The legislation commits additional Commonwealth funding to permanently lift the GST pool from 2021-22 and provides a guarantee to leave no state worse off over the six-year transition period to 2026-27.

The no worse off guarantee is a major win for NSW taxpayers and maintains funding certainty for critical frontline services. The NSW Government strongly advocated for this guarantee to insure against the risk that the Commonwealth's pool would be insufficient. The outcome also demonstrates the potency of working collaboratively with other states and territories through the Board of Treasurers (which New South Wales chaired in 2018) to achieve mutually beneficial outcomes on GST sharing.

The importance of the no worse off guarantee was highlighted in modelling undertaken on behalf of the states and territories for the Council on Federal Financial Relations. This analysis showed that there are many economic scenarios where the Commonwealth's top-ups would be insufficient to leave no state worse off. The importance of the no worse off guarantee is shown in possible scenarios set out in Chart 3.7. For example, New South Wales stood to lose between $722 million and $5.5 billion of GST by 2026-27 if Western Australia's mining sector is stronger than the Commonwealth assumes, either through modestly stonger iron ore prices or a WA mining boom. Under the same scenarios, the Commonwealth's new HFE system would award Western Australia between $9.5 billion and $25.1 billion of additional GST, enabling it to spend more on services or provide a lower tax burden than any other state.

Chart 3.7: Possible impact on GST revenue without a no worse off guarantee



Source: Victorian Department of Treasury and Finance, 2018

Having secured a no worse off guarantee for the transition period, the NSW Government will work constructively with Commonwealth and State governments to ensure the long-term financial and efficiency implications of these reforms are properly considered by the Productivity Commission during its 2026 review of the Commonwealth's changes.

Non-taxation revenue

In addition to taxation and Commonwealth grants, New South Wales receives revenue from other sources including mineral royalties, sales of goods and services, interest income and dividends from State Owned Corporations. Since the Budget:

- **Mineral royalties** have been revised up by $227.5 million in 2018-19 and by $455.4 million over the four years to 2021-22. Global coal prices have increased above expectations, with demand particularly strong in China during the first few months of the financial year. Coal prices are expected to moderate across the forecast period, with Chinese domestic production expected to reduce Chinese import demand.
- **Total revenue from fines, regulatory fees and other revenue sources** has been revised up by $92.2 million in 2018-19 and by $176.7 million over the four years to 2021-22. The largest upward revisions include an expected increase in Voluntary Planning Agreement cash contributions and the accounting recognition of revenue from the sale of airspace rights relating to the Historic Houses Trust of New South Wales. These revenue increases have been partially offset by interest waived on Farm Innovation Fund loans (as part of the Government's Emergency Drought Relief Package), reduced parking fine revenue (following the Government's ongoing review) and lower licence fee receipts (following the Better Business Reforms).
- **Sales of goods and services** have been revised down by $441.1 million in 2018-19, due primarily to the Sydney Metro Northwest project being reallocated from RailCorp to the Sydney Metro operating agency. Sydney Metro will no longer receive fee for service revenue from RailCorp for the delivery of the project. In the four years to 2021-22, sales of goods and services are expected to be $542.6 million lower than Budget. The revised forecast includes a loss of revenue from the Commonwealth Department of Veterans' Affairs due to the move to an activity-based funding model and a reduction in demand for veteran health services. This is partially offset by additional fee for service revenue received for the delivery of More Trains, More Services Stage 2.
- **Interest income** is expected to be $128.6 million higher in 2018-19 and $198.7 million higher over the four years to 2021-22. This revenue classification encompasses returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. Forecast increases are primarily due to higher investments in TCorpIM Funds.
- **Dividends and income tax equivalents** have been revised up by $147.3 million in 2018-19 and $183.3 million over the four years to 2021-22. The revision in 2018-19 is largely driven by a one-off dividend of $144.6 million from the Sydney Motorway Corporation prior to the WestConnex transaction. Landcom distributions are also expected to increase by $18.8 million over the four years to 2021-22 due to more favourable profit forecasts. In addition, the application of the Government's recently updated capital structure and financial distribution policies has resulted in an uplift in expected dividends from Government businesses over the three years to 2020-21.
- **Other dividends and distributions** are received from entities other than State Owned Corporations. Revenue from other dividends and distributions has been revised down by $399.4 million in 2018-19, but is expected to be $961.3 million higher than the Budget forecast over the four years to 2021-22. This reflects lower-than-expected market performance in the year to date, which is more than offset by returns from greater fund investments over the forward estimates.

Box 3.5: Review of fines

In June 2018, the NSW Government announced the first review and reform of parking and other fines in decades. As part of the initial suite of measures, a 25 per cent reduction to ten of the top parking fines when issued by State agencies commenced from 1 July 2018. The Government has also announced a 25 per cent reduction to a further 42 parking fines from 1 January 2019.

These reductions address citizen concerns around fairness and simplicity of parking fines and will bring New South Wales more into line with other domestic and international jurisdictions' parking fine levels.

The NSW Government sought community feedback on parking fine levels and parking signs between July and November 2018. Around 90 per cent of the 1,700 respondents to the survey supported grace periods for metered parking as well as a reduction in parking fine levels.

In response to the issues raised, the Government has amended regulations to:

- introduce a ten-minute grace period from 31 January 2019
- allow councils and universities to opt in to charge 25 per cent lower fines for 52 parking offences, from 1 March 2019.

The grace period will allow motorists to be up to ten minutes late whilst also ensuring appropriate parking turnover. The grace period will apply if there has been at least one hour of paid ticketed or couponed parking and will not apply to parking zones where restrictions apply, such as bus lanes, clearways, loading zones, mail zones and special event parking.

From 1 March 2019, councils and universities across the state will be provided flexibility to lower 52 parking fines (including 10 of the most common parking fines) from $112 to $80. Councils and universities will be able to opt in by writing to the Treasurer to advise that they wish to be included in the relevant schedule of the *Road Transport (General) Amendment (Parking Fine Flexibility and Grace Period) Regulation 2018*.

The NSW Government has also announced regulatory changes to improve the consistency of fines across different government regulations. A suite of fines relating to offences in parklands will be standardised and lowered from 31 January 2019.

3.3 Expenses outlook

The Half-Yearly Review reflects the Government's ongoing commitment to strong fiscal management. It also delivers more investment in services such as schools, police and public transport and continues to support families with the cost of living.

General government sector expenses for 2018-19 are expected to be $80.6 billion, which is $967.7 million higher than projected in the Budget. Expenses have been revised up $4.0 billion over the four years to 2021-22.

Annual expense growth is estimated to be 5.4 per cent in 2018-19, which is up from 4.1 per cent at the Budget. Average expense growth over the four years to 2021-22 is forecast to be 3.5 per cent, compared to 3.2 per cent expected at the time of the Budget. These changes reflect:

- new policy measures
- lower than expected spending in 2017-18 and the reprofiling of expenditure across the Budget and forward estimates.

Table 3.7 provides a reconciliation of changes to budget expense aggregates between the 2018-19 Budget and the Half-Yearly Review.

Table 3.7: Expense reconciliation – 2018-19 Budget to Half-Yearly Review

	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m
Expenses - 2018-19 Budget	**79,656**	**82,181**	**84,316**	**86,814**
Policy measures	454	675	906	789
Total parameter and other budget variations	514	348	291	62
Expenses - 2018-19 Half-Yearly Review	**80,623**	**83,203**	**85,513**	**87,665**

New policy measures announced since the Budget have increased expenses by $2.8 billion over the four years to 2021-22. These new measures include:

- $1.0 billion over three years to 2021-22 towards the More Trains, More Services program. This will help transform Sydney's busiest train lines by providing more train services through digital systems, infrastructure upgrades and new trains[4]
- $643.1 million over four years following amendments to workers compensation legislation to better support and protect NSW firefighters (see Section 3.2 for revenue impacts)
- $467.7 million across 2019-20 to 2021-22 ($6.4 billion to 2027) for the NSW Government's contribution to the National Education Schools Reform (Gonski 2.0), to ensure needs-based funding for schools across the state (see Box 3.6)
- $281.1 million over three years to 2021-22 towards an additional 1,500 police to support enhanced protection and preventative capabilities across New South Wales (see Box 3.9)
- $239.0 million in 2018-19 as part of the $500 million Emergency Drought Relief Package to help manage the effects of the drought (see Box 3.7)
- $80.1 million from 2018-19 to 2021-22 towards the NSW Government response to the Royal Commission into Institutional Responses to Child Sexual Abuse (see Box 3.8).

Box 3.6: National Schools Reform Agreement (Gonski 2.0)

On 7 November 2018, the NSW Government signed a new National School Reform Agreement as part of the Gonski 2.0 schools funding package.

Under this agreement the NSW Government has committed to provide an additional $6.4 billion to government schools across New South Wales over the next 10 years. This is in addition to funding committed under the original Gonski agreement.

The National Schools Reform Agreement includes the implementation of a range of policy initiatives and state-based reforms across NSW schools to help set students up for a stronger, better future. This additional investment in education will mean more teaching and support staff for children, more teaching and learning resources and more targeted support for schools that need it the most.

The extra New South Wales investment includes $712.0 million for the establishment of a new NSW Equity Fund for government schools. This will match additional funding to be provided by the Commonwealth to non-government schools under its Choice and Accountability Fund.

This investment will ensure every child – no matter where they live, their family's circumstances or the school they attend – is given every opportunity at the best start in life.

[4] Note this measure also has associated revenue impacts.

In addition to new policies, parameter adjustments and other budget variations since the Budget are expected to increase expenses by $513.8 million in 2018-19 and by $1.2 billion over the four years to 2021-22. These include:

- higher expenses associated with increased demand across a range of services, including cost of living initiatives
- additional expenses associated with reprofiling expenditure across the budget and forward estimates, to better align with planned project and service delivery schedules
- additional operating expenses associated with implementation of transport and rail projects, helping deliver future-ready, accessible transport across New South Wales
- higher expenditure from Voluntary Planning Agreements between the NSW Government and private developers. These agreements help fund public amenities, services, affordable housing and infrastructure[5].

This is partially offset by:

- a reduction in expenditure from the reprofiling and transfer of metro projects into the general government sector
- a reduction in interest expenditure associated with an adjustment to use the Commonwealth bond yield as the discount rate for the valuation of non-employee provisions. This change better reflects the time value of money for these provisions.

Table 3.8 provides a summary of general government sector expenses by major category.

Table 3.8: General government sector expenses

	2017-18 Actual	2018-19 Budget	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22	% Average growth p.a. 2017-18 to 2021-22
	$m	$m	$m	$m	$m	$m	
Total employee-related expenses	36,111	36,088	37,157	38,416	39,727	41,317	3.4%
Employee expenses [(a)]	*31,644*	*31,613*	*32,633*	*33,946*	*35,244*	*36,793*	*3.8%*
Superannuation	*4,467*	*4,475*	*4,524*	*4,470*	*4,483*	*4,524*	*0.3%*
Other operating	19,652	21,600	21,299	21,764	21,726	22,030	2.9%
Depreciation and amortisation	4,873	4,989	5,081	5,366	5,699	5,782	4.4%
Recurrent grants and subsidies	12,908	13,852	14,005	14,755	15,229	15,194	4.2%
Capital grants	955	1,082	1,226	808	657	684	-8.0%
Interest	1,994	2,044	1,855	2,095	2,475	2,656	7.4%
Total expenses	**76,491**	**79,656**	**80,623**	**83,203**	**85,513**	**87,665**	**3.5%**
Annual change	*5.4%*	*4.1%*	*5.4%*	*3.2%*	*2.8%*	*2.5%*	

(a) Increase in 2018-19 employee expenses is largely driven by the reclassification of grant and other operating expenses to employee expenses, amendments to workers compensation legislation to better support NSW firefighters, and increased demand for services.

5 This variation also has associated revenue impacts.

Box 3.7: Drought Assistance and Support for Farmers

New South Wales is experiencing one of the driest years on record. To support our farming communities through the drought, the NSW Government has taken action to ease financial pressures on farmers with a $500 million Emergency Drought Relief Package.

To provide relief and support to affected communities this initiative includes:

- up to $190 million for Drought Transport Subsidies
- around $100 million for cutting the cost of farming fees and charges – by waiving Local Land Services rates and fixed water charges in rural and regional areas
- $150 million to bolster the Farm Innovation Fund infrastructure program
- $5 million for emergency water carting to secure town water supplies
- $4 million towards animal welfare and stock disposal
- $10 million for rural mental health and counselling services
- $15 million for critical services in regional communities including drought related road upgrades and repairs
- $7 million to waive registration costs for agricultural vehicles, animal welfare and stock disposal.

These measures aim to help farmers and their families manage through and recover from the current drought, as well as prepare for potential future dry conditions, build resilience and improve on-farm efficiencies.

Looking to the future, a number of expenditure challenges are starting to emerge. These will place significant pressure on the Budget over the coming years, including:

- maintenance, depreciation, and operating costs associated with the Government's record capital program
- increasing demand for services such as health, justice, education and transport.

The Half-Yearly Review demonstrates the Government's commitment to addressing these challenges and maintaining annual expenditure growth below long-term average revenue growth. Key actions the Government is taking include:

- application of the efficiency dividend (as announced in the Budget)
- making better use of existing budgets by funding new initiatives through reprioritisation within existing resources
- continuation of the Government's public sector wages policy and an ever-increasing focus on outcomes and performance.

Box 3.8: Government response to the Royal Commission into Institutional Responses to Child Sexual Abuse

The NSW Government is committed to ensuring that children now and into the future can live free from harm, are adequately protected and are supported by the institutions that are entrusted to care for them.

On 18 October 2018, the NSW Government announced a $127 million comprehensive package to implement its response to the Royal Commission's recommendations. This investment will strengthen measures to prevent child sexual abuse, ensure greater access to treatment and support services for impacted children and adults and toughen the criminal justice response to child offence matters. Key initiatives include:

- $37.7 million for early intervention initiatives and improving access to specialist treatment services
- $28.3 million to continue the Child Sexual Offence Evidence Program to support children and young people involved in sexual abuse cases
- $14.8 million to expand sexual assault outreach for Aboriginal people and people from culturally and linguistically diverse communities
- $14.3 million for an integrated specialist therapeutic service for adult survivors
- $6.9 million for strengthened checks for carers working in Out-of-Home Care
- $5.9 million to upgrade CCTV in four Juvenile Justice Centres to improve safety of children in juvenile detention
- $4.1 million to expand Local Court capacity to respond to child sexual offence matters
- $3.8 million to make organisations safer for children and young people, including the provision of additional Child Safe training and resources for parents
- $2.7 million for resources for non-government organisation caseworkers to respond to children with complex needs
- $2.1 million for a worker register to better protect children in intensive therapeutic care.

These initiatives build on the Government's investment towards the National Redress Scheme and criminal justice and civil litigation law reforms.

Box 3.9: 1,500 new police to keep communities safe in New South Wales

The Government will invest $583.6 million over the next four years to deliver 1,500 extra police officers and increase the State's crime fighting capability. This will be the largest increase in police resourcing in more than 30 years. This boost follows a significant re-engineering of the NSW Police Force to ensure it can better prevent, disrupt and respond to crime.

These extra police will be allocated according to a resourcing blueprint that focuses on proactive and high visibility policing, including the priority areas of child protection and elder abuse.

Every police command in New South Wales will receive an additional officer to help monitor offenders on the Child Protection Register and a specialist Elder Abuse Prevention Officer to implement strategies for prevention and support. Additional police will also be allocated to the Domestic Violence High Risk Offender Teams to enhance the focus on violent repeat offenders. These initiatives will help ensure some of the most vulnerable members of the community stay protected.

3.4 Expense measures statement

The Half-Yearly Review demonstrates the Government's continued commitment to deliver high quality services that support the best outcomes for the people of New South Wales. These initiatives aim to ensure New South Wales remains a great place to live, work and do business – both now and into the future.

Table 3.9 shows the impact of new policy measures by cluster. The table displays the expense impact of these measures and does not include associated revenue or capital expenditure.

Table 3.9: New policy measures since the 2018-19 Budget – recurrent expenses [(a)(b)]

	2018-19 Revised	2019-20 Forward Estimates	2020-21	2021-22	Four year total	Comment on major decisions included in totals
	$m	$m	$m	$m	$m	
Education	(5.3)	39.0	126.7	289.2	**449.6**	• Gonski 2.0 schools funding package for government and non-government schools, to support a range of policy initiatives to improve education outcomes across New South Wales.
Family and Community Services	24.3	6.7	(4.2)	(2.0)	**24.9**	• Government response to the Royal Commission with additional investment to support and protect children in Out-of-Home Care and improve community support services. • Delivery of upgraded ICT systems to support caseworkers and other frontline staff to improve service delivery outcomes.
Finance, Services and Innovation	(2.1)	8.1	4.0	6.6	**16.6**	• Investment to optimise analytics and efficiencies in revenue collection by Revenue NSW.
Health	6.6	14.3	15.2	14.6	**50.7**	• The Government response to the Royal Commission with additional investment towards outreach and community support services for children, vulnerable groups and adult survivors with complex needs. • Expenditure associated with payments from the Commonwealth Government towards the Encouraging More Clinical Trials, and National Electronic Recording and Reporting of Controlled Drugs National Partnership.
Industry	361.1	85.7	51.3	18.9	**516.9**	• Emergency Drought Relief to support NSW farmers and rural communities experiencing financial hardship. • Investments in sport infrastructure projects including Centres of Excellence for NSW Cricket, the Sydney Swans and Sydney Swifts.
Justice	19.9	102.5	141.9	181.9	**446.3**	• 1,500 extra police across New South Wales to increase the State's ability to prevent, disrupt and respond to crime. • Expanding local court capacity, improving the safety of children in juvenile detention and supporting children involved in sexual abuse cases, as part of the Government's response to the Royal Commission. • An additional five District Court Judges as part of a package to deliver swifter justice and reduce pressure on the judiciary and court users.

	2018-19 Revised $m	2019-20 $m	2020-21 Forward Estimates $m	2021-22 $m	Four year total $m	Comment on major decisions included in totals
Planning and Environment	5.0	17.0	18.1	19.1	**59.2**	• Additional support for all public libraries across New South Wales and assistance to local councils to improve library services and infrastructure.
Premier and Cabinet	20.3	33.3	20.5	0.5	**74.6**	• Investment from existing agency resources for the Western City and Aerotropolis Authority. • Delivery of programs to enhance amenities and liveability across Western Sydney, funded from Restart NSW reservations.
Transport and Infrastructure	(44.9)	245.6	407.9	50.1	**658.8**	• Investment in the More Trains, More Services Program that will deliver additional trains and services; partially offset by sectoral transfers in relation to the Regional Rail Fleet.
Treasury	61.7	106.2	13.5	2.4	**183.7**	• Restart NSW grants to local governments, NGOs and other entities, and Restart NSW reservations for planned future projects.
Other	7.2	16.4	111.2	207.5	**342.3**	• Whole-of-government measures and items that cannot be attributed to an individual cluster, including: – Restart NSW commitments and reservations – Investment into the revised workers compensation legislation to better support and protect NSW firefighters.

(a) A positive figure increases expenses and a negative figure decreases expenses.
(b) The figures presented are the net figure for new policy decisions that increase or decrease expenses.

3.5 Capital expenditure outlook

General government capital expenditure

General government capital expenditure is forecast to be $18.5 billion in 2018-19, which is $1.2 billion higher than at the Budget. General government capital expenditure for the four years to 2021-22 is forecast at $69.4 billion, an upward revision of $3.7 billion.

The upward revisions are driven by the Government's continued strong investment program, particularly its investment in the State's public transport and road network. Table 3.10 provides a reconciliation of capital expenditure between the 2018-19 Budget and the Half-Yearly Review.

Table 3.10: General government capital reconciliation – 2018-19 Budget to Half-Yearly Review

	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m
Capital - 2018-19 Budget	**17,329**	**17,329**	**16,585**	**14,463**
Capital changes since Budget				
New capital works [(a)]	777	1,169	655	317
Parameter and other budget variations	429	231	86	(11)
Total variations since 2018-19 Budget[(b)]	**1,206**	**1,400**	**741**	**306**
Capital - 2018-19 Half-Yearly Review	**18,536**	**18,729**	**17,326**	**14,769**

(a) Includes Restart NSW reservations for capital expenditure.
(b) Includes the transfer of the Regional Rail Fleet Replacement program and Sydney Metro Northwest assets to the general government sector for delivery from the public non-financial corporations sector ($743.8 million over the four years to 2021-22), to align the delivery of these projects with the entities best placed to hold and manage the assets going forward.

New capital expenditure supported by the Government since the Budget includes:

- $549.0 million for Western Harbour Tunnel enabling works and infrastructure at Rozelle
- $353.0 million to support road upgrades around the Bays Precinct and Inner West
- $189.0 million towards the full redevelopment of Griffith Hospital, in addition to the $35.0 million invested as part of the 2018-19 Budget
- $125.9 million additional amount as part of the $154.0 million investment in the TAFE campus at the Meadowbank Education Precinct, which will co-locate TAFE Meadowbank with Meadowbank public school and high school
- $26.3 million for one Large Air Tanker (LAT) aircraft and two twin engine fixed wing lead and scanning aircraft in preparation for the 2019-20 bush fire season.

Since the Budget the Government has confirmed $406.5 million of capital expenditure as Restart NSW commitments, from Restart NSW reservations. This includes $50.0 million to develop the business case for the North-South Rail Line to service the new Western Sydney Airport, and $18.5 million for planning the Circular Quay Precinct Renewal as part of a $200 million Restart NSW reservation. Further detail is provided in Section 3.6 - Restart NSW Fund (including Rebuilding NSW).

Box 3.10: The State's $89.7 billion infrastructure program

The Half-Yearly Review includes $89.7 billion of capital expenditure projected over the four years to 2021-22 across the general government and public non-financial corporation sectors – an increase of $2.5 billion since the 2018-19 Budget. This includes:

- $8.1 billion[6] for hospitals and health facilities
- $7.0 billion for schools and skills infrastructure
- $52.9 billion for public transport and roads
- $3.9 billion for justice and emergency services infrastructure.

[6] Includes capital expensing amounts totalling $0.6 billion over the four years relating to certain expenditure associated with the construction of health capital projects, which fall below the capitalisation threshold and are not classified as capital expenditure under the accounting standards.

Box 3.11: Scoping studies to be funded from the Snowy Hydro Legacy Fund

The Snowy Hydro Legacy Fund was established in June 2018 to enable an amount equal to the proceeds from the sale of the State's share of Snowy Hydro to be invested in state-building infrastructure for the benefit of regional New South Wales.

The fund will help deliver critical infrastructure and priority initiatives identified in the *20-Year Economic Vision for Regional NSW*, *NSW State Infrastructure Strategy 2018-2038* and other long-term government plans.

The five areas of immediate focus will be: improved water security, rail and road transport connections, freight linkages, digital connectivity and Special Activation Precincts to attract more industry investment in the regions.

The 2018-19 Budget included $40.0 million for scoping studies into potential projects that may be supported by the Fund. Of this amount, the Government has since approved $25.2 million into the following areas:

- $6.7 million for water security in priority catchments, including the Lostock to Glennies Dam pipeline, the Hunter Water Corporation to Singleton potable interconnection project, and the re-regulating structure on the Macquarie River upstream of Gin Gin Weir
- $6.3 million for regional New South Wales' first special activation precinct around the Parkes National Logistic Hub
- $6.2 million for initiatives that will identify connectivity infrastructure, as well as the development and use of innovative technologies in regional NSW that improve economic competitiveness
- $6.0 million for passenger and freight connectivity, including for faster and better rail, and improvements to productive freight networks in regional NSW.

Work is already underway on some of these projects and the first studies will be completed in early 2019.

3.6 Restart NSW Fund (including Rebuilding NSW)

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

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

Since the Budget, the Government has committed $763.0 million from Restart NSW to deliver critical infrastructure projects across New South Wales (see Table 3.12).

Restart NSW

As at the Half-Yearly Review, total receipts of $33.2 billion have been deposited into the Restart NSW Fund. These inflows have enabled the approval of:

- $23.7 billion in Restart NSW commitments.[7] Commitments are funds that have been allocated to specific projects and approved by the Treasurer under the *Restart NSW Act 2011*.
- $9.4 billion in Restart NSW reservations. Reservations represent funds that have been earmarked for future projects and programs but which are yet to be formally approved by the Treasurer under the terms set out in the *Restart NSW Act 2011.*

Table 3.11 summarises the aggregate commitments and reservations for current and future projects funded through Restart NSW.

Table 3.11: Restart NSW Fund (as at 2018-19 Half-Yearly Review)

	Restart NSW (excluding Rebuilding NSW) ($b)	Rebuilding NSW ($b)	Total ($b)
Total inflows[(a)]			**33.2**
Commitments	7.2	16.5[(b)]	23.7
Reservations	5.8	3.5	9.4
Total	13.1	20.0	

(a) Reflects inflows forecast to be received as at the Half-Yearly Review but not future inflows. Total inflows include funds that have been deposited into Restart NSW but have not yet been committed or reserved for infrastructure projects. Total inflows exclude a portion of the investment returns in the NSW Infrastructure Future Fund that remain unallocated as a prudential buffer against future volatility.
(b) Includes $527.6 million in funding from the Consolidated Fund for the $1.0 billion Safe and Secure Water Program. This program is partially funded through the Consolidated Fund to enable the funding of crucial water infrastructure based on community needs.

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

[7] Includes $527.6 million in funding from the Consolidated Fund for the $1.0 billion Safe and Secure Water Program. See footnote (b) of Table 3.1 for further details.

Table 3.12: Additional Restart NSW commitments from 2018-19 Budget to the Half-Yearly Review

	Commitments $m
New Intercity Fleet	180.0
Regional Growth: Economic Activation Fund	124.6
Lismore Hospital Redevelopment[(a)]	79.4
Housing Acceleration Fund 5	57.8
North-South Rail	50.0
Dubbo Base Hospital Redevelopment[(a)]	36.8
Redevelopment of Circular Quay	18.5
NSW Cycling Infrastructure Initiative	11.4
Water Security for Regions	5.3
Restart NSW commitments (excluding Rebuilding NSW)	**563.8**
Regional Road Freight Corridor	143.9
Fixing Country Roads	20.2
Safe and Secure Water Program	11.9
Future Focused Schools[(a)]	8.2
Regional Growth Roads	6.0
Traffic Management Upgrades	5.0
Bridges for the Bush	4.0
Rebuilding NSW commitments	**199.2**
Total commitments since the Budget	**763.0**

(a) Includes Restart NSW funds to replace funding from the Consolidated Fund.

The Government also reserves Restart NSW funds for projects with a view to a future commitment. This allows for the preparation of a final business case and Infrastructure NSW endorsement, prior to a final funding decision. Table 3.13 summarises the new reservations made since the Budget.

Table 3.13: Additional reservations from 2018-19 Budget to the Half-Yearly Review

	Reservations $m
Redevelopment of Circular Quay	181.5
Regional Road Freight Corridor	30.0
Total additional reservations since the Budget	**211.5**

The Government continues to invest in regional communities, with $456.4 million in additional Restart NSW funds committed to infrastructure projects across regional New South Wales since the Budget. New Restart NSW commitments to regional projects are detailed in Box 3.12.

Box 3.12: Restart NSW – regional investment

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

Since the Budget was handed down, the Government has made significant regional commitments from Restart NSW. These include:

- $174.1 million for regional transport projects, such as:
  - $143.9 million for the Regional Road Freight Corridor program
  - $20.2 million for 11 projects as part the Fixing Country Roads program
- $124.6 million for programs funded through the Regional Growth: Economic Activation Fund, including:
  - $84.2 million for 17 projects under the Growing Local Economies program. The program was designed to deliver economic growth and productivity in regional New South Wales through investing in economically significant infrastructure projects, for example: the Nexus Industrial Precinct in Albury ($10.0 million), the Byron Bay Town Centre Bypass ($9.5 million), the Tamworth Intermodal Rail Line Activation ($7.4 million)
  - $40.0 million for 12 projects under the First-Class Food and Fibre program
- $24.3 million for 10 projects as part of the Housing Acceleration Fund Round 5
- $17.2 million for 30 water security projects.

Rebuilding NSW plan

In 2014 the NSW Government announced the Rebuilding NSW plan. Under this plan, the proceeds from the electricity network transactions, Commonwealth Government Asset Recycling Initiative payment, and investment earnings are used to fund infrastructure projects. The Rebuilding NSW plan is investing $20 billion in new infrastructure over 10 years.

Restart NSW is being used as the vehicle to implement the Rebuilding NSW plan. Details on projects and programs being funded under by this plan are outlined in Table 3.14.

Table 3.14: Rebuilding NSW plan

Priority Areas	Project/Program	Rebuilding NSW Plan Contribution $m	Rebuilding NSW Commitments $m[(a)]	Rebuilding NSW Reservations $m[(a)]
Urban public transport	Sydney Metro City and Southwest	7,000	7,000	…
	More Trains, More Services	1,000	1,000	…
	Parramatta Light Rail	600	600	…
	Bus Priority Infrastructure (including B-Line)	300	290	10
Urban roads	Western Harbour Tunnel and F6	1,100	623	477
	Pinch Points and Clearways	400	396	4
	Smart Motorways	400	385	15
	Gateway to the South	300	295	5
	Traffic Management Upgrades	200	189	11
Regional transport	Regional Road Freight Corridor	2,000	1,107	893
	Regional Growth Roads	1,000	983	17
	Fixing Country Roads	500	195	305
	Fixing Country Rail	400	149	251
	Bridges for the Bush	200	127	73
Water Security	Safe and Secure Water	1,000	1,000[(b)]	…
Education	Future Focused Schools	700	440	260
	Regional Schools Renewal	300	119	181
Health	Hospitals Growth Program	600	…	600
	Regional Multipurpose Services (MPS) Facilities	300	300	…
	Primary and Integrated Care Strategy	100	100	…
Culture and Sport	Culture and Arts	600	585	15
	Sports Stadia	600	381	220
	Regional Growth - Environment and Tourism fund	300	142	158
Other opportunities	Corridor Identification and Reservation	100	68	32
Total		**20,000**	**16,474**	**3,526**

(a) Restart NSW commitments and reservations include funds to repay or replace advances from the Consolidated Fund.
(b) Includes $527.6 million in funding from the Consolidated Fund. This program is partially funded through the Consolidated Fund to enable the funding of crucial water infrastructure based on community needs.

3.7 Managing the State's assets and liabilities

The New South Wales balance sheet continues to move from strength to strength, with another record negative net debt of $11.2 billion at June 2018.

The strength of the balance sheet has been driven by a suite of Government reforms, including:

- Establishing the NSW Generations Fund with $10.0 billion. This will guard against intergenerational budgetary pressures and help maintain debt at a level consistent with a triple-A credit rating
- The successful sale of a 51 per cent stake in Sydney Motorway Corporation for $9.26 billion in August 2018
- Cash management reforms, which continue to be progressed and which include centralisation of agency at-call cash into the Treasury Banking System
- The State's first ever issuance of Green Bonds in November 2018, via the Sustainability Bond Programme. This raised $1.8 billion in capital to be invested in projects that deliver environmental and social benefits for the people of New South Wales
- The new *Government Sector Finance Act 2018*, which represents a once-in-a-generation reform that will modernise financial practice in New South Wales. The principles in the *Act* replace outdated practices that were fit-for-purpose 30 years ago, but which had not kept pace with modern financial management.

Key balance sheet variations since the 2018-19 Budget

Since the Budget (see Table 3.15), the WestConnex transaction has had a significant impact on the balance sheet, including:

- an improvement in net debt from $2.6 billion at Budget to negative $7.7 billion at June 2019
- an increase in net worth from $270.1 billion at Budget to $276.0 billion at June 2019.

Table 3.15: NSW General Government Balance Sheet Aggregates

	June 2018	June 2019	June 2019	June 2020	June 2021	June 2022
	Actual	Budget	HYR	Forward Estimates		
Total Assets ($m)	383,564	389,648	401,364	413,682	431,781	446,252
Financial Assets ($m)	173,228	162,920	172,908	168,246	170,592	172,656
Non-Financial Assets ($m)	210,336	226,728	228,456	245,436	261,189	273,595
Total Liabilities ($m)	129,385	119,521	125,402	126,739	129,474	131,546
Net Worth ($m)	254,179	270,127	275,962	286,943	302,307	314,706
as a per cent of GSP	42.1	42.9	43.7	43.6	43.8	43.4
Net Debt ($m)	(11,195)	2,559	(7,712)	5,676	15,502	22,471
as a per cent of GSP	(1.9)	0.4	(1.2)	0.9	2.2	3.1

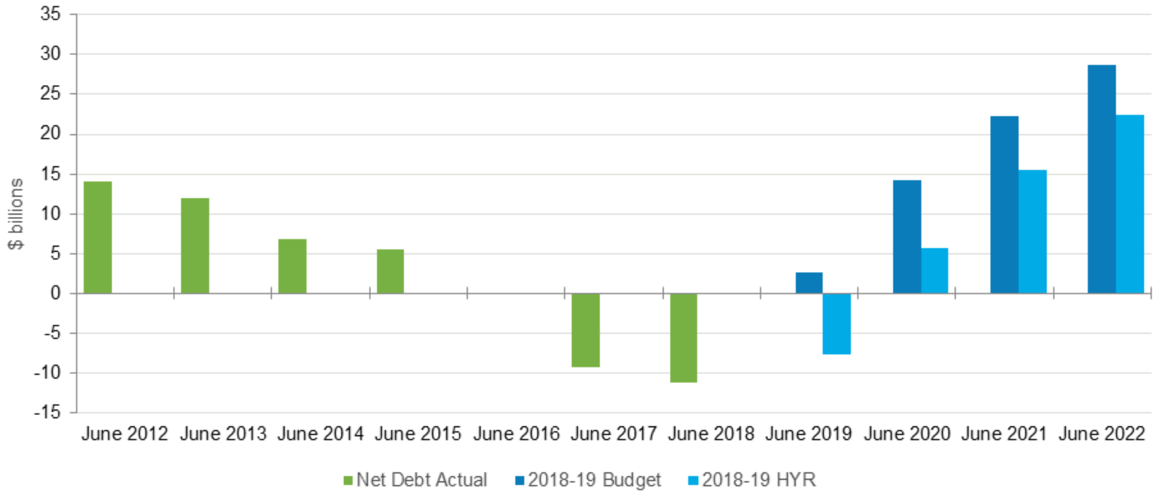
New South Wales has the lowest net debt of all States and Territories

The Half-Yearly Review projects net debt will now be negative for a fourth consecutive year at June 2019, with a $10.3 billion improvement to negative $7.7 billion. As noted above, the result is largely due to the successful WestConnex transaction in August 2018, which was not recognised until completed (as per customary NSW budget practice).

The WestConnex proceeds have also reduced the State's immediate borrowing requirements, and is a key driver behind NSW having the lowest net debt of all states and territories.

Looking further ahead to June 2022, net debt is projected to reach $22.3 billion, an improvement of $6.2 billion since the Budget. This reflects the State's approach to funding its record infrastructure program via a mix of healthy budget surpluses, asset recycling proceeds and modest borrowings.

Chart 3.8: Movements in general government sector net debt since 2012



The financial assets included in the calculation of net debt[8] are projected to be $43.3 billion at June 2019, revised up $10.8 billion following the WestConnex transaction. Over the four years to June 2022, these financial assets are projected to decrease to $29.3 billion as the Government draws down on asset recycling proceeds to fund its infrastructure program.

Liabilities included in the calculation of net debt are projected to be $35.6 billion at June 2019, broadly in line with the Budget estimates. Over the four years to June 2022, these liabilities are projected to increase to $51.8 billion, representing a modest increase in borrowings of $16.2 billion to help fund the Government's record infrastructure program.

Through the Government's disciplined fiscal management and maintenance of the triple-A credit rating, it has been able to minimise the overall cost of borrowings, and support the objective of the *Fiscal Responsibility Act 2012*. New South Wales also responsibly invests in a diverse range of financial assets to protect and grow the balance sheet, while maintaining a return that exceeds the cost of borrowings.

8 The Government is assessing the impact of new accounting standards for AASB 16 Leases and AASB1059 Service Concession Arrangements: Grantors (which come into effect on 1 January 2019) on the Uniform Presentation Framework (which is used to present the financial information in Appendix A). This may affect the level of net debt reported in the State's financial statements. 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.

Box 3.13: Measuring the success of asset recycling

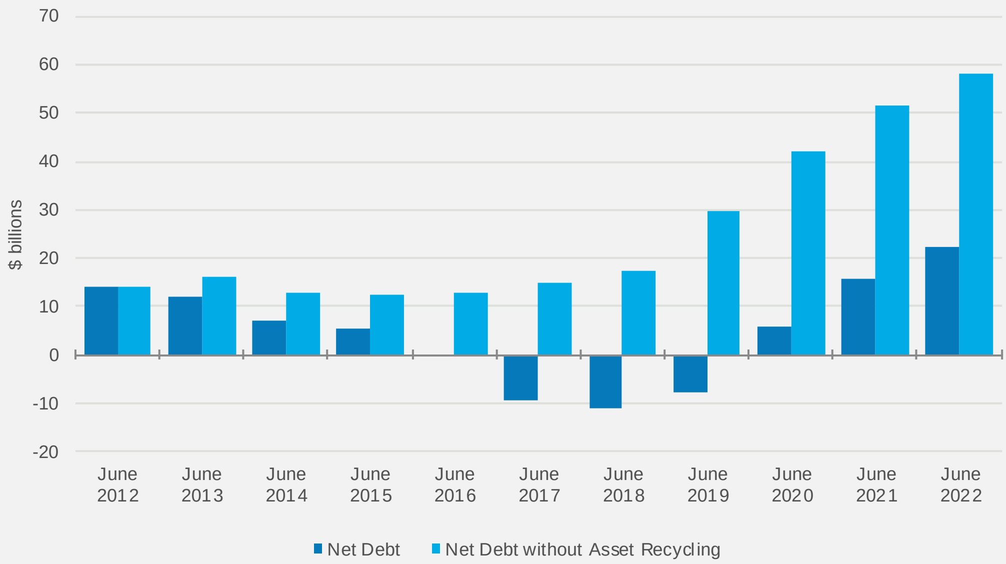
The Government's successful asset recycling strategy is the driving force behind the State projecting a fourth consecutive year of negative net debt in 2018-19.

The State's balance sheet has been bolstered by the receipt of asset recycling proceeds since 2012, which is now playing a vital role in funding the Government's record $89.7 billion infrastructure program.

The strength of the State's balance sheet has enabled the Government to deliver the infrastructure investment necessary to support the State's economic growth and prosperity while maintaining its debt at a level consistent with a triple-A credit rating.

Without asset recycling, general government net debt would have reached approximately $58.1 billion by June 2022, compared with the $22.5 billion currently projected (see Chart 3.9 below).

Chart 3.9: Net debt comparison without asset recycling



New South Wales' net worth is the highest of all states and territories

New South Wales' net worth is projected to be $276.0 billion at June 2019, the highest of all States and Territories (see Chart 3.10)[9]. This expected result is an upward revision of $5.8 billion compared to the Budget, driven primarily by the WestConnex transaction.

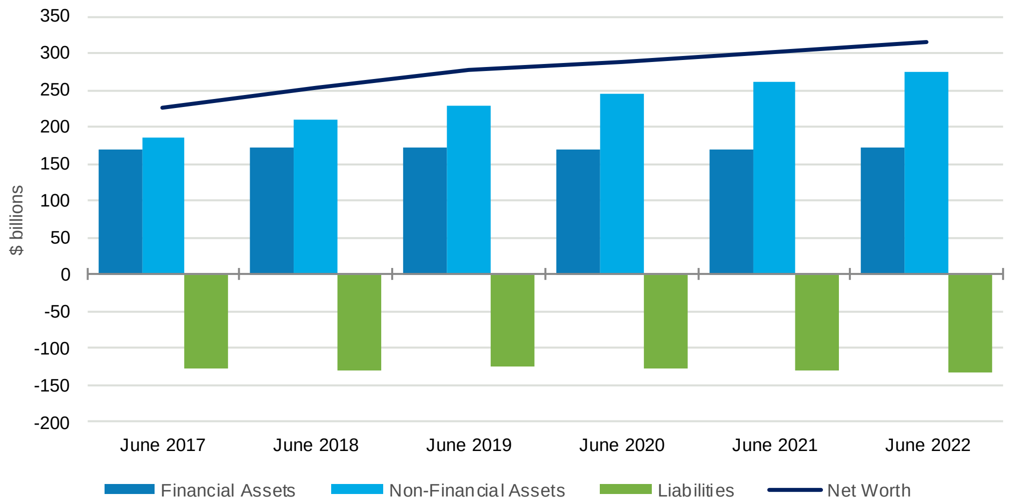
Over the medium term, net worth is projected to reach $314.7 billion by June 2022. This is driven primarily by strong growth in the State's non-financial assets, which more than offsets the projected decrease in financial assets, while liabilities remain generally stable. Most notably:

- the value of property, plant and equipment is expected to grow from $218.5 billion at June 2019 to $258.9 billion at June 2022, due to the delivery of the record infrastructure program partially funded with net operating cash, land and property asset revaluations, and growth in financial assets
- the Government's equity investments are expected to increase from $120.7 billion at June 2019 to $133.8 billion by June 2022, driven by growth in the public non-financial corporation sector

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

- the expected $15.9 billion increase in borrowings to June 2022 is largely offset by a $11.5 billion decrease in superannuation liabilities, as the State progresses on its commitment to fully fund its superannuation liabilities by 2030.

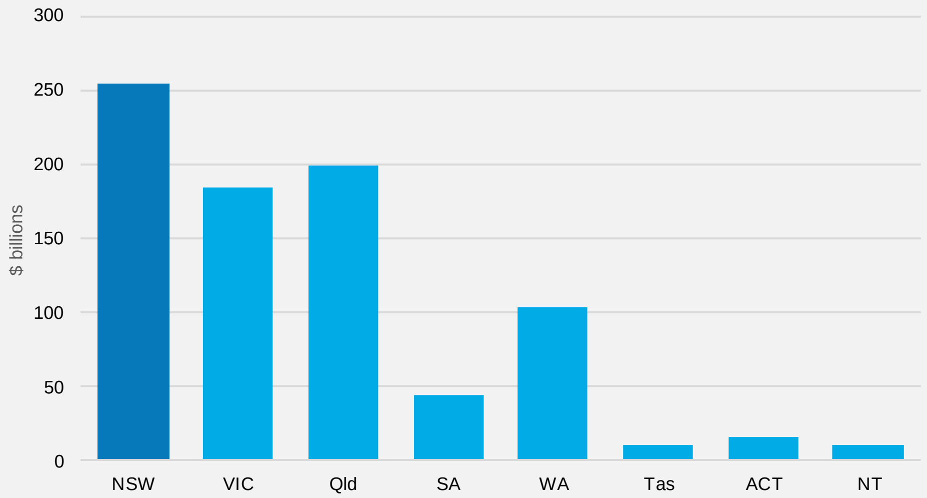
Chart 3.10: Changes in NSW general government sector assets and liabilities since June 2017



Box 3.14: NSW's net worth surpasses a quarter of a trillion dollars

The NSW Government continues to grow the Government's net worth to record levels, reaching $254.2 billion at June 2018. Not only is New South Wales the first state to have net worth exceeding a quarter of a trillion dollars (see Chart 3.11), it is also projected to increase its net worth to $314.7 billion by June 2022.

Chart 3.11: Net worth comparison across all states and territories as at 30 June 2018[(a)]



(a) Net worth as reported in published 2017-18 final budget outcomes for all jurisdictions except for South Australia which is yet to report and are shown as at 2018-19 Budget.

3.8 Fiscal risks

The 2018-19 Budget and Half-Yearly Review are prepared, in part, on forecasts and assumptions. Some of these can be subject to risks and variation.

Revenue risks

The revenue generated from taxes and other sources is dependent on a number of economic variables. Any change in these variables may result in changes to the actual revenue collected.

For example, changes to the amount of GST revenue collected nationally (the pool size) and the State's share of this revenue (its relativity) are a risk to state revenue. NSW GST revenue may change based on revisions to the GST pool as well as the GST relativities and changes to intergovernmental arrangements. The relative strength in the State's revenue performance in comparison to other states could put downward pressure on the NSW relativity and GST distribution. These factors saw the State's GST revenue fall to a historic low in 2018-19 with a significant portion of the national GST pool being redistributed to other states and territories. This was reversed subsequently with upward revisions to the GST pool and to the NSW GST relativity.

National Agreement and National Partnership payments can be volatile due to the Commonwealth Government introducing new programs and infrastructure projects, terminating existing agreements or reprofiling the timing of payments to the State. Updates to the GST pool, National Agreement and National Partnership payments are expected as part of the Commonwealth Mid-Year Economic and Fiscal Outlook.

Transfer duty is highly exposed to risks from swings in the property market as well as policy adjustments. Transfer duty revenue growth is moderating in 2018-19 due to the slowing property market as well as to Government measures to strengthen housing affordability, including the exemption of first home buyers from transfer duty.

Mining royalties are influenced by variations in world coal prices. Since the Budget stronger coal prices have boosted royalties in 2018-19, but coal prices are expected to moderate over the forecast period.

Investment returns from financial assets are becoming a more significant portion of the State's balance sheet, with the realised gains recognised as revenue impacting the budget result. Over the four years to 2021-22 realised gains are projected to increase from $0.7 billion in 2018-19, to $1.2 billion by 2021-22. This creates a budget risk as market returns may be below or above projected returns.

Expense risks

Some expense risks are within the Government's control and are actively managed. For example, the Government has been managing employee-related expenses through the NSW public sector wages policy.

Other risks can be beyond the Government's control. Commonwealth payments, performance of financial markets and interest rate changes are all examples. Risks also include changes to broad economic factors, demand growth, accounting adjustments and variations to Commonwealth Government grants. Major new commonwealth schemes (e.g. the National Redress Scheme) estimate their liabilities on a wide range of assumptions, which may vary substantially as their implementation proceeds. Claimants opting for civil action in relation to child sexual abuse currently represent a contingent liability. There continues to be significant uncertainty around these claims, which will be reviewed as more data becomes available and claims are made.

The Commonwealth is making increased use of legislative mechanisms to establish National Agreements and National Partnerships. This is a risk to NSW budgetary autonomy by limiting NSW Government flexibility to deliver services where they are most needed and putting funding certainty at increased risk.

The performance of global financial markets and changes in interest rates can impact borrowing costs. Higher interest rates will result in higher costs for new borrowings, while lower interest rates reduce new borrowing costs.

Some expense risks have offsetting revenue risks with no net impact on the budget result, for example Commonwealth grants.

Unforeseen events may also necessitate unanticipated expenses (e.g. natural disasters).

Liabilities for superannuation and long service leave are estimated with reference to assumed rates of investment returns, salary growth, inflation, discount rates and other factors. Changes in these parameters can affect superannuation and long service leave liabilities.

Capital risks

Capital risks can also arise from changes to existing plans and procurement risks. As the State plans its future capital requirements across the medium and long-term, significant additional capital requirements may be identified.

Infrastructure funding risks can arise in relation to any variation in final costs as projects are executed. Restart NSW project costs depend partly on the spending profiles of sometimes yet-to-be-approved future projects and their actual delivery.

Other risks are associated with maintenance and depreciation projections for capital projects, and the effective use of private-public partnerships (PPPs) to transfer costs to the private sector.

Risks can also emerge when procuring infrastructure. If the Government is procuring from overseas, foreign exchange risks may emerge that would need to be carefully managed and hedged if necessary.

Financial accounting developments pose another risk for capital projects. Under the new accounting standard '*AASB 16 Leases'* most operating leases will need to be reported on the balance sheet from 2019-20, which will affect the quantum and timing of recognition of some assets and liabilities.

Financial Asset risks

Risks are inherent in financial asset allocation decisions. These risks include:

- liquidity risk (size and predictability of payment obligations, and ease of access to assets to meet anticipated and unanticipated obligations)
- counterparty risk (the possibility that the entity managing an asset may fail to honour its contractual obligations)
- market risk (any variation in return or underlying value due to market factors) including foreign exchange risk.

The asset allocation strategy for each State managed fund seeks to balance the performance and variability characteristics of different asset classes, so that the portfolio best reflects the objectives, time horizon and risk tolerance of the State. It also aims to maintain liquidity and risk performance metrics consistent with a triple-A credit rating.

Asset management uses a range of strategies and financial instruments to control risk and strengthen returns in support of the State's objectives and requirements. For example, assets to support day-to-day transactions will be held primarily as cash or near-cash instruments (such as overnight money market obligations). Asset portfolios supporting long-term objectives, such as those supporting the NSW Generations Fund and the State's defined benefit superannuation obligations, will be more heavily weighted toward equities, investment-grade debt securities, property and infrastructure.

Market risk is reduced through portfolio diversification and effective hedging instruments. It is practice for currency exposure for financial assets and liabilities to be fully hedged, where appropriate. Liquidity risk is further reduced through consolidation of cash holdings and payment scheduling across government.

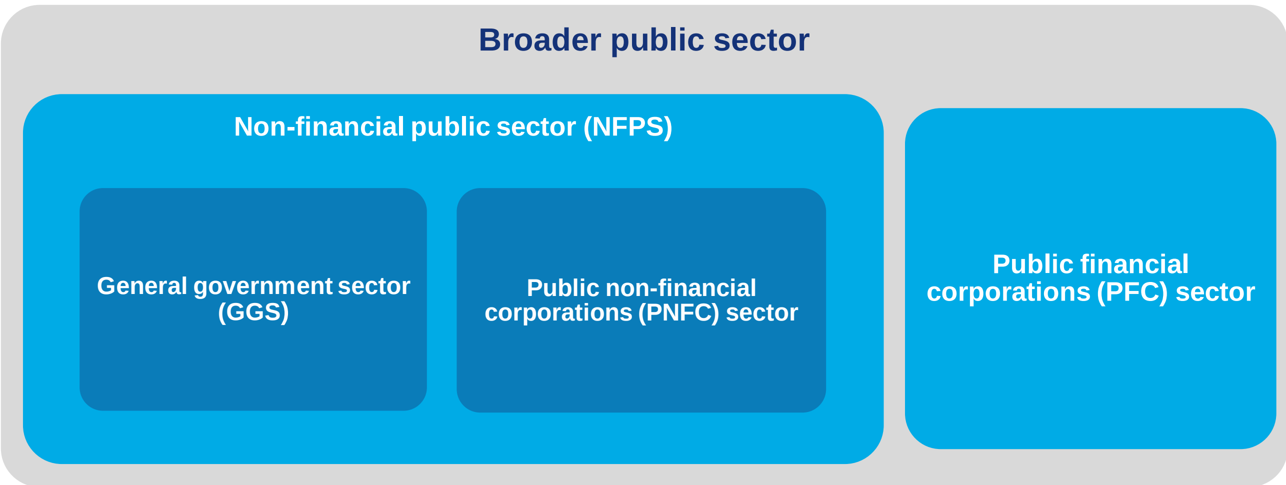
3.9 Commercial performance in the broader public sector

Overview of the broader public sector

The broader public sector is made up of many entities. These fall within:

- the public financial corporations (PFC) sector
- the non-financial public sector (NFPS), which is comprised of:
  - the general government sector (GGS)
  - the public non-financial corporations (PNFC) sector.

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



Ongoing reform of government businesses

Price-Regulated Businesses

WaterNSW's construction of the Broken Hill pipeline is due for completion in December 2018. After a period of testing, the pipeline is expected to supply water to customers during the first quarter of 2019. The 270 kilometre pipeline from the Murray River to Broken Hill will secure the long-term water supply for Broken Hill, as well as support regional development. The NSW Government has committed that customers will not see their water prices increase during the next water pricing period due to the construction of the pipeline.

Sydney Water has actively promoted its Water Wise Rules, which are simple and common-sense actions to help conserve water. Its current media campaign, "Love water, don't waste it", is at the forefront of the water conservation message. It is complemented by programs such as the "Tiny House", which showcased practical ways to save water around the home. Sydney Water is investing a further $5 million in water efficiency programs.

Sydney Water is also managing the impacts of drought conditions on the water and waste water infrastructure network by investing an extra $30 million in maintenance and repairs. Additional maintenance staff and contract crews have been hired to supplement the workforce attending to water main breaks and leaks caused by the drought.

Sydney Water and WaterNSW are working together in accordance with the Metropolitan Water Plan to secure Greater Sydney's water supply in the case of a prolonged drought. They aim to minimise drought impacts on customers and improve system resilience.

Essential Energy is on track to deliver a 38 per cent reduction in network charges during the current regulatory period 2014-19. By 2024, the end of the next regulatory determination period, a typical residential network charge will be 39 per cent lower than in 2014. Based on the Australian Energy Regulator's (AER) draft determination, which largely supported Essential Energy's 2019-24 proposal, a typical residential customer on the Essential Energy network will see a real reduction in their annual network charges for the next five years. In its draft determination, the AER commended Essential Energy for its efficiency gains to date, with network expenditure at some of the lowest levels in 20 years. The AER also commended Essential Energy on its high level of customer engagement, which underpins a program of investment over the next five years to deliver ongoing network charge reductions and customer choice, while maintaining network safety and reliability. The AER is expected to deliver its final determination in April 2019.

Other Businesses

To deliver on its housing affordability objectives across metropolitan and regional New South Wales, Landcom is continuing to build its pipeline of projects. It is working with a diverse range of stakeholders to identify possible sites to rebuild its pipeline.

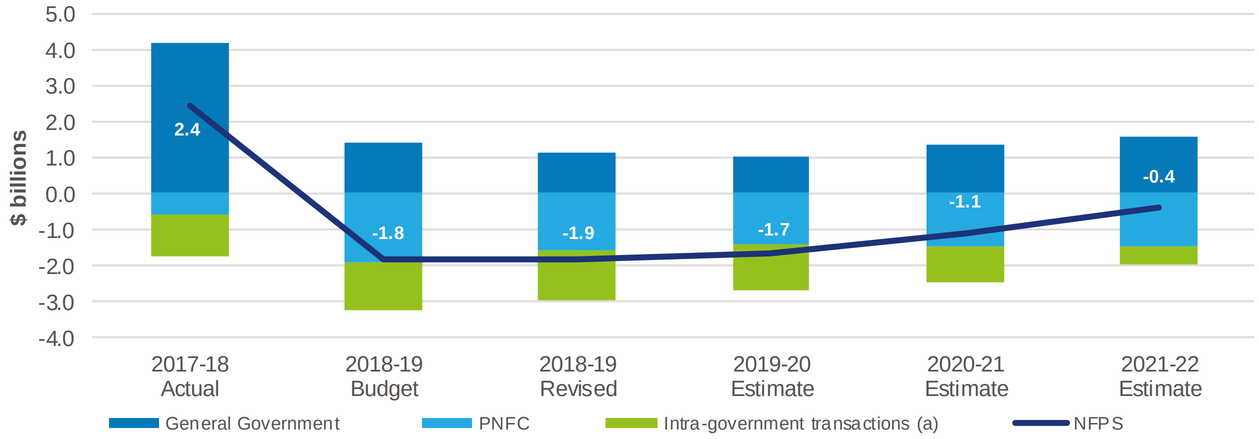
In November 2018, NSW agreed to sell its minority interest in Property Exchange Australia (PEXA), an electronic conveyancing firm established by all the states to a consortium comprising Link Group, Commonwealth Bank of Australia and Morgan Stanley Infrastructure. At $11.71 per share, the sale delivered a strong return on the State investment, generating approximately $104 million in net proceeds for the State. Sale completion is anticipated to occur in December 2018.

Non-financial public sector operating performance

The net operating balance of the NFPS for 2018-19 remains in line with the Budget. Over the forward estimates, the net operating balance has been revised up by $640.7 million, primarily due to higher PNFC revenue.

Chart 3.12 below shows the key components of the NFPS net operating balance 2017-18 to 2021-22.

Chart 3.12: Components of the non-financial public sector net operating balance



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

Dividends and tax equivalent payments

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

In 2018-19, the dividend and tax equivalent payments are forecast at $2.0 billion, which is $147.3 million higher than the forecast in the Budget. The increase is largely due to a dividend paid by Sydney Motorway Corporation from its retained earnings up to the time of the sale of the 51 per cent stake to Sydney Transport Partners.

Government guarantee fees are forecast to be $308.6 million in 2018-19, which is in line with the forecast in the Budget.

Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $5.7 billion, $183.3 million higher than forecast in the Budget. Table 3.16 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors from 2017-18 to 2021-22.

Table 3.16: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations

	2017-18 Actual $m	2018-19 Budget $m	2018-19 Revised $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m
Electricity	30	46	47	44	66	97
Water	953	1,318	1,319	1,216	813	483
Property and Resources	359	307	307	263	283	88
Ports	208	9	10	28	33	44
Public Financial Corporations	27	143	288	89	94	97
Total Dividends and Tax Equivalent Payments	**1,578**	**1,823**	**1,971**	**1,640**	**1,289**	**809**

Capital expenditure

In 2018-19, capital expenditure within the PNFC sector is forecast to be $5.8 billion, $1.4 billion lower than in the Budget, primarily due to the de-consolidation of the WestConnex project from the State's accounts.

Capital expenditure within the PNFC sector over the forward estimates is forecast to be $14.5 billion, $171.4 million higher than forecast in the Budget. This is mainly due to higher capital spending by Rail Corporation New South Wales on the procurement and delivery of new intercity trains and Waratah trains under the More Trains, More Services program, which exceeded the de-consolidation of WestConnex capital expenditure over the forward years.

Public Financial Corporations

The PFC sector includes NSW Treasury Corporation (TCorp) and Insurance and Care NSW (icare).

TCorp is the State's central financing authority and funds management agency. TCorp performs the investment functions for various funds including the NSW Infrastructure Future Fund, the Social Affordable Housing Fund and the recently established NSW Generations Fund. The NSW Generations Fund has contributed to an additional $10.0 billion to TCorp's investment management business this financial year, taking funds under management to over $100.0 billion.

Insurance and Care NSW is the Government's social insurer delivering insurance and care services to the businesses, people and communities of NSW. In November 2018, legislation was passed to amend the workers compensation legislation to reverse the onus of proof for NSW firefighters who are diagnosed with one of 12 prescribed cancers and meet the applicable minimum employment periods.

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A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

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

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

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

The Estimated Financial Statements cover the revised budget estimates for the current year ending 30 June 2019, and estimates for the three forward years ending 30 June 2020, 2021 and 2022.

Scope

The Estimated Financial Statements are prepared for the New South Wales GGS, which is determined in accordance with the principles and rules contained in the Australian System of Government Finance Statistics: *Concepts, Sources and Methods*, 2015 edition (AGFS15).

The GGS comprises government agencies controlled by the State that:

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

The scope of the GGS is outlined in Appendix A3 of the 2018-19 Budget Paper No.1 *Budget Statement*.

Basis of preparation

The Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2018-19 Budget and based on the assumptions outlined below.

The 2018-19 Budget information included in the Estimated Financial Statements reflects the original budget tabled in Parliament on 19 June 2018.

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

The Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by Government, as well as known Commonwealth Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review. The revised estimates for 2018-19 are based on actual results as at and for the four-month period ending 31 October 2018, and updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data currently available to Treasury up to 7 December 2018.

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

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

Accounting policies

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

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

Except for the adoption of AASB 9 *Financial Instruments* (as set out below under *Changes in accounting policies*) these Estimated Financial Statements follow the presentation and principles in the 2018-19 Budget and the accounting policies applied in the audited *2017-18 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* as presented to Parliament.

The same accounting policies have been used for the subsequent forecast years. In particular, Note 1 *Statement of Significant Accounting Policies* of the *2017-18 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* includes information on the principles of consolidation, significant accounting judgements and estimates, the recognition and measurement policies for revenue, expenses, other comprehensive income, assets and liabilities.

Changes in accounting policies

The State has adopted AASB 9, which resulted in changes in accounting policies on classification, measurement and derecognition of financial assets and financial liabilities, impairment for financial assets and hedge accounting. The impact on the Estimated Financial Statements overall is not significant.

There are no other significant changes to accounting policies adopted in the preparation of the estimates to those used in preparing the 2018-19 Budget.

New accounting standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 2018-19 reporting period. The following new accounting standards published but not effective are:

AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15.

AASB 15 *Revenue from Contracts with Customers* (AASB 15) is effective from reporting periods commencing on or after 1 January 2019 for not-for-profit entities. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Some revenue streams will be impacted by AASB 15 to varying degrees. In particular, the application of AASB 15 will result in the identification of separate performance obligations that could change the timing of the recognition of revenue.

AASB 1058 Income of Not-for-Profit Entities

AASB 1058 *Income of Not-for-Profit Entities* is effective for reporting periods commencing on or after 1 January 2019 and will replace most of the existing requirements in AASB 1004 *Contributions*. The scope of AASB 1004 is now limited mainly to Parliamentary appropriations, administrative arrangements and contributions by owners.

Under AASB 15, not-for profit entities will need to determine whether a transaction is a donation (accounted for under AASB 1058) or a contract with a customer (accounted for under AASB 15). Under AASB 1058, income is recognised on a residual basis after recognising any related contributions by owners, increases in liabilities, decreases in assets, and revenue in accordance with other Australian Accounting Standards.

AASB 16 Leases

AASB 16 *Leases* is effective from reporting periods commencing on or after 1 January 2019. For lessees, AASB 16 will result in most leases being recognised on the statement of financial position, with the exception of short-term and low-value leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised at the commencement of the lease. The accounting for lessors will not significantly change.

AASB 16 will therefore increase assets and liabilities reported on the balance sheet. It will also increase depreciation and amortisation and interest expenses as they are recognised instead of operating lease rental expenses.

AASB 1059 Service Concession Arrangements: Grantors

AASB 1059 *Service Concession Arrangements: Grantors* is effective from reporting periods commencing on or after 1 January 2020. Service concession arrangements (SCA) involve a private sector entity operating a service concession asset to deliver public services on behalf of a public sector grantor.

Currently, under Treasury Policy Paper 06-8 *Privately Financed Projects* (TPP 06-8), most SCA in New South Wales are generally treated as leases or as assets gradually recognised over the concession period.

AASB 1059 will require service concession assets to be recognised immediately at the start of the arrangement, with a corresponding liability to reflect any payments due, and/or the grant of a right, to the operator. Further, AASB 1059 has a broader scope than TPP 06-8, possibly resulting in more arrangements being recognised in the State's statement of financial position.

These changes are expected to significantly increase assets and liabilities in the State's statement of financial position and impact depreciation and amortisation expenses and income from the amortisation of grant of right liability in the operating statement.

The estimated impact of AASB 1059 on estimated financial statements has not been sufficiently identified and quantified at this stage and thus not disclosed below.

Estimation of the impact of AASB 15, AASB 1058 and AASB 16

Estimates of the impact of AASB 15, AASB 1058 and AASB 16 on the financial statements have been assessed on a risk-basis.

The implementation of AASB 15 and AASB 1058 is expected to lead to an increase in GGS deferred revenue liability of approximately $1.2 billion on the date of transition to the new standards, mainly due to the change in accounting treatment of certain Commonwealth grants and long-term licenses. The expected impact on revenue from 2019-20 to 2021-22 is below $0.5 billion per annum. The impact on PFC and PNFC sectors are expected to be immaterial.

The implementation of AASB 16 is expected to increase the assets and liabilities of the GGS and the NFPS by around $3.5 billion and $4 billion respectively. This is expected to remain materially consistent in the forward years. Expenses are expected to increase in the GGS and NFPS by around $0.08 billion and $0.1 billion per annum respectively.

The assessment outcomes are indicative only and there are likely to be variances with the actual impacts to be reported in 2019-20 onwards. The potential variances are a result of:

- limitations of estimates as described in "Basis of Preparation" above. This includes that the estimated impact is based on existing arrangements. The actual impact will depend on the actual arrangements and transactions in the relevant future financial years
- agencies are still completing their impact assessments and therefore some contracts and arrangements are not included due to the risk-based approach taken
- techniques used in the assessment such as sampling and extrapolation, rather than a complete review of all contracts within the scope of assessment.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 37 of the *2017-18 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2018-19 Budget Paper No.1 *Budget Statement*.

Presentation of the Estimated Financial Statements

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

AASB 1049 harmonises Generally Accepted Accounting Principles (GAAP), that is the Australian Accounting Standards (AAS) with Government Financial Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics (ABS). 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 (that is, the budget result) is the net result of harmonised GFS-GAAP transactions for the GGS.

In the operating statement:

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

Further, AASB 1049 requires:

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

Due to the prospective nature of the statements, detailed notes to the Estimated Financial Statements, including disclosure of contingent assets and liabilities, are not required to be included within the meaning of AAS 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.

Material economic and other assumptions

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

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

	2017-18 Outcomes	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
New South Wales population (persons) [(b)]	7,984,000	8,104,000	8,224,000	8,344,000	8,464,000
Nominal gross state product ($million)	604,400	630,900	658,300	689,700	724,400
Real gross state product (per cent)	2.6	2¾	2½	2½	2½
Real state final demand (per cent)	3.4	3	2¾	-	-
Employment (per cent)	3.1	3	1½	1¼	1¼
Unemployment rate (per cent)	4.8	4½	4½	4½	4½
Sydney consumer price index (per cent)[(c)]	1.7	1¾	2	2¼	2½
Wage Price index (per cent)[(d)]	2.1	2½	2¾	3	3
Nominal gross state product (per cent)	4.5	4½	4¼	4¾	5

(a) Per cent change, year average, unless otherwise indicated
(b) As at June each year.
(c) 2017-18 to 2021-22 excludes a ¼ percentage point from tobacco excise increases
(d) Weighted public and private sector wages

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

Summary of other key assumptions

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

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

Revenue from transactions

Taxation revenue

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

Grants and subsidies revenue

Forecast grants from the Commonwealth Government are based on the latest available information from the Commonwealth Government. 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 Commonwealth Government and GST collected in 2017-18. For 2018-19, the GST forecast is based on the assessed relativity for New South Wales in 2018-19 and the Commonwealth Government's population projections. The assessed relativity is based on the three-year average of actual data (2014-15, 2015-16 and 2016-17) as published by the Commonwealth Grants Commission.

Beyond 2018-19, the State's share of GST is based on New South Wales' forecast relativities and the Commonwealth Government's population and GST pool projections. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared to other States and Territories.

Sale of goods and services

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

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by PFCs and PNFCs based on expected profitability and the agreed dividend policy at the time of the Half-Yearly Review.

Other dividends and distributions

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

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

Fines, regulatory fees and other revenues

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

Expenses from transactions

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

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

Employee expenses

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

Superannuation expense (and liabilities)

Superannuation expense comprises:

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

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

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

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

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

	2017-18 % Actual	2018-19 % Forecast	2019-20 % Forecast	2020-21 % Forecast	2021-22 % Forecast
Liability discount rate	2.65	3.02	3.28	3.53	3.79
Expected return on investments [(a)]	9.10	7.40/6.40	7.40/6.40	7.40/6.40	7.40/6.40
Expected salary increases[(b)]	2.70	2.70	3.20	3.20	3.20
Expected rate of CPI	2.10	2.00	2.25	2.50	2.50

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

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

Depreciation and amortisation

Property, plant and equipment are depreciated (net of any residual value) over their respective useful lives. Depreciation expense is generally allocated on a straight-line basis.

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

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

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

Interest expense

The forecasts for the interest expense are based on:

- payments required on outstanding borrowings
- expected payments on any new borrowings (including any refinancing of existing borrowings) required to finance general government activities based on forward contracts for TCorp bonds 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 normal operations of agencies and include the cost of supplies and services. They are forecast by applying appropriate economic parameters and known activity changes, including planned changes in the method of service delivery and application of government policies. Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants and subsidies expense

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

Other economic flows

Revaluations

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

Superannuation actuarial gains / losses

The forecast actuarial 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 / (loss) on equity investments in other public sector entities

The net gain/(loss) on equity investments in other sector entities is based on estimates of the PFC and PNFC sectors' forward comprehensive results. The underlying management estimates of future comprehensive results are based on current Statements of Corporate Intent.

Net acquisition of non-financial assets - Sale of non-financial assets

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

Assets

Property, Plant and Equipment

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

The Estimated Financial Statements also include adjustments 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 on 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 provisions are adjusted for approved wage agreements. Beyond the period of the agreements, allowance is made for further adjustments consistent with the State's wages policy at a net cost of 2.5 per cent per annum, inclusive of scheduled increases in the superannuation guarantee levy. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

Superannuation provisions

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

Other provisions

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

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B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Tables

This Uniform Presentation Framework (UPF) chapter includes operating statements, balance sheets and cash flow statements for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS).

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

The NSW Government's 2018-19 Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the GGS. In addition, revised estimates are presented for the PNFC sector and the NFPS (i.e. a consolidation of the GGS and the PNFC sector). These revised estimates take into account fiscal and economic developments since the Budget.

The UPF tables have been prepared consistent with the 2018-19 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-7 of 2018-19 Budget Paper No.1 *Budget Statement*.

The UPF is currently under review following the ABS' release of its revised GFS publication. Most of the presentation requirements of the June 2018 draft UPF have been adopted in this chapter as they are more harmonious with AASB1049 and the updated GFS manual (AGFS15).

The Loan Council Allocation is no longer reported. The Australian Loan Council unanimously agreed to remove the Australian, State and Territory governments' reporting requirements from the UPF and to transfer the administration of the UPF to the Council on Federal Financial Relations (CFFR).

Table B.1: General government sector operating statement

	2018-19 Budget $m	2018-19 Revised $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m
Revenue from Transactions					
Taxation	31,146	31,709	32,430	34,316	35,377
Grants and Subsidies					
- Commonwealth General Purpose	18,475	18,379	18,927	19,991	21,195
- Commonwealth Specific Purpose Payments	9,851	10,043	10,460	11,111	11,782
- Commonwealth National Partnership Payments	3,043	3,073	2,374	2,216	2,077
- Other Commonwealth Payments	362	436	430	435	440
- Other Grants and Subsidies	379	525	597	581	553
Sale of Goods and Services	9,513	9,072	9,685	9,440	9,282
Interest	323	452	322	307	270
Dividend and Income Tax Equivalents from Other Sectors	1,823	1,971	1,640	1,289	809
Other Dividends and Distributions	1,322	923	1,585	1,665	1,763
Fines, Regulatory Fees and Other	4,843	5,163	5,771	5,508	5,682
Total Revenue from Transactions	**81,081**	**81,743**	**84,222**	**86,861**	**89,230**
Expenses from Transactions					
Employee	31,613	32,633	33,946	35,244	36,793
Superannuation					
- Superannuation Interest Cost	1,470	1,425	1,459	1,452	1,428
- Other Superannuation	3,006	3,099	3,010	3,031	3,097
Depreciation and Amortisation	4,989	5,081	5,366	5,699	5,782
Interest	2,044	1,855	2,095	2,475	2,656
Other Operating	21,600	21,299	21,764	21,726	22,030
Grants, Subsidies and Other Transfer Expenses	14,934	15,231	15,563	15,886	15,879
Total Expenses from Transactions	**79,656**	**80,623**	**83,203**	**85,513**	**87,665**
Transactions from Discontinuing Operations	...	0	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,425**	**1,120**	**1,018**	**1,348**	**1,566**

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

	2018-19 Budget $m	2018-19 Revised $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	175	301	182	178	189
Other Net Gains/(Losses)	493	13,469	724	1,443	1,132
Share of Earnings from Associates (excluding Dividends)	...	...	...	...	...
Dividends from Asset Sale Proceeds	81	81	25	0	0
Allowance for Impairment of Receivables	(38)	(23)	(38)	(38)	(36)
Deferred Income Tax from Other Sectors	(7)	(3)	19	35	38
Others	84	84	84	84	81
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
Other Economic Flows - included in Operating Result	**789**	**13,909**	**997**	**1,703**	**1,404**
Operating Result	**2,214**	**15,028**	**2,015**	**3,051**	**2,970**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**6,975**	**8,838**	**7,919**	**8,649**	**7,823**
Revaluations	2,794	3,160	3,848	4,946	4,306
Share of Earnings from Associates from Revaluations	...	...	...	...	...
Superannuation Actuarial Gain/(Loss)	4,120	5,654	4,014	3,610	3,392
Deferred Tax Adjustment through Equity	61	24	57	93	125
Items that may be Reclassified Subsequently to Operating Result	**(138)**	**(2,084)**	**1,046**	**3,664**	**1,606**
Net Gain/(Loss) on Equity Investments in Other Sectors	71	(2,005)	1,072	3,693	1,613
Net Gain/(Loss) on Financial Instruments at Fair Value	...	...	...	...	...
Other	(209)	(79)	(25)	(29)	(7)
Other Economic Flows - Other Comprehensive Income	**6,837**	**6,754**	**8,965**	**12,313**	**9,429**
Comprehensive Result - Total Change in Net Worth [(a)]	**9,052**	**21,782**	**10,980**	**15,364**	**12,399**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth [(a)]	**9,052**	**21,782**	**10,980**	**15,364**	**12,399**
Less: Net Other Economic Flows	(7,626)	(20,663)	(9,962)	(14,016)	(10,833)
Equals: Budget Result - Net Operating Balance	**1,425**	**1,120**	**1,018**	**1,348**	**1,566**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	15,405	16,681	17,096	17,183	14,681
Sales of Non-Financial Assets	(650)	(695)	(785)	(1,802)	(1,513)
Less: Depreciation	(4,989)	(5,081)	(5,366)	(5,699)	(5,782)
Plus: Change in Inventories	(42)	(32)	(42)	(32)	(26)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	1,925	1,855	1,633	143	88
- Other	40	(11)	279	446	449
Equals: Total Net Acquisition of Non-Financial Assets	**11,688**	**12,717**	**12,816**	**10,238**	**7,896**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(10,263)**	**(11,598)**	**(11,797)**	**(8,890)**	**(6,330)**
OTHER FISCAL AGGREGATES					
Capital Expenditure [(b)]	**17,329**	**18,536**	**18,729**	**17,326**	**14,769**

(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 utilising finance leases.

Table B.2: General government sector balance sheet

	June 2019 Budget	June 2019 Revised	June 2020	June 2021 Forward Estimates	June 2022
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,593	4,263	1,041	1,049	1,168
Receivables	6,738	6,506	6,612	6,838	6,939
Tax Equivalents Receivable	116	115	44	27	38
Investments, Loans and Placements					
Financial Assets at Fair Value	28,374	36,126	30,759	26,505	25,114
Other Financial Assets	1,330	1,751	1,852	1,932	1,402
Advances Paid	1,280	1,206	1,419	1,573	1,662
Deferred Tax Equivalent Assets	2,328	2,208	2,277	2,398	2,554
Equity					
Investments in Other Public Sector Entities	114,545	107,264	110,537	116,352	119,725
Investments in Associates	5,870	12,736	12,961	13,165	13,293
Other Equity Investments	746	732	743	753	761
Total Financial Assets	**162,920**	**172,908**	**168,246**	**170,592**	**172,656**
Non- Financial Assets					
Inventories	270	289	248	215	189
Forestry Stock and Other Biological Assets	10	9	9	9	9
Assets Classified as Held for Sale	295	131	84	89	87
Property, Plant and Equipment					
Land and Buildings	88,640	87,585	91,036	93,667	94,384
Plant and Equipment	11,203	11,778	10,761	10,656	9,914
Infrastructure Systems	117,140	119,088	130,480	142,836	154,633
Intangibles	3,898	3,600	3,407	3,079	2,810
Other Non-Financial Assets	5,273	5,976	9,411	10,637	11,569
Total Non- Financial Assets	**226,728**	**228,456**	**245,436**	**261,189**	**273,595**
Total Assets	**389,648**	**401,364**	**413,682**	**431,781**	**446,252**
Liabilities					
Deposits Held	79	83	84	88	94
Payables	6,412	6,826	7,114	7,531	7,827
Tax Equivalents Payable	...	...	...	...	...
Borrowings and Derivatives at Fair Value	3	4	3	3	3
Borrowings at Amortised Cost	34,376	34,868	39,873	45,503	50,723
Advances Received	678	679	787	966	997
Employee Provisions	17,047	18,185	18,404	18,621	18,760
Superannuation Provision (a)	45,553	48,708	44,694	40,929	37,219
Deferred Tax Equivalent Provision	85	74	73	72	71
Other Provisions	9,019	10,013	9,974	10,080	10,231
Other Liabilities	6,269	5,962	5,733	5,680	5,620
Total Liabilities	**119,521**	**125,402**	**126,739**	**129,474**	**131,546**
NET ASSETS	**270,127**	**275,962**	**286,943**	**302,307**	**314,706**
NET WORTH					
Accumulated Funds	91,311	98,116	104,144	110,805	117,174
Reserves	178,816	177,846	182,799	191,502	197,532
TOTAL NET WORTH	**270,127**	**275,962**	**286,943**	**302,307**	**314,706**
OTHER FISCAL AGGREGATES					
Net Debt (b)	**2,559**	**(7,712)**	**5,676**	**15,502**	**22,471**
Net Financial Liabilities (c)	**71,146**	**59,758**	**69,030**	**75,234**	**78,614**
Net Financial Worth (d)	**43,399**	**47,506**	**41,507**	**41,118**	**41,111**

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

Table B.3: General government sector cash flow statement

	2018-19 Budget	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxes Received	31,176	31,803	32,550	34,434	35,505
Receipts from Sales of Goods and Services	10,014	9,358	10,214	9,875	9,643
Grant and Subsidies Received	32,105	32,448	32,784	34,331	36,041
Interest Receipts	342	516	233	214	190
Dividends and Income Tax Equivalents	1,733	1,955	1,781	1,270	838
Other Receipts	9,389	8,035	10,179	8,975	8,269
Total Cash Receipts from Operating Activities	**84,760**	**84,114**	**87,740**	**89,100**	**90,485**
Cash Payments from Operating Activities					
Payments for Employees	(31,155)	(32,225)	(33,547)	(34,925)	(36,601)
Payments for Superannuation	(4,479)	(4,363)	(4,479)	(4,623)	(4,853)
Payments for Goods and Services	(22,568)	(21,488)	(22,356)	(21,913)	(21,795)
Grants and Subsidies Paid	(13,239)	(14,631)	(15,054)	(15,532)	(15,476)
Interest Paid	(1,467)	(1,465)	(1,600)	(1,918)	(2,046)
Other Payments	(5,583)	(3,934)	(4,662)	(3,647)	(2,752)
Total Cash Payments from Operating Activities	**(78,493)**	**(78,106)**	**(81,698)**	**(82,557)**	**(83,523)**
Net Cash Flows from Operating Activities	**6,267**	**6,008**	**6,042**	**6,542**	**6,962**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	733	803	871	1,799	1,513
Purchases of Non-Financial Assets	(15,531)	(16,904)	(17,495)	(16,701)	(14,153)
Net Cash Flows from Investments in Non-Financial Assets	**(14,799)**	**(16,101)**	**(16,624)**	**(14,902)**	**(12,639)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	296	228	180	271	173
Payments	(3,118)	(2,421)	(2,538)	(2,435)	(1,993)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,822)**	**(2,193)**	**(2,358)**	**(2,165)**	**(1,819)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	12,619	34,853	8,030	6,937	4,317
Payments for the Purchase of Investments	(4,377)	(24,168)	(2,096)	(1,841)	(1,483)
	8,242	**10,686**	**5,934**	**5,095**	**2,833**
Net Cash Flows from Investing Activities	**(9,379)**	**(7,608)**	**(13,048)**	**(11,971)**	**(11,625)**
Cash Flows from Financing Activities					
Advances Received (net)	(83)	(209)	80	116	8
Proceeds from Borrowings	204	1,167	4,335	6,169	6,123
Repayment of Borrowings	(609)	(498)	(711)	(975)	(1,490)
Deposits Received (net)	(14)	(47)	2	4	6
Other Financing Receipts/ (Payments)	58	6	57	94	125
Net Cash Flows from Financing Activities	**(443)**	**419**	**3,763**	**5,407**	**4,772**
Net Increase/(Decrease) in Cash Held	**(3,555)**	**(1,181)**	**(3,243)**	**(22)**	**109**

Table B.3: General government sector cash flow statement (cont)

	2018-19 Budget	2018-19 Revised	2019-20 Forward Estimates	2020-21	2021-22
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows From Operating Activities	6,267	6,008	6,042	6,542	6,962
Net Cash Flows from Investments in Non-Financial Assets	(14,799)	(16,101)	(16,624)	(14,902)	(12,639)
Cash Surplus/(Deficit)	**(8,532)**	**(10,093)**	**(10,582)**	**(8,360)**	**(5,677)**

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

	2018-19 Budget	2018-19 Revised	2019-20 Forward Estimates	2020-21	2021-22
	$m	$m	$m	$m	$m
Revenue from Transactions					
Grants and Subsidies					
- Other Commonwealth Payments	4	4	4	4	4
- Other Grants and Subsidies	2,990	2,630	2,643	3,140	3,486
Sale of Goods and Services	8,049	8,506	8,178	8,378	8,644
Interest	61	62	47	40	32
Fines, Regulatory Fees and Other	790	934	911	877	884
Total Revenue from Transactions	**11,894**	**12,136**	**11,783**	**12,439**	**13,051**
Expenses from Transactions					
Employee	2,958	2,838	2,934	2,947	2,960
Superannuation					
- Superannuation Interest Cost	54	64	67	68	69
- Other Superannuation	198	220	224	226	233
Depreciation and Amortisation	2,899	2,886	3,118	3,281	3,405
Interest	1,255	1,049	1,081	1,155	1,197
Income Tax Expense	339	337	288	249	236
Other Operating	5,795	6,011	5,416	5,935	6,356
Grants, Subsidies and Other Transfer Expenses	323	324	63	63	63
Total Expenses from Transactions	**13,822**	**13,728**	**13,189**	**13,924**	**14,519**
Transactions from Discontinuing Operations	...	...	...	...	...
NET OPERATING BALANCE - SURPLUS AFTER TAX	**(1,927)**	**(1,592)**	**(1,406)**	**(1,486)**	**(1,469)**

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

	2018-19 Budget	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	...	...	...	...	...
Other Net Gains/(Losses)	327	(199)	71	(197)	(200)
Allowance for Impairment of Receivables	(2)	(2)	(4)	(4)	(4)
Deferred Income Tax	8	3	(19)	(35)	(38)
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
Other Economic Flows - included in Operating Result	**333**	**(198)**	**47**	**(236)**	**(242)**
Operating Result	**(1,594)**	**(1,790)**	**(1,359)**	**(1,721)**	**(1,711)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**2,241**	**79**	**2,645**	**5,148**	**2,390**
Revaluations	1,997	97	2,698	4,452	2,255
Superannuation Actuarial Gain/(Loss)	305	6	4	790	260
Deferred Tax Adjustment through Equity	(61)	(24)	(57)	(93)	(125)
Items that may be Reclassified Subsequently to Operating Result	**652**	**(4,341)**	**923**	**1,149**	**1,293**
Net Gain/(Loss) on Financial Instruments at Fair Value	...	(0)	...	...	...
Other	652	(4,341)	923	1,149	1,293
Other Economic Flows - Other Comprehensive Income	**2,893**	**(4,263)**	**3,568**	**6,297**	**3,683**
Comprehensive Result - Total Change in Net Worth [(a)]	**1,299**	**(6,053)**	**2,209**	**4,576**	**1,972**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth [(a)]	**1,299**	**(6,053)**	**2,209**	**4,576**	**1,972**
Less: Net Other Economic Flows	(3,226)	4,461	(3,616)	(6,061)	(3,441)
Equals: Budget Result - Net Operating Balance	**(1,927)**	**(1,592)**	**(1,406)**	**(1,486)**	**(1,469)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	7,142	5,785	5,135	4,763	4,614
Sales of Non-Financial Assets	(485)	(392)	(898)	(644)	(648)
Less: Depreciation	(2,899)	(2,886)	(3,118)	(3,281)	(3,405)
Plus: Change in Inventories	120	79	249	148	111
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	...	...	19	...	...
- Other	87	112	318	323	324
Equals: Total Net Acquisition of Non-Financial Assets	**3,965**	**2,698**	**1,706**	**1,308**	**996**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(5,892)**	**(4,290)**	**(3,112)**	**(2,794)**	**(2,464)**
OTHER FISCAL AGGREGATES					
Capital Expenditure [(b)]	7,142	5,785	5,154	4,763	4,614
Dividends Accrued [(c)]	747	752	688	635	475

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

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

	June 2019 Budget	June 2019 Revised	June 2020 Forward Estimates	June 2021	June 2022
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,797	2,262	1,517	1,069	1,069
Receivables	1,099	1,136	1,134	1,143	1,169
Tax Equivalents Receivable	0	...	...	...	...
Investments, Loans and Placements					
Financial Assets at Fair Value	415	237	237	237	237
Other Financial Assets	373	518	480	496	524
Advances Paid	1	1	1	1	1
Deferred Tax Equivalent Assets	85	74	73	72	71
Equity					
Other Equity Investments	...	167	167	167	167
Total Financial Assets	**4,770**	**4,395**	**3,608**	**3,184**	**3,238**
Non- Financial Assets					
Inventories	521	547	725	848	938
Forestry Stock and Other Biological Assets	968	985	985	1,010	1,010
Assets Classified as Held for Sale	48	72	74	74	74
Investment Properties	615	610	600	600	600
Property, Plant and Equipment					
Land and Buildings	75,377	76,799	78,450	79,620	80,502
Plant and Equipment	7,774	7,278	7,807	8,148	8,177
Infrastructure Systems	60,364	49,709	51,755	55,735	57,877
Intangibles	1,192	1,133	1,186	1,196	1,190
Other Non-Financial Assets	243	212	215	220	227
Total Non- Financial Assets	**147,102**	**137,346**	**141,796**	**147,452**	**150,595**
Total Assets	**151,873**	**141,741**	**145,405**	**150,636**	**153,833**
Liabilities					
Deposits Held	33	36	35	35	35
Payables	2,161	2,191	2,111	2,204	2,254
Tax Equivalents Payable	110	109	38	20	31
Borrowings and Derivatives at Fair Value	3,086	2	2	2	2
Borrowings at Amortised Cost	26,541	24,465	26,113	27,508	28,900
Advanced Received	478	478	463	328	312
Employee Provisions	1,061	1,079	1,075	1,071	1,077
Superannuation Provision [(a)]	1,776	2,249	2,293	1,552	1,337
Deferred Tax Equivalent Provision	2,328	2,208	2,277	2,398	2,554
Other Provisions	1,347	1,236	1,167	1,113	955
Other Liabilities	228	393	326	324	325
Total Liabilities	**39,149**	**34,446**	**35,901**	**36,556**	**37,781**
NET ASSETS	**112,723**	**107,295**	**109,504**	**114,080**	**116,052**
NET WORTH					
Accumulated Funds	35,622	34,202	31,800	30,158	28,418
Reserves	77,101	73,092	77,704	83,922	87,634
TOTAL NET WORTH	**112,723**	**107,295**	**109,504**	**114,080**	**116,052**
OTHER FISCAL AGGREGATES					
Net Debt [(b)]	**26,552**	**21,964**	**24,379**	**26,071**	**27,419**
Net Financial Liabilities [(c)]	**34,379**	**30,051**	**32,292**	**33,372**	**34,544**
Net Financial Worth [(d)]	**(34,379)**	**(30,051)**	**(32,292)**	**(33,372)**	**(34,544)**

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

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

	2018-19 Budget	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Receipts from Sales of Goods and Services	8,476	8,869	8,178	8,361	8,610
Grant and Subsidies Received	2,990	2,631	2,643	3,141	3,486
Interest Receipts	55	43	28	24	15
Other Receipts	1,041	1,872	1,190	1,182	1,194
Total Cash Receipts from Operating Activities	**12,563**	**13,415**	**12,039**	**12,707**	**13,306**
Cash Payments from Operating Activities					
Payments for Employees	(3,061)	(2,940)	(3,059)	(3,071)	(3,075)
Payments for Superannuation	(208)	(245)	(241)	(243)	(256)
Payments for Goods and Services	(5,487)	(6,142)	(5,526)	(5,987)	(6,351)
Grants and Subsidies Paid	(66)	(66)	(62)	(62)	(62)
Interest Paid	(1,120)	(887)	(943)	(1,050)	(1,019)
Other Payments	(627)	(982)	(924)	(735)	(678)
Total Cash Payments from Operating Activities	**(10,570)**	**(11,261)**	**(10,756)**	**(11,148)**	**(11,441)**
Net Cash Flows from Operating Activities	**1,993**	**2,154**	**1,283**	**1,559**	**1,865**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	485	387	898	644	647
Purchases of Non-Financial Assets	(7,566)	(5,927)	(5,227)	(4,725)	(4,605)
Net Cash Flows from Investments in Non-Financial Assets	**(7,082)**	**(5,540)**	**(4,329)**	**(4,082)**	**(3,957)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	248	(0)	...	...	...
Payments	(0)	(0)	(0)	...	...
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**248**	**(0)**	**(0)**	**...**	**...**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	244	0	68	6	5
Payments for Purchase of Investments	(40)	(475)	0	(5)	(15)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**203**	**(475)**	**68**	**1**	**(10)**
Net Cash Flows from Investing Activities	**(6,630)**	**(6,015)**	**(4,261)**	**(4,081)**	**(3,968)**
Cash Flows from Financing Activities					
Advances Received (net)	2,515	2,177	2,156	1,943	1,737
Proceeds from Borrowings	3,395	1,991	2,006	1,346	1,395
Repayment of Borrowings	(234)	(200)	(544)	(124)	(271)
Dividends Paid	(1,557)	(1,611)	(1,328)	(999)	(635)
Deposits Received (net)	(0)	(56)	(0)	(0)	(0)
Other Financing Receipts/ (Payments)	(311)	13	(56)	(93)	(124)
Net Cash Flows from Financing Activities	**3,807**	**2,315**	**2,234**	**2,074**	**2,103**
Net Increase/(Decrease) in Cash Held	**(830)**	**(1,546)**	**(745)**	**(448)**	**1**

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

	2018-19 Budget	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows from Operating Activities	1,993	2,154	1,283	1,559	1,865
Net Cash Flows from Investments in Non-Financial Assets	(7,082)	(5,540)	(4,329)	(4,082)	(3,957)
Dividends Paid	(1,557)	(1,611)	(1,328)	(999)	(635)
Cash Surplus/(Deficit)	**(6,645)**	**(4,997)**	**(4,374)**	**(3,522)**	**(2,727)**

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

	2018-19 Budget $m	2018-19 Revised $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m
Revenue from Transactions					
Taxation	30,676	31,229	31,931	33,779	34,809
Grants and Subsidies					
- Commonwealth General Purpose	18,475	18,379	18,927	19,991	21,195
- Commonwealth Specific Purpose Payments	9,851	10,043	10,460	11,111	11,782
- Commonwealth National Partnership Payments	3,043	3,073	2,374	2,216	2,077
- Other Commonwealth Payments	366	440	434	439	444
- Other Grants and Subsidies	279	110	513	463	485
Sale of Goods and Services	13,514	13,807	13,875	14,231	14,773
Interest	313	450	301	280	231
Dividend and Income Tax Equivalents from Other Sectors	143	288	89	94	97
Other Dividends and Distributions	1,322	923	1,585	1,665	1,763
Fines, Regulatory Fees and Other	5,602	6,036	6,615	6,316	6,494
Total Revenue from Transactions	**83,584**	**84,775**	**87,105**	**90,585**	**94,150**
Expenses from Transactions					
Employee	34,071	34,979	36,376	37,679	39,230
Superannuation					
- Superannuation Interest Cost	1,524	1,489	1,526	1,520	1,497
- Other Superannuation	3,203	3,317	3,232	3,255	3,328
Depreciation and Amortisation	7,888	7,967	8,484	8,981	9,187
Interest	3,228	2,840	3,108	3,562	3,782
Other Operating	23,368	23,551	23,185	24,041	25,180
Grants, Subsidies and Other Transfer Expenses	12,142	12,483	12,878	12,667	12,363
Total Expenses from Transactions	**85,424**	**86,626**	**88,791**	**91,705**	**94,567**
Transactions from Discontinuing Operations	...	0	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(1,840)**	**(1,851)**	**(1,687)**	**(1,120)**	**(417)**

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

	2018-19 Budget	2018-19 Revised	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	175	301	182	178	189
Other Net Gains/(Losses)	820	13,270	795	1,246	932
Share of Earnings from Associates (excluding Dividends)	...	...	...	...	...
Allowance for Impairment of Receivables	(40)	(25)	(42)	(42)	(41)
Others	84	84	84	84	81
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
Other Economic Flows - included in Operating Result	**1,040**	**13,629**	**1,019**	**1,467**	**1,162**
Operating Result	**(801)**	**11,778**	**(668)**	**347**	**745**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**9,211**	**9,144**	**10,592**	**13,825**	**10,241**
Revaluations	4,786	3,485	6,574	9,426	6,589
Share of Earnings from Associates from Revaluations	...	...	...	...	...
Superannuation Actuarial Gain/(Loss)	4,425	5,659	4,018	4,399	3,652
Deferred Tax Adjustment through Equity	0	(0)	0	0	...
Items that may be Reclassified Subsequently to Operating Result	**860**	**(1,976)**	**1,057**	**1,192**	**1,413**
Net Gain/(Loss) on Equity Investments in Other Sectors	948	(1,639)	1,082	1,220	1,420
Net Gain/(Loss) on Financial Instruments at Fair Value	0	(0)	0	0	0
Other	(88)	(337)	(25)	(28)	(6)
Other Economic Flows - Other Comprehensive Income	**10,071**	**7,168**	**11,648**	**15,017**	**11,654**
Comprehensive Result - Total Change in Net Worth [(a)]	**9,270**	**18,947**	**10,981**	**15,364**	**12,399**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth [(a)]	**9,270**	**18,947**	**10,981**	**15,364**	**12,399**
Less: Net Other Economic Flows	(11,111)	(20,798)	(12,667)	(16,484)	(12,816)
Equals: Budget Result - Net Operating Balance	**(1,840)**	**(1,851)**	**(1,687)**	**(1,120)**	**(417)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	22,547	22,466	22,231	21,946	19,295
Sales of Non-Financial Assets	(1,135)	(1,087)	(1,683)	(2,446)	(2,161)
Less: Depreciation	(7,888)	(7,967)	(8,484)	(8,981)	(9,187)
Plus: Change in Inventories	78	48	207	116	85
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	1,925	1,855	1,652	143	88
- Other	120	60	560	729	731
Equals: Total Net Acquisition of Non-Financial Assets	**15,646**	**15,374**	**14,484**	**11,507**	**8,851**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(17,486)**	**(17,225)**	**(16,170)**	**(12,627)**	**(9,267)**
OTHER FISCAL AGGREGATES					
Capital Expenditure [(b)]	24,471	24,321	23,883	22,089	19,383
Dividends Accrued	100	154	0	0	0

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

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

	June 2019 Budget	June 2019 Revised	June 2020	June 2021	June 2022
			Forw ard Estimates		
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	4,390	6,525	2,558	2,118	2,237
Receivables	6,229	6,015	6,165	6,416	6,663
Tax Equivalents Receivable	6	6	7	7	7
Investments, Loans and Placements					
Financial Assets at Fair Value	28,790	36,362	30,996	26,742	25,351
Other Financial Assets	1,702	2,270	2,331	2,428	1,926
Advances Paid	802	728	957	1,246	1,351
Deferred Tax Equivalent Assets	0	0	0	0	0
Equity					
Investments in Other Public Sector Entities	5,121	(194)	876	2,124	3,536
Investments in Associates	5,870	12,736	12,961	13,165	13,293
Other Equity Investments	746	899	910	920	928
Total Financial Assets	**53,657**	**65,347**	**57,761**	**55,166**	**55,292**
Non- Financial Assets					
Inventories	791	836	972	1,063	1,128
Forestry Stock and Other Biological Assets	977	994	994	1,019	1,019
Assets Classified as Held for Sale	343	203	157	163	161
Investment Properties	615	610	600	600	600
Property, Plant and Equipment					
Land and Buildings	164,616	164,983	170,111	173,937	175,561
Plant and Equipment	18,977	19,055	18,568	18,804	18,091
Infrastructure Systems	177,997	168,797	182,235	198,571	212,509
Intangibles	5,090	4,734	4,593	4,275	4,000
Other Non-Financial Assets	4,548	5,747	9,152	10,349	11,252
Total Non- Financial Assets	**373,955**	**365,960**	**387,383**	**408,782**	**424,321**
Total Assets	**427,612**	**431,307**	**445,144**	**463,948**	**479,613**
Liabilities					
Deposits Held	112	118	119	123	129
Payables	8,048	8,408	8,598	9,070	9,374
Borrow ings and Derivatives at Fair Value	3,090	6	5	5	5
Borrow ings at Amortised Cost	60,917	59,334	65,986	73,011	79,623
Advanced Received	678	679	787	966	997
Employee Provisions	18,088	19,252	19,467	19,681	19,825
Superannuation Provision [(a)]	47,329	50,958	46,987	42,482	38,556
Deferred Tax Equivalent Provision	...	...	(0)	(0)	(0)
Other Provisions	9,280	10,235	10,192	10,300	10,452
Other Liabilities	6,476	6,354	6,059	6,004	5,945
Total Liabilities	**154,018**	**155,344**	**158,201**	**161,641**	**164,907**
NET ASSETS	**273,594**	**275,962**	**286,943**	**302,307**	**314,706**
NET WORTH					
Accumulated Funds	126,937	132,254	135,846	140,828	145,418
Reserves	146,657	143,708	151,097	161,479	169,288
TOTAL NET WORTH	**273,594**	**275,962**	**286,943**	**302,307**	**314,706**
OTHER FISCAL AGGREGATES					
Net Debt [(b)]	**29,111**	**14,251**	**30,055**	**41,572**	**49,890**
Net Financial Liabilities [(c)]	**105,482**	**89,803**	**101,316**	**108,599**	**113,151**
Net Financial Worth [(d)]	**(100,361)**	**(89,997)**	**(100,440)**	**(106,475)**	**(109,615)**

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

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

	2018-19 Budget $m	2018-19 Revised $m	2019-20 $m	2020-21 $m	2021-22 $m
			Forward Estimates		
Cash Receipts from Operating Activities					
Taxes Received	30,715	31,327	32,074	33,934	34,959
Receipts from Sales of Goods and Services	14,402	14,100	14,429	14,702	15,107
Grant and Subsidies Received	32,002	32,028	32,702	34,214	35,973
Interest Receipts	343	510	209	186	149
Dividends and Income Tax Equivalents	24	172	144	90	95
Other Receipts	10,412	9,848	11,351	10,142	9,454
Total Cash Receipts from Operating Activities	**87,898**	**87,987**	**90,909**	**93,268**	**95,738**
Cash Payments from Operating Activities					
Payments for Employees	(33,597)	(34,546)	(35,980)	(37,363)	(39,032)
Payments for Superannuation	(4,687)	(4,609)	(4,721)	(4,866)	(5,109)
Payments for Goods and Services	(24,115)	(23,912)	(24,045)	(24,458)	(25,066)
Grants and Subsidies Paid	(10,191)	(11,626)	(12,369)	(12,312)	(11,961)
Interest Paid	(2,533)	(2,304)	(2,492)	(2,916)	(3,009)
Other Payments	(4,883)	(4,390)	(5,303)	(4,249)	(3,367)
Total Cash Payments from Operating Activities	**(80,006)**	**(81,386)**	**(84,911)**	**(86,165)**	**(87,544)**
Net Cash Flows from Operating Activities	**7,892**	**6,601**	**5,998**	**7,103**	**8,194**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	1,217	1,190	1,769	2,443	2,161
Purchases of Non-Financial Assets	(23,097)	(22,690)	(22,722)	(21,427)	(18,757)
Net Cash Flows from Investments in Non-Financial Assets	**(21,880)**	**(21,500)**	**(20,953)**	**(18,984)**	**(16,597)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	463	116	124	120	142
Payments	(492)	(132)	(326)	(341)	(225)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(29)**	**(16)**	**(202)**	**(222)**	**(82)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	12,863	34,378	8,098	6,942	4,321
Payments for Purchase of Investments	(4,418)	(24,168)	(2,096)	(1,846)	(1,498)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**8,445**	**10,211**	**6,002**	**5,096**	**2,823**
Net Cash Flows from Investing Activities	**(13,464)**	**(11,305)**	**(15,153)**	**(14,109)**	**(13,856)**
Cash Flows from Financing Activities					
Advances Received (net)	(114)	(209)	80	116	8
Proceeds from Borrowings	2,258	3,159	6,341	7,515	7,518
Repayment of Borrowings	(842)	(697)	(1,255)	(1,099)	(1,760)
Dividends Paid	(100)	(154)	0	0	0
Deposits Received (net)	(14)	(103)	1	4	5
Other Financing Receipts/ (Payments)	0	(18)	0	0	0
Net Cash Flows from Financing Activities	**1,187**	**1,977**	**5,168**	**6,536**	**5,772**
Net Increase/(Decrease) in Cash Held	**(4,385)**	**(2,727)**	**(3,987)**	**(470)**	**109**

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

	2018-19 Budget	2018-19 Revised	2019-20 Forward Estimates	2020-21	2021-22
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows from Operating Activities	7,892	6,601	5,998	7,103	8,194
Net Cash Flows from Investments in Non-Financial Assets	(21,880)	(21,500)	(20,953)	(18,984)	(16,597)
Dividends Paid	(100)	(154)	0	0	0
Cash Surplus/(Deficit)	**(14,088)**	**(15,053)**	**(14,955)**	**(11,881)**	**(8,403)**

C. VARIATIONS ON REVISED 2018-19 BUDGET

C.1 Revised 2018-19 Budget

The revised budget result for 2018-19 is a surplus of $1.1 billion compared to a forecast surplus of $1.4 billion at the time of the 2018-19 Budget.

Total revenue in 2018-19 is estimated to be $81.7 billion, which is $661.8 million higher than the Budget estimate of $81.1 billion.

Total expenses in 2018-19 are estimated to be $80.6 billion, which is $967.7 million higher than the Budget estimate of $79.7 billion.

C.2 Operating statement

Total revenue in 2018-19 is estimated to be $661.8 million more than forecast at the time of the Budget, primarily reflecting increases in taxation and grant revenue.

Key increases to estimated revenue include:

- an uplift in payroll tax of $305.5 million attributable to stronger than expected labour market conditions and higher than anticipated collections to date
- increased transfer duty of $247.0 million due to a one-off payment associated with the WestConnex transaction partially offset by a downward revision in duties revenue associated with the downturn in the property market
- an upward revision to the mineral royalties of $227.5 million due to higher than expected global coal prices and strong demand across Asian markets
- an upward revision in revenue from Commonwealth Specific Purpose Payments of $191.2 million primarily due to the reimbursement of funds associated with the 2016-17 reconciliation of the National Healthcare Agreement
- increased revenue from Waste and Environment Levies of $133.4 million reflecting a revised forecast for leviable waste volumes
- an upward revision of interest income of $128.6 million primarily due to higher investments in TCorpIM Funds
- higher dividends and income tax equivalents of $147.3 million mostly due to a final dividend payment prior to the WestConnex transaction.

These increases are partially offset by:

- lower than expected sales of goods and services of $441.1 million primarily due to the Sydney Metro Northwest project being reallocated from RailCorp to the Sydney Metro operating agency. Sydney Metro will no longer receive fees for service revenue from RailCorp for the delivery of the project.
- lower than expected returns from other dividends and distributions of $399.4 million mostly due to lower than expected year to date market performance.

Total expenses in 2018-19 are estimated to be $80.6 billion, $967.7 million higher than the Budget estimate.

Increases in expenses largely related to the following new policy measures:

- the Emergency Drought Relief Package expenditures in the current year of $239.0 million
- amendments to workers compensation legislation to better support and protect NSW fire fighters of $114.9 million
- additional grants to support improvements to sporting facilities and create further NSW Centres of Excellence, of $123.0 million.

Revised estimates from a number of agencies include the following increases:

- Service NSW ($133.4 million) due to higher than anticipated depreciation, higher reimbursed client service costs and additional project costs
- Department of Justice ($124.5 million) mainly due to higher projected expenses in courts and Corrective Services
- Department of Planning & Environment ($88.4 million) primarily due to increased expenditure for Voluntary Planning Agreements, Local Environment Plan acceleration grants, and increased program expenditure from the Climate Change Fund.

C.3 Balance sheet

The WestConnex transaction has resulted in improvements to net debt and net worth.

Net debt is estimated to be negative $7.7 billion at June 2019, a $10.3 billion improvement compared to the Budget estimate. This is primarily driven by the receipt of $9.26 billion in net cash proceeds from the WestConnex transaction.

The state's net worth is estimated to increase to $276.0 billion at June 2019. This represents an increase of $5.8 billion since the 2018-19 Budget, mainly driven by higher financial investment balances, with WestConnex proceeds going into the New South Wales Generation Fund. Increases in non-financial assets are largely due to property, plant and equipment reflecting the additional capital expenditure in the 2018-19 year for the works and infrastructure at Rozelle.

This is partially offset by lower equity investments in other public sector entities following the deconsolidation of the Sydney Motorway Corporation and associated entities following the WestConnex transaction, and an increase in superannuation liabilities since the Budget due to changes in the actuarial assumptions.

C.4 Cash flow statement

The state's forecast cash deficit is $10.1 billion, an increase in the cash deficit of $1.6 billion since the time of the Budget. The decrease in the cash result reflects the Government's continued investment in the delivery of essential infrastructure and services across New South Wales including public transport, hospitals and schools, as well as additional support for farmers and regional communities through the drought.

Table C.1: General government sector operating statement

	2017-18	2018-19				4 Months to 31/10/2018
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Revenue from Transactions						
Taxation	31,326	31,146	31,709	562	1.8	10,432
Grants and Subsidies						
- Commonwealth General Purpose	17,955	18,475	18,379	(96)	(0.5)	6,147
- Commonwealth Specific Purpose Payments	9,844	9,851	10,043	191	1.9	3,261
- Commonwealth National Partnership Payments	3,129	3,043	3,073	30	1.0	403
- Other Commonwealth Payments	444	362	436	74	20.4	144
- Other Grants and Subsidies	487	379	525	146	38.4	245
Sale of Goods and Services	8,508	9,513	9,072	(441)	(4.6)	2,850
Interest	558	323	452	129	39.8	168
Dividend and Income Tax Equivalents from Other Sectors	1,578	1,823	1,971	147	8.1	752
Other Dividends and Distributions	2,114	1,322	923	(399)	(30.2)	85
Fines, Regulatory Fees and Other	4,730	4,843	5,163	320	6.6	1,650
Total Revenue from Transactions	**80,672**	**81,081**	**81,743**	**662**	**0.8**	**26,138**
Expenses from Transactions						
Employee	31,644	31,613	32,633	1,020	3.2	10,792
Superannuation						
- Superannuation Interest Cost	1,458	1,470	1,425	(44)	(3.0)	491
- Other Superannuation	3,009	3,006	3,099	93	3.1	991
Depreciation and Amortisation	4,873	4,989	5,081	92	1.8	1,654
Interest	1,994	2,044	1,855	(189)	(9.2)	593
Other Operating	19,652	21,600	21,299	(301)	(1.4)	6,321
Grants, Subsidies and Other Transfer Expenses	13,862	14,934	15,231	297	2.0	4,645
Total Expenses from Transactions	**76,491**	**79,656**	**80,623**	**968**	**1.2**	**25,487**
Transactions from Discontinuing Operations	...	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**4,181**	**1,425**	**1,120**	**(306)**	**(21.5)**	**651**

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

	2017-18	2018-19				4 Months to 31/10/2018
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(231)	175	301	125	71.5	14
Other Net Gains/(Losses)	71	493	13,469	12,975	2,629.8	13,077
Share of Earnings from Associates (excluding Dividends)	160	...	...	...	...	...
Dividends from Asset Sale Proceeds	0	81	81	0	0.0	0
Allowance for Impairment of Receivables	(83)	(38)	(23)	15	(39.7)	(5)
Deferred Income Tax from Other Sectors	(17)	(7)	(3)	4	(56.3)	(3)
Others	83	84	84	...	...	28
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(16)**	**789**	**13,909**	**13,120**	**1,662.6**	**13,112**
Operating Result	**4,165**	**2,214**	**15,028**	**12,814**	**578.6**	**13,763**
Income						
Items that will not be Reclassified to Operating Result	**20,057**	**6,975**	**8,838**	**1,864**	**26.7**	**1,301**
Revaluations	17,588	2,794	3,160	367	13.1	(86)
Share of Earnings from Associates from Revaluations	(42)	...	...	...	...	...
Superannuation Actuarial Gain/(Loss)	2,416	4,120	5,654	1,534	37.2	1,388
Deferred Tax Adjustment through Equity	96	61	24	(37)	(60.2)	...
Items that may be Reclassified Subsequently to Operating Result	**6,312**	**(138)**	**(2,084)**	**(1,947)**	**1,413.7**	**1,714**
Net Gain/(Loss) on Equity Investments in Other Sectors	6,296	71	(2,005)	(2,076)	(2,928.0)	1,846
Net Gain/(Loss) on Financial Instruments at Fair Value	2	...	...	...	...	...
Other	15	(209)	(79)	129	(62.0)	(132)
Other Economic Flows - Other Comprehensive Income	**26,369**	**6,837**	**6,754**	**(83)**	**(1.2)**	**3,015**
Comprehensive Result - Total Change in Net Worth [(a)]	**30,534**	**9,052**	**21,782**	**12,731**	**140.6**	**16,778**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth [(a)]	**30,534**	**9,052**	**21,782**	**12,731**	**140.6**	**16,778**
Less: Net Other Economic Flows	(26,353)	(7,626)	(20,663)	(13,037)	170.9	(16,127)
Equals: Budget Result - Net Operating Balance	**4,181**	**1,425**	**1,120**	**(306)**	**(21.5)**	**651**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets	11,969	15,405	16,681	1,276	8.3	4,264
Sales of Non-Financial Assets	(437)	(650)	(695)	(45)	6.9	(73)
Less: Depreciation	(4,873)	(4,989)	(5,081)	(92)	1.8	(1,654)
Plus: Change in Inventories	6	(42)	(32)	10	(24.8)	(24)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Finance Leases	152	1,925	1,855	(70)	(3.6)	35
- Other	126	40	(11)	(51)	(127.1)	100
Equals: Total Net Acquisition of Non-Financial Assets	**6,943**	**11,688**	**12,717**	**1,029**	**8.8**	**2,648**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(2,762)**	**(10,263)**	**(11,598)**	**(1,335)**	**13.0**	**(1,997)**
OTHER FISCAL AGGREGATES						
Capital Expenditure [(b)]	**12,121**	**17,329**	**18,536**	**1,206**	**7.0**	**4,299**

(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 C.2: General government sector balance sheet

	June 2018	June 2019				4 Months to 31/10/2018
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	5,417	1,593	4,263	2,670	167.6	9,071
Receivables	6,721	6,738	6,506	(232)	(3.4)	6,822
Tax Equivalents Receivable	128	116	115	(1)	(0.5)	107
Investments, Loans and Placements						
Financial Assets at Fair Value	32,578	28,374	36,126	7,751	27.3	34,887
Other Financial Assets	5,556	1,330	1,751	422	31.7	5,698
Advances Paid	1,017	1,280	1,206	(74)	(5.8)	1,050
Deferred Tax Equivalent Assets	2,192	2,328	2,208	(120)	(5.2)	2,189
Equity						
Investments in Other Public Sector Entities	112,911	114,545	107,264	(7,280)	(6.4)	110,677
Investments in Associates	5,987	5,870	12,736	6,866	117.0	12,586
Other Equity Investments	722	746	732	(14)	(1.8)	722
Total Financial Assets	**173,228**	**162,920**	**172,908**	**9,988**	**6.1**	**183,810**
Non- Financial Assets						
Inventories	327	270	289	19	7.1	299
Forestry Stock and Other Biological Assets	9	10	9	(0)	(3.2)	9
Assets Classified as Held for Sale	320	295	131	(164)	(55.7)	246
Property, Plant and Equipment						
Land and Buildings	83,390	88,640	87,585	(1,055)	(1.2)	84,413
Plant and Equipment	10,941	11,203	11,778	575	5.1	11,256
Infrastructure Systems	104,232	117,140	119,088	1,948	1.7	106,138
Intangibles	3,691	3,898	3,600	(298)	(7.6)	3,427
Other Non-Financial Assets	7,426	5,273	5,976	703	13.3	8,144
Total Non- Financial Assets	**210,336**	**226,728**	**228,456**	**1,728**	**0.8**	**213,932**
Total Assets	**383,564**	**389,648**	**401,364**	**11,716**	**3.0**	**397,741**
Liabilities						
Deposits Held	130	79	83	4	4.5	144
Payables	7,251	6,412	6,826	414	6.5	5,905
Tax Equivalents Payable	3	...	...	...	...	3
Borrowings and Derivatives at Fair Value	5	3	4	1	20.9	4
Borrowings at Amortised Cost	32,441	34,376	34,868	493	1.4	32,098
Advances Received	797	678	679	0	0.1	818
Employee Provisions	18,015	17,047	18,185	1,138	6.7	18,152
Superannuation Provision [(a)]	54,200	45,553	48,708	3,155	6.9	52,877
Deferred Tax Equivalent Provision	112	85	74	(11)	(12.6)	112
Other Provisions	10,210	9,019	10,013	994	11.0	10,297
Other Liabilities	6,223	6,269	5,962	(307)	(4.9)	6,375
Total Liabilities	**129,385**	**119,521**	**125,402**	**5,881**	**4.9**	**126,784**
NET ASSETS	**254,179**	**270,127**	**275,962**	**5,835**	**2.2**	**270,957**
NET WORTH						
Accumulated Funds	78,327	91,311	98,116	6,804	7.5	92,978
Reserves	175,852	178,816	177,846	(969)	(0.5)	177,980
TOTAL NET WORTH	**254,179**	**270,127**	**275,962**	**5,835**	**2.2**	**270,957**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**(11,195)**	**2,559**	**(7,712)**	**(10,271)**	**(401.4)**	**(17,643)**
Net Financial Liabilities [(c)]	**69,068**	**71,146**	**59,758**	**(11,387)**	**(16.0)**	**53,651**
Net Financial Worth [(d)]	**43,843**	**43,399**	**47,506**	**4,107**	**9.5**	**57,026**

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

Table C.3: General government sector cash flow statement

	2017-18	2018-19				4 Months to 31/10/2018
	Actual	Budget	Revised	Variance	Variance	Actual
	$m	$m	$m	$m	%	$m
Cash Receipts from Operating Activities						
Taxes Received	31,218	31,176	31,803	626	2.0	10,156
Receipts from Sales of Goods and Services	9,334	10,014	9,358	(656)	(6.5)	3,078
Grant and Subsidies Received	31,852	32,105	32,448	342	1.1	10,198
Interest Receipts	457	342	516	173	50.6	192
Dividends and Income Tax Equivalents	1,031	1,733	1,955	222	12.8	722
Other Receipts	12,113	9,389	8,035	(1,354)	(14.4)	3,338
Total Cash Receipts from Operating Activities	**86,006**	**84,760**	**84,114**	**(646)**	**(0.8)**	**27,685**
Cash Payments from Operating Activities						
Payments for Employees	(30,693)	(31,155)	(32,225)	(1,069)	3.4	(10,391)
Payments for Superannuation	(4,262)	(4,479)	(4,363)	116	(2.6)	(1,418)
Payments for Goods and Services	(20,027)	(22,568)	(21,488)	1,079	(4.8)	(6,860)
Grants and Subsidies Paid	(13,221)	(13,239)	(14,631)	(1,392)	10.5	(4,537)
Interest Paid	(1,508)	(1,467)	(1,465)	2	(0.2)	(508)
Other Payments	(5,588)	(5,583)	(3,934)	1,649	(29.5)	(2,959)
Total Cash Payments from Operating Activities	**(75,300)**	**(78,493)**	**(78,106)**	**387**	**(0.5)**	**(26,673)**
Net Cash Flows from Operating Activities	**10,706**	**6,267**	**6,008**	**(260)**	**(4.1)**	**1,011**
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	521	733	803	70	9.5	224
Purchases of Non-Financial Assets	(13,323)	(15,531)	(16,904)	(1,372)	8.8	(4,626)
Net Cash Flows from Investments in Non-Financial Assets	**(12,802)**	**(14,799)**	**(16,101)**	**(1,302)**	**8.8**	**(4,402)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	808	296	228	(68)	(23.0)	12
Payments	(1,382)	(3,118)	(2,421)	697	(22.4)	(427)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(574)**	**(2,822)**	**(2,193)**	**629**	**(22.3)**	**(415)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Receipts from Sale/Maturity of Investments	9,471	12,619	34,853	22,234	176.2	18,536
Payments for the Purchase of Investments	(8,988)	(4,377)	(24,168)	(19,790)	452.1	(10,971)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**482**	**8,242**	**10,686**	**2,444**	**29.6**	**7,565**
Net Cash Flows from Investing Activities	**(12,894)**	**(9,379)**	**(7,608)**	**1,771**	**(18.9)**	**2,748**
Cash Flows from Financing Activities						
Advances Received (net)	(40)	(83)	(209)	(126)	151.7	22
Proceeds from Borrowings	957	204	1,167	963	470.9	32
Repayment of Borrowings	(1,773)	(609)	(498)	111	(18.2)	(110)
Deposits Received - Net	24	(14)	(47)	(33)	236.7	14
Other Financing Receipts/ (Payments)	94	58	6	(52)	(89.2)	(20)
Net Cash Flows from Financing Activities	**(738)**	**(443)**	**419**	**862**	**(194.6)**	**(61)**
Net Increase/(Decrease) in Cash Held	**(2,925)**	**(3,555)**	**(1,181)**	**2,374**	**(66.8)**	**3,698**
Derivation of Cash Result						
Net Cash Flows From Operating Activities	10,706	6,267	6,008	(260)	(4.1)	1,011
Net Cash Flows from Investments in Non-Financial Assets	(12,802)	(14,799)	(16,101)	(1,302)	8.8	(4,402)
Cash Surplus/(Deficit)	**(2,096)**	**(8,532)**	**(10,093)**	**(1,561)**	**18.3**	**(3,391)**