

# **NSW Budget**

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## **2017-18 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 2017-18 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 2017-18, while the forward estimates period refers to 2018-19, 2019-20 and 2020-21. 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

The 2017-18 Half-Yearly Review provides an update on the fiscal and economic position of New South Wales since the 2017-18 Budget, handed down on 20 June 2017.

The NSW economy is outperforming the nation, growing well above-trend in 2016-17 and accounting for almost half of Australia's economic growth in 2016-17. Above-trend growth is expected to continue over the next two years, driven by strong business investment and the State's record investment in infrastructure.

New South Wales currently has the lowest unemployment rate among the states, at 4.6 per cent, and is recording stronger growth in full-time jobs than the rest of Australia.

The State's fiscal position is even stronger than at the 2017-18 Budget, with an expected \$3.3 billion budget surplus for 2017-18 and surpluses averaging \$2.1 billion across four years (see Chart 1.1).

Net debt is at a record low for the second year in a row. At 30 June 2017, net debt was negative \$9.3 billion. This record low net debt has been driven by the successful conclusion of the partial long-term leases of electricity network businesses.

Following the 2017-18 Budget, the State's triple-A credit rating was reaffirmed by both major ratings agencies. The triple-A credit rating reflects the State's strong economic and fiscal position as well as its sound financial management.

This robust fiscal position has enabled the Government to provide more cost of living relief for families, complementing the 2017-18 Budget's major cost of living initiatives – the First Homebuyer Assistance Scheme and Active Kids Rebate. The 2017-18 Half-Yearly Review includes funding for new cost-saving measures, including energy rebates and toll relief, while maintaining budget surpluses in line with 2017-18 Budget forecasts.

New South Wales continues to account for around 40 per cent of estimated infrastructure spending by all states and territories in 2017-18, and the 2017-18 Half-Yearly Review reflects another record infrastructure program in New South Wales.

Total capital expenditure is forecast to be \$80.1 billion over four years, a \$7.4 billion increase since the 2017-18 Budget. This incorporates \$3.0 billion of new spending announced since the 2017-18 Budget, principally for Parramatta Light Rail Stage 1, and \$4.3 billion in Restart NSW reservations that have been included in the Budget for the first time (see Chapter 3.6).

The State's net worth continues to grow, and New South Wales remains on track to be the first Australian state with net worth exceeding a quarter of a trillion dollars by June 2019. This is driven by strong budget surpluses and the Government's asset recycling strategy facilitating record infrastructure investment.

Notwithstanding the State's solid budget surpluses, there will be challenges in the years ahead due to revenue and expense pressures. These challenges will require the Government's continued financial discipline. It will also require the pursuit of reforms that drive economic growth and support a sustainable budget position over the long-term.

Chart 1.1: Budget results in line with the 2017-18 Budget



## 1.1 Fiscal outlook

The NSW Government is continuing to maintain expenditure growth while enabling record investment in infrastructure and services.

A surplus of \$3.3 billion is expected in 2017-18 (see Table 1.1). This reflects \$76.5 billion in expenditure to deliver world-class services to the people of New South Wales. The projected budget surpluses from 2018-19 onwards will support the Government to deliver on its priorities and will also assist the funding of the State’s record infrastructure program.

Table 1.1: General government operating statement aggregates

	2016-17 Actual <sup>(a)</sup>	2017-18 Budget	2017-18 Revised	2018-19 Forward Estimates	2019-20 Forward Estimates	2020-21 Forward Estimates
Revenue (\$m)	78,139	79,885	79,842	80,755	83,142	84,594
Expenses (\$m)	72,551	77,186	76,510	78,661	81,699	83,036
Budget Result (\$m)	5,724	2,698	3,332	2,093	1,442	1,558

(a) Transactions from discontinued operations contributed a further \$136.0 million to the budget result in 2016-17.

The estimated budget result surplus of \$3.3 billion in 2017-18 is \$634.0 million higher than expected in the 2017-18 Budget.

- Revenue in 2017-18 is projected to be \$42.9 million lower than forecast. This is largely driven by a downward revision in taxation revenue, primarily reflecting first homebuyers responding strongly to transfer duty relief.
- Expenditure in 2017-18 is expected to be lower than previously forecast. This is driven by reprofiling of expenditure to better align with planned activity. The decrease in expenditure more than offsets the reduction in revenue, resulting in a higher budget surplus.

Over the four years to 2020-21, budget surpluses in New South Wales are expected to average \$2.1 billion.

- Forecast revenue is \$2.0 billion higher than at the Budget. Of this, \$1.0 billion is from higher taxation revenue, as the strength of NSW employment and the property market flow into higher payroll tax and land tax revenue, respectively (see Chapter 3.2).



- Expenses across the budget and forward estimates have been revised up by \$1.4 billion. This reflects the Government's continued investment in priority areas, including easing the cost of living for the people of New South Wales (see Chapter 3.3). Expenses have also been revised up to include the future spending of Restart NSW reservations in the Budget (see Box 3.9). Overall, the increase in expenses largely offsets the projected increase in revenue.

For the second consecutive year, the NSW Government ended the 2016-17 financial year with negative net debt, improving by 0.2 per cent to negative 1.6 per cent of gross state product (GSP). This is the lowest net debt amongst all states and territories. The State's net debt is forecast to remain negative at the end of June 2018.

### Box 1.1: NSW Budget leading the nation

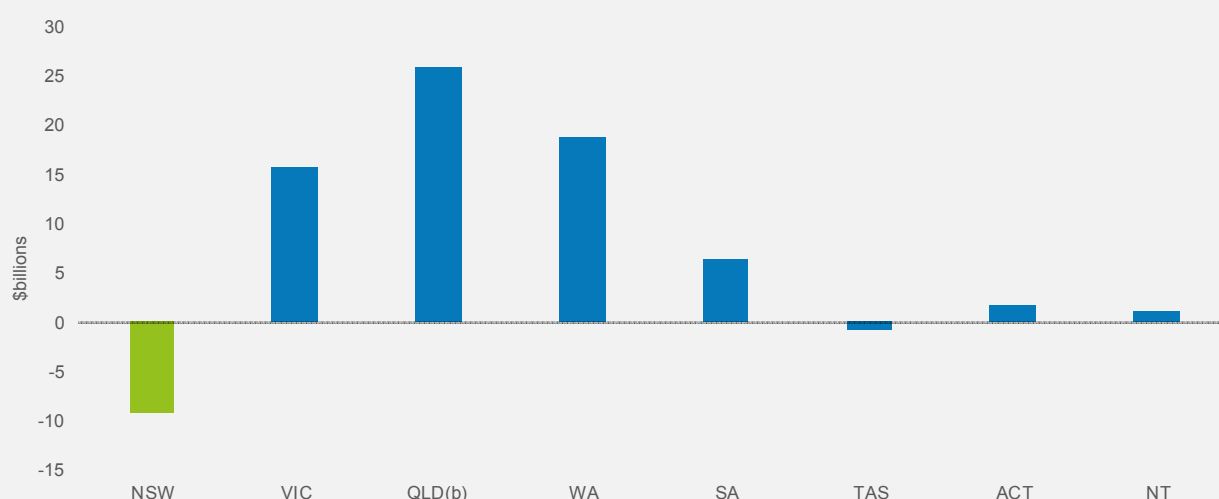
The NSW Budget remains the strongest in the country with:

- budget surpluses averaging \$2.1 billion across the four years to 2020-21
- record negative net debt of \$9.3 billion at June 2017
- triple-A rating reaffirmed by both major ratings agencies
- once-in-a-generation \$80.1 billion infrastructure pipeline, the largest ever across Australian states.

The Government's successful asset recycling strategy is helping fund the State's record infrastructure program. This allows the Government to focus on vital infrastructure for the people of New South Wales without relying on significant increases in debt. As at June 2017, net debt was negative \$9.3 billion, lower than any other state or territory (see Chart 1.2).

These strong results are consistent with the *Fiscal Responsibility Act 2012*, which commits the Government to maintaining the State's triple-A credit rating and adhere to principles of sound financial management.

Chart 1.2: NSW records the lowest net debt in Australia as at 30 June 2017 <sup>(a)</sup>



(a) All states and territories shown as per published 2016-17 final outcomes, except SA and ACT as per 2017-18 Budget.

(b) QLD reported net debt is adjusted for its superannuation assets treatment, making all states and territories comparable.

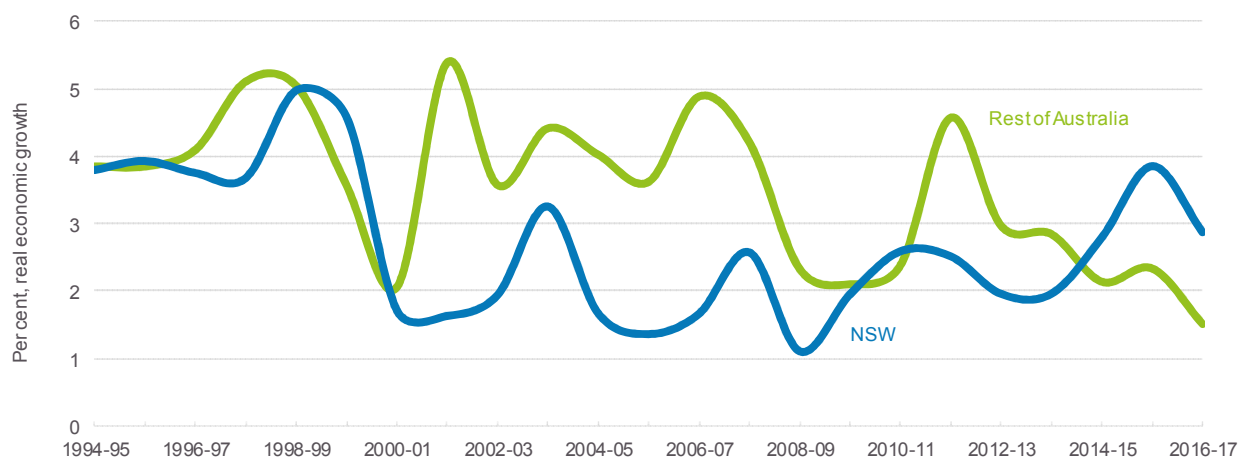
Source: State Budget Outcomes 2016-17 and Budget Papers 2017-18

## 1.2 Economic outlook

The NSW economy is expected to perform strongly in both 2017-18 and 2018-19, growing by 3 per cent, and 2¾ per cent respectively.

The NSW economy outperformed the nation in 2016-17, with GSP growing by 2.9 per cent, well above the long-run average of 2.6 per cent. Australia, in comparison, grew by only 2 per cent (see Chart 1.3). In per capita terms the comparison was even more notable, with NSW growth of 1.4 per cent - triple the national average.

Chart 1.3: The NSW economy continues to outperform the nation



Source: ABS 5220.0 and Treasury

The economic outlook for New South Wales is strong. The State’s asset recycling strategy to fund infrastructure investment remains a key pillar of economic growth, with new projects being added to what was already a historically large construction pipeline.

Other factors that underpin a strong economic outlook include strengthening national and global economies, low interest rates, a lower Australian dollar, strong demand from Asia and above-trend population growth. New South Wales is expected to continue to outperform the national economy in 2017-18.

Labour market conditions have firmed since the 2017-18 Budget. The State’s unemployment rate has fallen to 4.6 per cent, which is the lowest among the states. There has been strong full-time employment growth and more people are choosing to participate in the labour market.

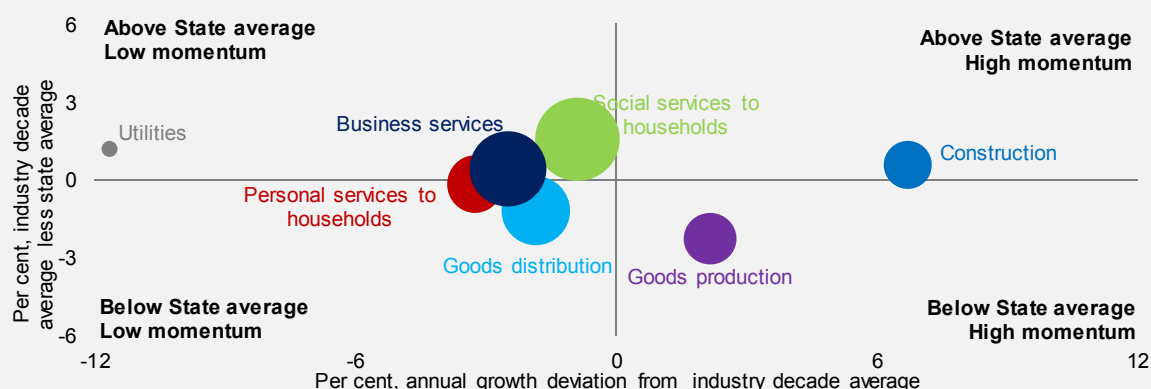
Employment is expected to grow by 2½ per cent this year, well in excess of population growth. Despite this strength in New South Wales, ongoing spare capacity nationally and strong inward migration is expected to constrain wage growth over the medium-term.

**Box 1.2: The housing and infrastructure boom is driving jobs growth<sup>1</sup>**

New South Wales has experienced strong jobs growth over the last two and a half years. Since April 2015 employment has grown at an annual average rate of 2.3 per cent, well above the long-run average of 1.6 per cent. This has delivered an increase of 219,000 jobs, exceeding the Government’s election commitment to deliver 150,000 jobs by 2019.

The record level of construction activity – led by dwelling investment and the public infrastructure boom – has been a key driver of this job creation, with above-average growth in construction employment of 8.8 per cent in the year to August 2017 (see Chart 1.4). The strength in construction employment is all the more impressive as it has been persistently strong over the last decade, increasing by 2.1 per cent a year – well above the overall state average of 1.6 per cent. This is expected to continue.

Chart 1.4: Employment growth by industry: decade average vs recent momentum<sup>(a)(b)(c)</sup>



- (a) The size of circles indicate the size of the industry group.
- (b) All figures are in four-quarter moving average terms (non-seasonally adjusted) to August 2017.
- (c) High/low momentum refers to an industry currently growing above/below its decade average, while above/below State decade average refers to an industry’s performance over the last decade.

Source: ABS 6291.0.55.003 and Treasury

While housing activity is close to peaking at record levels, investment in public infrastructure is expected to continue to boost economic growth by an average of ½ a percentage point a year over the next two years, five times its historic average. Businesses are also positioned to push construction activity even higher, with strong business conditions and elevated capacity utilisation in accommodation, office spaces and education facilities. This has led to broad-based strength in non-residential building approvals and is flowing through to employment, with non-residential construction employment at its highest level on record.

The record public infrastructure program, other government initiatives such as the Jobs Action Plan and Small Business Incentive Scheme, and resurgence in business investment will provide continued support for jobs and economic growth – improving services and enhancing economic opportunities.

<sup>1</sup> Business services include rental, hiring & real estate, finance & insurance, administrative support, professional, scientific & technical and IT & Communications. Social services include public administration & safety, education & training, and health & social assistance. Goods production includes manufacturing, mining and agriculture. Goods distributions includes, wholesale trade, retail trade and transport, postal & warehousing. Personal services include arts & recreation, other services, and accommodation & food.

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## 2. ECONOMIC OUTLOOK

### 2.1 New South Wales economic outlook

The NSW economy outperformed the nation in 2016-17, with gross state product growing well above-trend<sup>2</sup> at 2.9 per cent (see Table 2.1). Over the last year investment, both public and private, has been the cornerstone of economic growth, contributing nearly double its historical average.

The continuing ramp-up in state led infrastructure projects, including NorthConnex, Sydney Metro and WestConnex, has seen engineering construction expand significantly. Housing construction has also grown strongly and is expected to remain at high levels as the record investment pipeline continues to support activity for at least the next two years. Businesses are also poised to push construction activity higher, in response to above-average capacity utilisation and strong business conditions, with broad based strength in non-residential building approvals.

Labour market conditions in New South Wales are strong. Recently, full-time employment growth has been significant and workforce participation has increased. The unemployment rate has fallen to 4.6 per cent, the lowest among the states. Despite this strength, wages growth is expected to remain constrained due to ongoing spare labour capacity nationally and strong inward migration.

Over the next two years, supportive conditions are expected to foster above-trend economic growth for New South Wales of 3 per cent in 2017-18, and 2¾ per cent in 2018-19, unchanged from the 2017-18 Budget. This outlook is underpinned by strengthening national and global economies, low interest rates, a lower Australian dollar, strong demand from Asia, above-trend population growth and a historically large pipeline of infrastructure and residential construction.

While the overall outlook for economic growth is unchanged, the drivers have shifted further towards the business and public sectors and away from the household sector.

Table 2.1: Economic performance and outlook <sup>(a)3</sup>

	2016-17	2017-18		2018-19		2019-20		2020-21	
	Outcome	Budget Forecast	Revised Forecast	Budget Forecast	Revised Forecast	Budget Projection	Revised Projection	Budget Projection	Revised Projection
Real state final demand	3.6	3½	3½	2¾	2¾				
Real gross state product	2.9	3	3	2¾	2¾	2¾	2¾	2½	2½
Employment	0.9	1¼	2½	1¼	1¼	1½	1½	1¼	1¼
Unemployment rate <sup>(b)</sup>	5.0	5	4¾	5	4¾	4¾	4¾	4¾	4¾
Sydney consumer price index <sup>(c)</sup>	2.0	2¼	2¼	2¼	2¼	2½	2¼	2½	2½
Wage price index	2.1	2¼	2	2½	2½	2¾	2¾	3	3
Nominal gross state product	6.4	4¾	4¾	4½	4¾	4¾	4¾	4¾	4¾
Population <sup>(d)</sup>	1.7	1.6	1.6	1.6	1.4	1.5	1.4	1.4	1.4

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

(b) Year average, per cent.

(c) Includes a ¼ percentage point contribution per annum from tobacco excise increases.

(d) Per cent change through the year to 30 June. 2016-17 is a forecast. Forecasts are rounded to the nearest 0.1 percentage points.

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

<sup>2</sup> NSW trend gross state product (GSP) growth is estimated to be 2½ per cent.

<sup>3</sup> Economic forecasts are based on data available at the time they were prepared, which includes results to June 2017 for GSP, to the June quarter 2017 for state final demand, to the September quarter 2017 for the consumer price index and wage price index, to the March quarter 2017 for population and to October 2017 for the labour force.

## Stronger than expected employment

The State’s construction boom has driven strong employment growth in the construction sector, with many of these being full-time jobs. It has also led to jobs growth in professional and technical services, which includes engineering design, architecture and surveying. There are other NSW industries experiencing strong employment growth, including social services (health, education, public administration and safety) and manufacturing. Partially offsetting this has been weakness in the retail sector, which is confronting the impacts of technological disruption and soft consumer demand.

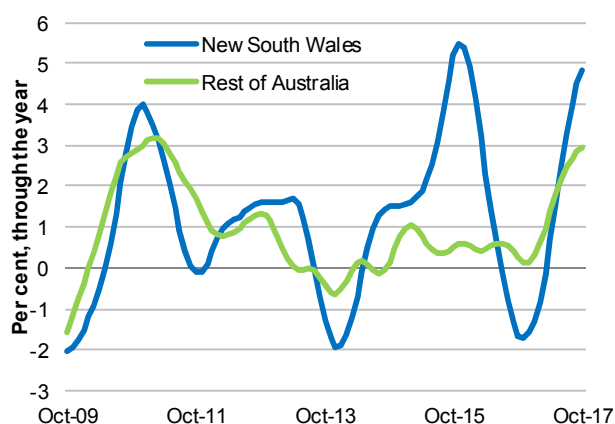
The outlook for the NSW labour market has improved since the Budget. Conditions in the labour market have strengthened (see Box 2.1 and Chart 2.1) and forward indicators such as job vacancies and hiring intentions are showing strength. Employment is now forecast to grow by 2½ per cent in 2017-18 (up from 1¾ per cent at the Budget), and 1¾ per cent in 2018-19.

Despite the forecast for strong employment growth, the State’s unemployment rate is expected to remain around 4¾ per cent over the next two years, as net immigration remains high and more people choose to participate in the workforce. An unemployment rate of 4¾ per cent is consistent with estimates of full employment for New South Wales.

The State’s population is expected to grow by 1.7 per cent in 2016-17, around ½ a percentage point above its long-run average. This has been underpinned by high inward migration (from other states and overseas) reflecting the relative strength of the NSW economy and labour market. While population growth is forecast to ease, it is expected to remain above-trend over the next four years. This will continue to boost demand for goods and services, but also restrain wages growth and limit further declines in the unemployment rate.

Ordinarily, an unemployment rate of 4.6 per cent in New South Wales would be associated with significantly stronger wages growth than currently observed. Subdued wage price index (WPI) growth of 2.1 per cent can largely be explained by the considerable spare capacity elsewhere in Australia. This capacity is being transmitted to New South Wales through migration flows and common product markets. NSW wages growth is therefore expected to remain broadly in line with national outcomes.

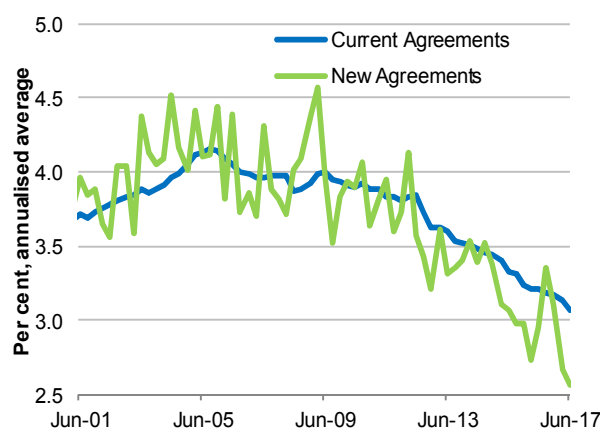
Chart 2.1: Full-time employment has accelerated since the start of the year <sup>(a)</sup>



(a) Trend.

Source: Department of Employment and Treasury

Chart 2.2: Wage growth under enterprise bargaining agreements is soft <sup>(a)</sup>



(a) National enterprise bargaining agreements represent around a third of wage agreements nationally.

Source: ABS 6202.0 and Treasury

Additional factors weighing on national wages growth include high inward migration, an increasing share of temporary workers – currently 3.4 per cent of the national workforce<sup>4</sup> – low inflation expectations, strong competition, lower productivity and a post-mining boom wages overhang. Enterprise bargaining agreements suggest that wages growth could continue to remain subdued over the year ahead (see Chart 2.2).

Wages growth is forecast to gradually increase from 2018-19, in a lagged response to the take-up of national spare labour capacity. The underutilisation rate – a broad measure that includes those that are unemployed and employed people who would like to work more hours – has recently improved, as national full-time employment growth has lifted. In addition there are already pockets of strength in New South Wales, with wages in industries such as *health care & social assistance* and *construction* growing by more than 2.5 per cent.

### Box 2.1: Strong full-time employment growth and a tight NSW labour market

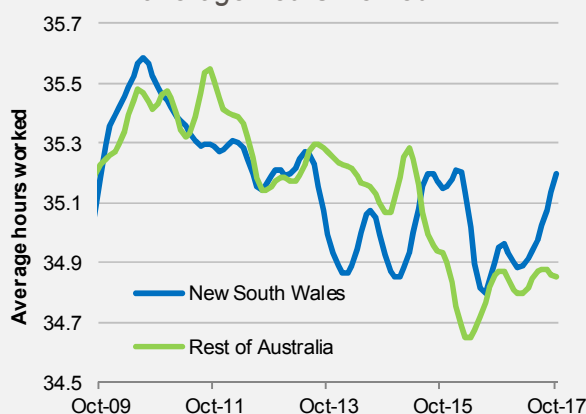
The strong NSW economy has supported above-trend employment growth, averaging around 2 per cent over the past two years, above the long-run average of 1.6 per cent.

Over the past year, growth in labour-intensive industries such as *construction, professional, scientific & technical services* and *education & training* has supported strong employment growth and this is expected to continue.

As a result, the NSW unemployment rate has fallen to 4.6 per cent, the lowest since 2008 and the lowest among the states.

It has also been accompanied by a shift to greater full-time employment, which has lifted average hours worked and placed downward pressure on the State's labour underutilisation rate (see Chart 2.3).

Chart 2.3: Full-time employment driving higher average hours worked<sup>(a)</sup>

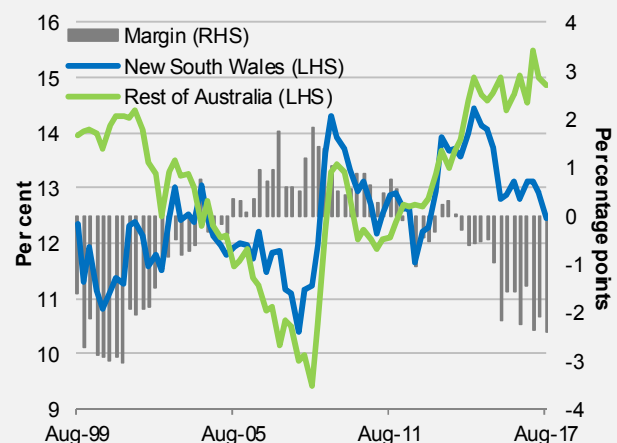


(a) Trend.

Source: ABS 6202.0 and Treasury

The relative strength of the NSW labour market is best captured in the labour underutilisation rate, which is 2.4 percentage points below the rest of Australia, the largest margin since 2001 (see Chart 2.4).

Chart 2.4: Underutilisation rate signaling a tightening NSW labour market



Source: ABS 6291.0.55.003 and Treasury

Strong employment growth has also encouraged a higher workforce participation rate. This has lifted to 63.6 per cent, above the recent low of 63 per cent, driven by an increase in youth and prime working age participation.

Despite the tight NSW labour market, this is not anticipated to translate into short-term wage pressures. National spare capacity is expected to keep wages growth contained.

<sup>4</sup> This includes student and other temporary visa holders who are participating in the national labour force. Their share of the national labour force has increased from 1.7 per cent in 2007, to 3.4 per cent in 2016. ABS 6250.0.

The outlook for inflation has been revised down since the Budget reflecting weaker than forecast price and wage outcomes. It also incorporates a larger than anticipated reduction in inflation due to the re-weighting of the standard household basket, as measured by the Australian Bureau of Statistics *2016 Household Expenditure Survey*.

Despite strong price pressures from housing and utilities, inflation is forecast to increase only gradually due to modest wages growth and ongoing competitive pressures in the retail sector.

### **Households are adjusting to an easing property market and increased debt**

Household consumption growth eased to 2.5 per cent in 2016-17, the slowest growth in four years. This is despite strong population and employment growth. Retail sales indicate this weak momentum has persisted into 2017-18, although price discounting has supported some growth in the volume of sales.

While the aggregate household savings rate and mortgage buffers indicate a reasonably sound financial position, NSW household debt has increased over recent years. The median debt-to-income ratio has risen from 63 per cent in 2003-04, to 102 per cent in 2015-16. Household indebtedness and the prospect of higher interest rates, are likely explanations for weaker consumer confidence.

These factors, combined with the recent moderation in house price growth and slow wages growth, suggest households could be reluctant to reduce savings to support consumption. Household consumption growth is expected to increase broadly in line with wages and employment over the next two years.

Record housing completions, above-trend population growth and strong full-time employment growth are expected to support household consumption, as is the forecast improvement in wages growth from 2018-19.

### **The construction boom will make inroads into housing undersupply**

New housing construction has experienced an extraordinary boom over the past five years with annual new dwelling investment growth averaging over 17 per cent. This upswing has been longer and stronger than any on record.

In 2016, dwelling commencements reached a new record of 77,000 and have remained elevated through 2017, with much of this activity concentrated in high density projects. An unprecedented pipeline of over 100,000 dwellings – either approved or under construction – is expected to lift activity further in 2017-18, leading to annual completions of more than 70,000 dwellings (see Chart 2.8). This strong supply response is making inroads into the State's accumulated housing undersupply of around 100,000 dwellings (see Box 2.2).

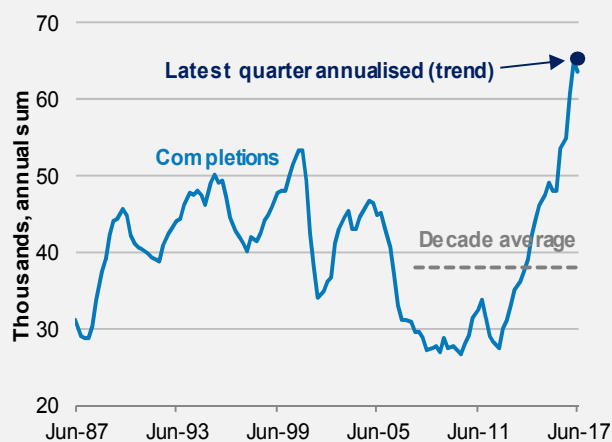


## Box 2.2: Housing supply outstripping demographic demand will support affordability

New South Wales is in the midst of a residential construction boom, concentrated in high density apartments.

In 2016-17 a record 64,000 new homes were completed in New South Wales, well above the decade annual average of 38,000 (see Chart 2.5). As a result, for the first time since 2006, net housing completions<sup>5</sup> are exceeding demographically driven increases in demand (see Chart 2.6).

Chart 2.5: Supply of new homes at record



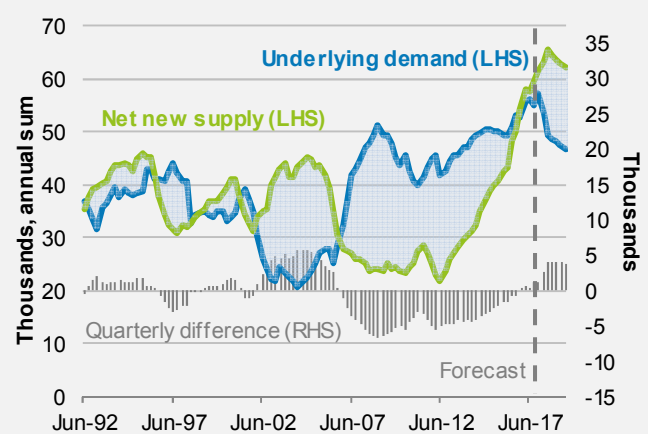
Source: ABS 8752.0 and Treasury

Over the past decade, strong population growth of around 1.4 per cent a year (above the long-run average of 1.1 per cent) has seen the State's underlying requirement for new homes average around 47,000 a year.

Over the period from 2006 to 2016 the construction of new dwellings (net of demolitions) did not keep up with demographic demand, resulting in an accumulated undersupply of around 100,000 homes<sup>6</sup>.

Over the next two years, to keep up with demographic demand, around 48,000 new homes will need to be constructed each year. The Premier's priority for 61,000 housing completions a year will meet this requirement, as well as make inroads into the accumulated undersupply.

Chart 2.6: Production surpasses demand



Source: ABS 8752.0, 3101.0 and Treasury

Reducing the undersupply of housing will lead to a more balanced market, support affordability, foster stable growth and better cater for the growing number of people calling New South Wales home.

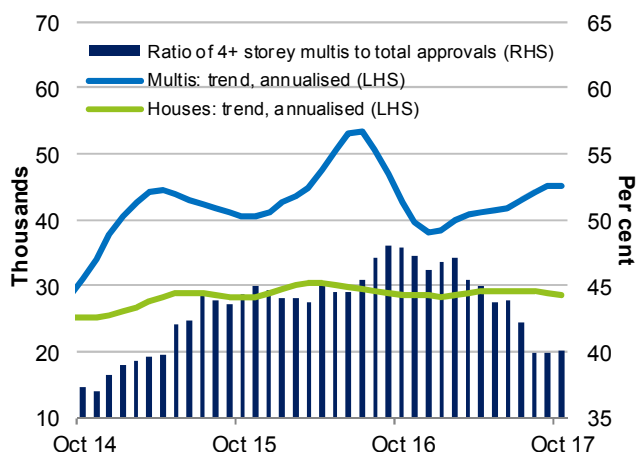
Since the Budget, the impact of macroprudential measures, cooling investor demand (including foreign demand), slowing price growth and increasing construction costs are expected to weigh on residential construction activity, particularly in the high density apartment sector. While dwelling approvals are down from their peak of 78,000 in the 12 months to September 2016, they have recently trended back up above 70,000 per annum. Medium density apartment and townhouse projects (in the South West) have taken up a larger share, as high density apartment approvals have declined (in the CBD and North West) (see Chart 2.7).

<sup>5</sup> Completions adjusted for demolitions.

<sup>6</sup> See 2016 NSW Intergenerational Report.

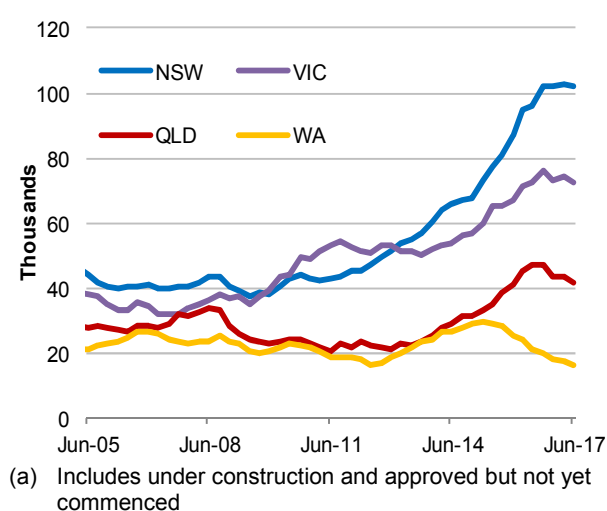
From 2018-19 growth in dwelling investment is expected to decline, while activity remains at high levels. This is underpinned by the large pipeline of approved projects, and more positive trends in detached houses (concentrated in greenfield developments) and medium density projects. Furthermore, high levels of dwelling investment will continue to receive support from low interest rates, strong population growth, the accumulated undersupply and policy measures from both the State and Commonwealth Governments.

Chart 2.7: Total approvals holding up, but high density apartments share is falling



Source: ABS 8731.0 and Treasury

Chart 2.8: A record pipeline of homes in New South Wales<sup>(a)</sup>



(a) Includes under construction and approved but not yet commenced

Source: ABS 8752.0 and Treasury

## Growth drivers shifting to the business and public sectors

Public investment has contributed  $\frac{1}{2}$  a percentage point a year to economic growth over the last two years – well above its historical average contribution of 0.1 percentage points. This is expected to continue over the next two years, underpinned by the State's \$80.1 billion four year capital program, which has been upgraded since the Budget. This stronger outlook reflects new capital works, such as Parramatta Light Rail and the Princes Highway Albion Park Rail Bypass, along with the estimated impact of spending reserved funds in Restart NSW.

Strong growth in overseas service exports (predominantly tourism and education) is being supported by demand from a growing Asian middle class,<sup>7</sup> and China rebalancing towards a consumption economy. Reflecting this, China recently became the number one source of inbound tourism for Australia. When combined with the positive cyclical drivers of a strengthening global economy and a lower Australian dollar, overseas exports are expected to remain a key driver of economic growth. Interstate exports are also expected to add to economic growth as the mining investment drag on the rest of Australia eases.

Strong export demand – that is absorbing existing capacity in a number of key sectors such as accommodation and education – is expected to reinforce employment growth and business investment. Robust publicly-led infrastructure investment will also support business investment given a large proportion of this construction is being delivered by the private sector. Strong construction activity is expected to provide momentum to the long-awaited revival in plant and equipment investment.

<sup>7</sup> Kharas, H. *The unprecedented expansion of the global middle class*, Brookings Institution, Global Economy and Development Working Paper 100, February 2017.

Businesses are reporting strong capital expenditure intentions, elevated capacity utilisation and strong conditions. The pipeline of non-residential building activity has lifted with a spate of approvals since late 2016, indicating broad based strength across the *short-term accommodation, education, retail & wholesale trade, warehouse, office and entertainment & recreation* sectors.

## 2.2 National economic outlook

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The national economy grew by a below-trend rate of 2 per cent in 2016-17 as household consumption growth weakened significantly and business investment was weighed down by a substantial decline in mining investment. The negative impact of weather events (including the effect of Cyclone Debbie on coal exports and heavy rain delaying construction activity) also weakened the 2016-17 outcome.

Some positive trends have, nevertheless, emerged. National employment is experiencing its longest period of uninterrupted monthly growth since the 1990s. This has lifted employment growth to 3 per cent through the year to October 2017. The key drivers have been *construction* and, with the introduction of the National Disability Insurance Scheme, *healthcare & social assistance*. *Retail trade* has recovered somewhat, with a recent increase in pharmacy and homeware employment.

The outlook for the Australian economy remains broadly in line with Budget expectations, with growth expected to rise above-trend as the drag from falling mining investment dissipates and resource exports continue to ramp up. Gross domestic product (GDP) growth has been revised down slightly to 2½ per cent in 2017-18, reflecting weak momentum in household consumption and a slower than expected expansion in resource exports.

GDP growth is still expected to accelerate to 3 per cent in 2018-19, as this will be the first time in five years the economy will not suffer any mining investment drag (nor the spill-over effects on other sectors). Public demand and export growth, especially in liquefied natural gas, are expected to contribute strongly to growth in 2018-19.

## 2.3 Global economic outlook

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Global growth is on an upswing, with the International Monetary Fund (IMF) increasing its global growth forecasts to 3.6 per cent in 2017 and 3.7 per cent in 2018. This is the IMF's second upgrade to global growth forecasts this year.

Australia's major trading partners are expected to grow by 4 per cent in 2017-18 before easing to 3¾ per cent in 2018-19. Australia continues to benefit from an expansionary policy mix in China, with ongoing infrastructure investment supporting demand for iron ore and coal. China is still expected to gradually transition towards a lower growth, but more sustainable, consumer-driven economy.

Increased global demand and supply disruptions have lifted commodity prices over the past year. These higher commodity prices led to a second wind for Australia's terms of trade. However, the terms of trade are expected to decline over the forecast period as additional supply comes online and growth in Chinese demand moderates. The Australian dollar is expected to weaken with the terms of trade, providing support to the export of services and manufactured goods.

Inflation and wage pressures remain subdued in many advanced economies, even in those economies near full employment. Nevertheless, a gradual shift towards more normal monetary policy globally has begun. The United States central bank is raising interest rates and unwinding its balance sheet, while a number of other central banks across advanced economies are expected to follow suit. Even so, interest rates are anticipated to rise only gradually, with monetary policy remaining accommodative for some time.

## 2.4 Risks to the economic outlook

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The risks to the economic outlook are largely the same as those at the Budget and remain concentrated around the housing market, wages growth and the pace of public investment.

Downside risks around housing construction remain – particularly in the high density apartment market. While the large construction pipeline is expected to support activity, a decline in 2018-19 is now more likely than at the Budget. On the upside, strong population growth, improving income growth, sustained low interest rates and supportive policies could see relatively high levels of post-peak activity persist for years to come.

The pace and timing of an improvement in wages growth remains uncertain and downside risks have materialised in 2017-18. Wages growth has not yet responded to a strengthening labour market – suggesting greater than expected spare capacity, or a stronger than anticipated anchoring of low wage expectations. This phenomenon is common with a number of advanced economies around the globe. Strong employment growth over the next two years is, however, expected to see a tightening in the national labour market and the emergence of wage pressures. Housing affordability constraints could see lower migration into New South Wales and a wedge open between national and State wage outcomes.

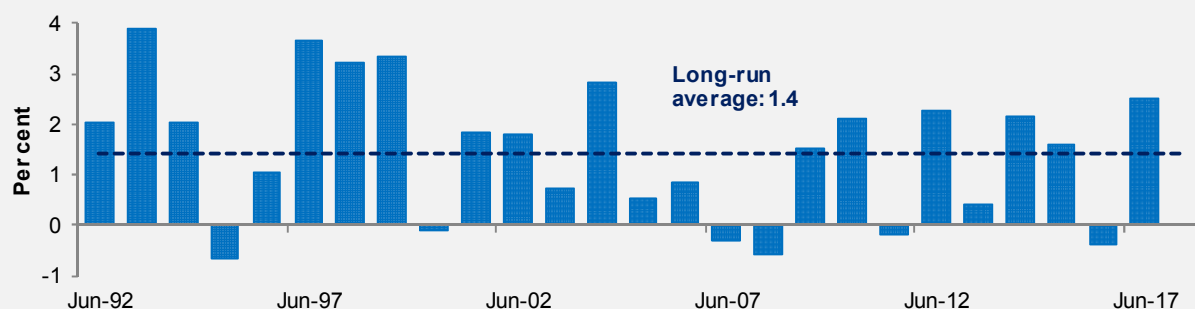
Capital expenditure upside risks include the approval of new projects and the expansion or acceleration of existing projects. A downside risk is delays in construction, which can be caused by adverse weather. The Bureau of Meteorology has indicated a heightened risk of a La Niña event for 2017-18, which would signal higher than usual rainfall.

### Box 2.3: Boosting productivity—the next focus for the NSW economy

Productivity is critical to economic performance and is the key driver of improvements in living standards. Over the long-term it is the largest component of economic growth, allowing for real wage increases and improvements in lifetime wealth.

While labour productivity growth has picked up over the last year, the past decade has been characterised by a period of below-average growth in both New South Wales and Australia. Since 2007-08, labour productivity growth in New South Wales has averaged 1.1 per cent compared to the long-run average of 1.4 per cent (see Chart 2.9).

Chart 2.9: Weaker productivity growth over the last decade



Source: ABS 5220.0, 6202.0 and Treasury

The Productivity Commission confirmed the urgent need for further reform in its recently released five year productivity review. It warned that without continued economic reform, income growth is likely to grow at only half its historical rate. In other words, without action, productivity growth in Australia is likely to fall over the medium-term.

The NSW Government has underpinned productivity growth through significant increased expenditure on infrastructure, strengthened vocational education and training and greater market competition and innovation. Measures include taxi deregulation, social impact investing, and innovative financing to expand the availability of social and affordable housing. But there is more to be done. The Government will continue to seek opportunities for productivity enhancing reforms in New South Wales.

Regulation is a key policy lever for government and can have a large impact on productivity. Effective regulation supports productivity growth, investment and innovation, but poor regulation can slow economic growth and impact on the cost of living.

The NSW Government is committed to removing barriers to competition and reducing red tape for businesses and consumers. In 2016, the Government commissioned an independent review of the NSW Regulatory Policy Framework, chaired by the Hon Nick Greiner AC. The Government is now considering the Panel's recommendations to improve the regulatory policy settings in New South Wales.

There are a number of successful initiatives underway to reduce the cost and time for businesses to comply with regulation – and the Government will be expanding these over the next few years to cover more business and more sectors. For example, Easy to Do Business is a digital platform for transacting with three levels of government. It streamlines and simplifies the end-to-end journey of starting a new business, or expanding an existing business – cutting time, red tape and costs.

In the long-run it is productivity enhancing initiatives like this that will secure our future; boosting wages and improving living standards for the people of New South Wales.

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## 3. FISCAL POSITION AND OUTLOOK

### 3.1 Fiscal position and outlook

The 2017-18 Half-Yearly Review demonstrates the State's strong fiscal position and outlook.

The budget result for 2017-18 is expected to be in surplus by \$3.3 billion, which is \$634 million higher than forecast at the time of the 2017-18 Budget. The improved surplus is driven by lower forecast expenses, which have been partially offset by lower revenues.

Average surpluses of \$2.1 billion are also forecast over the four years to 2020-21.

The 2017-18 Half-Yearly Review takes account of policy decisions made by the NSW Government, revisions to Commonwealth Government grants and other information affecting the State's financial statements since the 2017-18 Budget up to 6 December 2017.

The budget estimates do not include the impact of any announced but not yet completed asset sale or lease transactions, including the potential sale of Snowy Hydro to the Commonwealth Government announced in the 2017-18 Commonwealth Budget and the divestment of 51 per cent of WestConnex. Consistent with past practice, such impacts are only recognised when a transaction is finalised.

Table 3.1 sets out the key budget aggregates for the general government sector.

Table 3.1: General government budget aggregates

	2016-17 <sup>(a)</sup>	2017-18	2017-18	2018-19	2019-20	2020-21
	Actual	Budget	Revised	Forward Estimates		
Revenue (\$m)	78,139	79,885	79,842	80,755	83,142	84,594
Revenue growth (%)	5.4	2.4	2.2	1.1	3.0	1.7
Expenses (\$m)	72,551	77,186	76,510	78,661	81,699	83,036
Expense growth (%)	4.2	5.0	5.5	2.8	3.9	1.6
Budget Result (\$m)	5,724	2,698	3,332	2,093	1,442	1,558
Per cent of GSP	1.0	0.5	0.6	0.3	0.2	0.2
Capital Expenditure (\$m)	10,546	14,515	14,325	18,651	12,902	10,732
Per cent of GSP	1.8	2.4	2.4	3.0	2.0	1.6
Net Lending/(Borrowing) Result (\$m)	3,040	(6,447)	(5,597)	(10,853)	(5,985)	(3,605)
Per cent of GSP	0.5	(1.1)	(0.9)	(1.7)	(0.9)	(0.5)
Net Debt (\$m)	(9,344)	(521)	(2,935)	9,444	17,838	23,712
Per cent of GSP	(1.6)	(0.1)	(0.5)	1.5	2.7	3.4
Net Worth (\$m)	226,471	237,859	247,591	260,002	271,088	281,206
Per cent of GSP	39.3	39.8	41.0	41.3	41.1	40.6

(a) Transactions from discontinued operations contributed a further \$136.0 million to the budget result in 2016-17.

Since the 2017-18 Budget, revenue forecasts have been revised upwards over the four years to 2020-21. Stronger employment growth is driving a \$1.2 billion increase in payroll tax forecasts and higher than expected land values are contributing to a \$973 million increase in land tax revenue forecasts. GST revenue is expected to be slightly higher over the budget and forward estimates. This has been offset by transfer duty revenue, which is \$1.1 billion lower than at the time of the Budget, primarily reflecting an increase in property purchases eligible for first home buyer concessions, aligned to the Government's housing affordability policy.

The Government is focused on further addressing cost of living pressures, improving housing affordability and repairing and upgrading regional infrastructure including roads. In total, expenses are forecast to increase by \$1.4 billion over four years relative to the 2017-18 Budget.

## Fiscal strategy

The NSW fiscal strategy is guided by the *Fiscal Responsibility Act 2012* (FRA), the key objective of which is to maintain the State's triple-A credit rating. The FRA also requires adherence to three principles of sound financial management:

- responsible and sustainable spending, taxation and investment
- effective financial and asset management
- achieving intergenerational equity.

The Government continues to deliver on its fiscal strategy and adhere to the principles of sound financial management. To help achieve responsible and sustainable spending, a key area of focus is maintaining general government annual expense growth in line with long-term revenue growth.

### Box 3.1: New South Wales retains its triple-A credit rating

Since the 2017-18 Budget, New South Wales has had its triple-A credit rating, the highest possible credit rating, reaffirmed by both major international credit ratings agencies. Moody's reaffirmed New South Wales at triple-A with a stable outlook in October 2017. Standard & Poor's reaffirmed the triple-A rating with a negative outlook in September 2017.

New South Wales is amongst a small group of global sub-sovereign governments who hold a triple-A credit rating and one of only two Australian states (the other is Victoria) that are currently rated as triple-A by both major ratings agencies.

A triple-A rating signals to domestic and foreign investors that the State is one of the safest places to invest and allows the State to borrow at lower interest rates than without a triple-A rating.

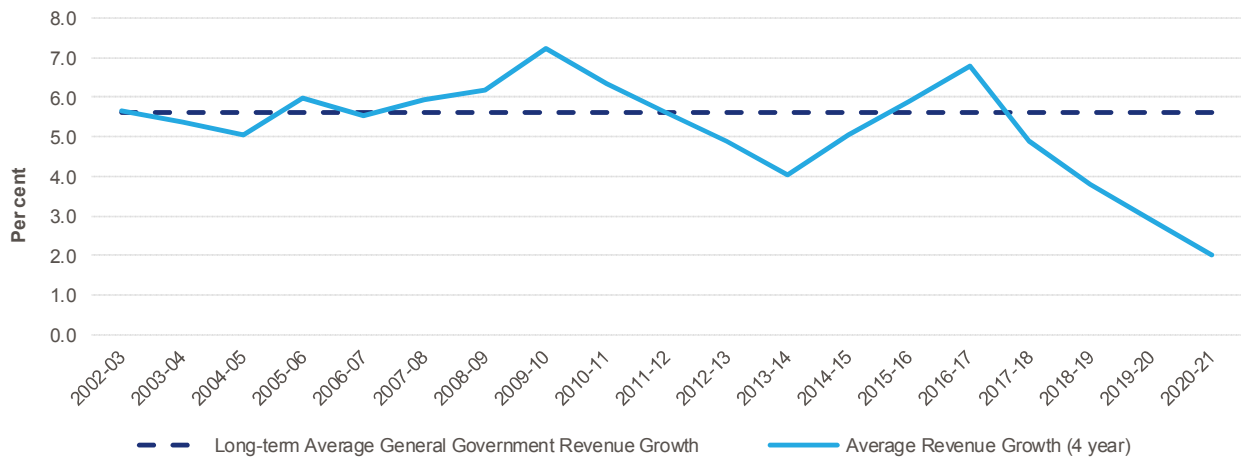
The credit rating agencies place a ceiling on the State's credit ratings at the Commonwealth Government's credit rating, mainly due to the fact that a significant proportion of the State's revenue comes from Commonwealth Government grants. When Standard & Poor's placed the Commonwealth Government on negative outlook in July 2016, this flowed through to the outlook for New South Wales, Victoria and the Australian Capital Territory.

In the event of a Commonwealth Government rating downgrade, New South Wales is committed to retaining a fiscal position that is consistent with a standalone triple-A credit rating, reflecting its focus on the principles of sound long-term financial management and the continued delivery of sustainable services and infrastructure. Standard & Poor's state that the current standalone credit profile of New South Wales is considered triple-A.



Chart 3.1 shows that revenue growth is forecast to decline over the forward estimates, as the State’s share of GST revenue declines and transfer duty growth moderates relative to recent years.

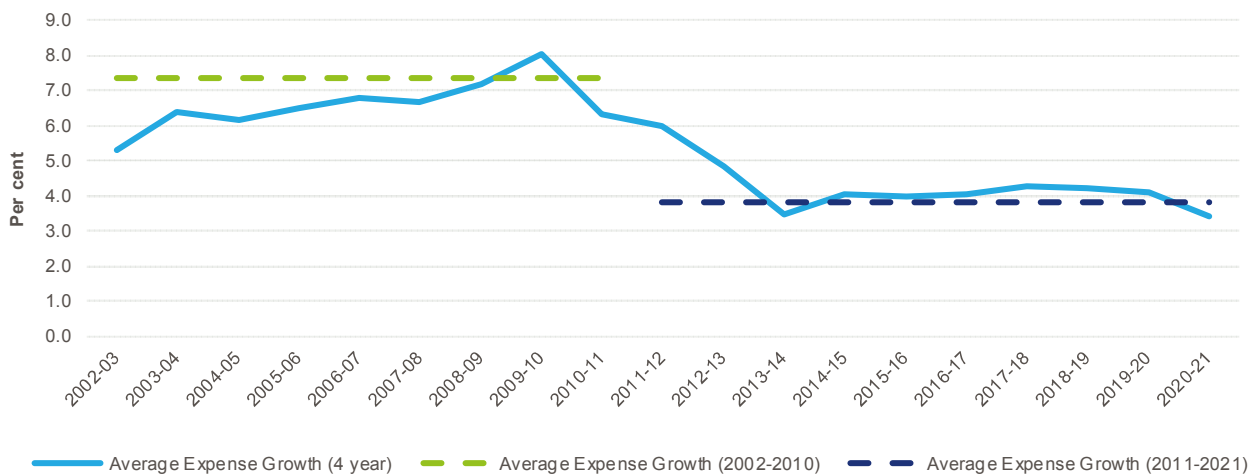
Chart 3.1: Four year average revenue growth



As seen in Table 3.1, annual expenditure growth is estimated to be 5.5 per cent for 2017-18. This is higher than forecast at the 2017-18 Budget due to the better than expected 2016-17 outcome, which lowered the base from which 2017-18 expense growth is calculated.

Chart 3.2 shows a decline in the rolling four year average expense growth over the forward estimates. The NSW Government is maintaining a disciplined approach to controlling expense growth and managing the State’s budget in line with lower revenue growth. Since 2011-12, the Government has been able to reduce expense growth while delivering significant new investment in services and infrastructure.

Chart 3.2: Four year average expense growth



## Fiscal strategy – asset recycling and the balance sheet

The State's successful asset recycling strategy is helping fund the Government's record infrastructure investment of \$80.1 billion across the four years to 2020-21. This has increased by \$7.4 billion since the 2017-18 Budget due to both new infrastructure investment (e.g. Parramatta Light Rail Stage 1) and the recognition of future Restart NSW reservation spending over the four years to 2020-21 (see Section 3.5).

Recent transactions, including successful completion of the partial long-term lease of electricity network businesses, have driven a significant reduction in net debt, with a record low net debt of negative \$9.3 billion for 30 June 2017.

Net debt is estimated to be negative \$2.9 billion at 30 June 2018, a reduction of \$2.4 billion compared to the 2017-18 Budget, mainly driven by the better than expected 2016-17 outcome outlined in the *2016-17 NSW Report on State Finances* and improvements in the forecast 2017-18 Budget result.

Net debt is expected to rise to \$23.7 billion by 2020-21 as cash surpluses and the proceeds of transactions are reinvested in infrastructure. The 2017-18 Half-Yearly Review does not include the impact of the recently announced WestConnex transaction or ongoing discussions with the Commonwealth Government on Snowy Hydro, which may further reduce net debt and help fund the State's record infrastructure program.

The State's rising net worth is forecast to reach a record \$247.6 billion at June 2018 and continue to grow across the forward estimates, driven by asset recycling, financial management reforms and active financial liability management, rising to a projected \$281.2 billion at June 2021.

### 3.2 Revenue outlook

General government revenue in 2017-18 is forecast to be \$79.8 billion, \$42.9 million lower than the 2017-18 Budget forecast (see Table 3.2). The revised forecast incorporates a downward revision of \$149.0 million in taxation revenue, with strong take-up of first homebuyer concessions resulting in weaker than expected residential stamp duty revenue, partly offset by stronger payroll tax and land tax revenue. Increases in GST, royalties, dividends and other revenues have all contributed to a \$106.1 million increase in non-taxation revenue since the Budget.

Over the forward estimates, forecast revenue is \$2.0 billion higher than at the Budget. Of this, \$1.2 billion is from higher taxation revenue, as the strength of NSW employment and the property market flow into higher payroll tax and land tax revenue, respectively.

Average annual revenue growth is expected to be 2 per cent over the four years to 2020-21, slightly higher than the 1.8 per cent expected at the Budget.

Table 3.2 provides a summary of revenue for the general government sector.

Table 3.2: General government sector revenue

	2016-17	2017-18		2018-19	2019-20	2020-21	% Average growth p.a. 2016-17 to 2020-21
	Actual	Budget	Revised	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Revenue from transactions</b>							
Taxation	30,789	31,560	31,411	32,940	34,680	36,090	4.1
Grant Revenue (including GST)	31,350	31,860	31,587	30,627	30,664	31,318	(0.0)
Sales of goods and services	8,159	8,976	9,012	9,593	9,478	9,015	2.5
Interest income	769	413	366	292	283	269	(23.1)
Dividends and income tax equivalents from other sectors	1,102	1,620	1,703	1,378	1,595	1,468	7.4
Other dividends and distributions	1,267	1,016	1,142	1,263	1,300	1,411	2.7
Royalties	1,580	1,665	1,729	1,725	1,643	1,616	0.6
Fines, regulatory fees and other revenues	3,123	2,774	2,891	2,935	3,500	3,407	2.2
<b>Total revenue</b>	<b>78,139</b>	<b>79,885</b>	<b>79,842</b>	<b>80,755</b>	<b>83,142</b>	<b>84,594</b>	<b>2.0</b>

### Revenue policy decisions taken since the 2017-18 Budget

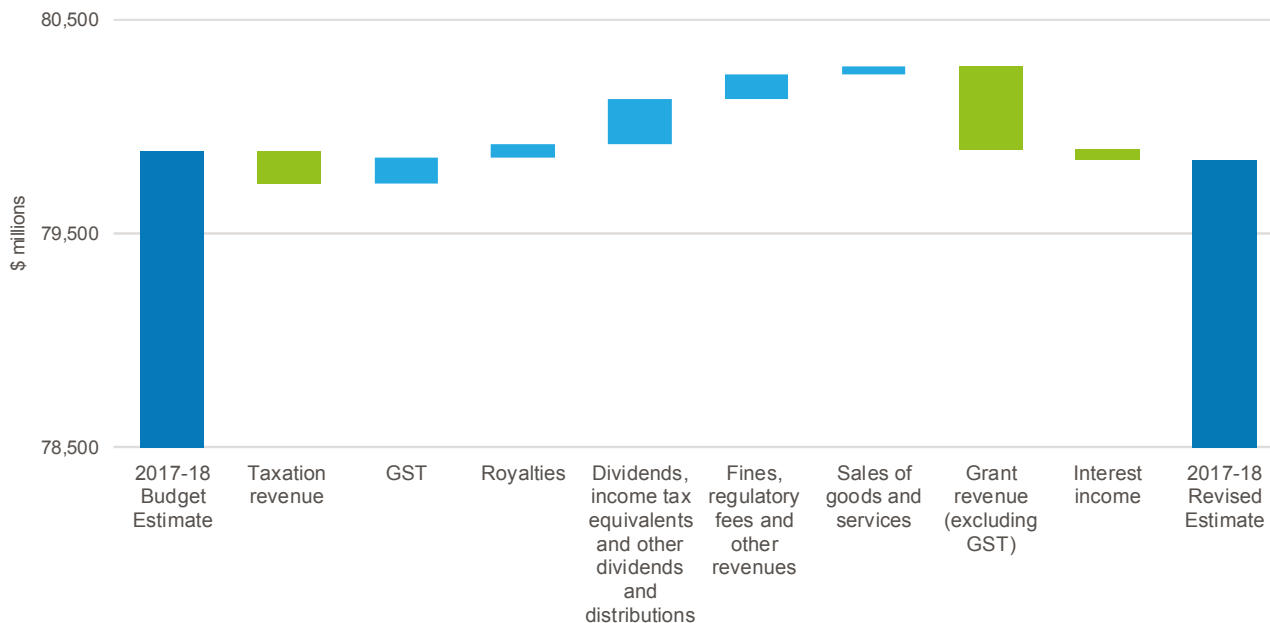
The Government continues to take steps to help ease cost of living pressures. Policy decisions related to these efforts include free registration for vehicles incurring more than \$1,300 of tolls per year. This measure is expected to lower revenue by \$162.0 million from 2018-19 to 2021-22 (see Box 3.2).

Table 3.3 provides a reconciliation of revenue changes since the 2017-18 Budget.

Table 3.3: Revenue reconciliation – 2017-18 Budget to Half-Yearly Review

	2017-18	2018-19	2019-20	2020-21
	Revised	Forward Estimates		
	\$m	\$m	\$m	\$m
<b>Revenue - 2017-18 Budget</b>	<b>79,885</b>	<b>80,224</b>	<b>82,471</b>	<b>83,770</b>
<i>Policy changes since Budget</i>				
NSW Tolling Reward Plan	...	(33)	(38)	(43)
Other policy measures	41	(30)	(17)	(13)
<b>Total policy changes</b>	<b>41</b>	<b>(63)</b>	<b>(55)</b>	<b>(56)</b>
<i>Parameter and other budget variations</i>				
Transfer duty	(461)	(237)	(197)	(223)
Payroll tax	189	286	331	374
Land tax	106	225	312	331
Other taxes	17	21	(17)	(8)
Royalties	64	151	123	86
GST	119	61	95	113
Other	(119)	87	79	207
<b>Total parameter and other HYR variations</b>	<b>(84)</b>	<b>593</b>	<b>726</b>	<b>880</b>
Total revenue variations since 2017-18 Budget	(43)	531	671	824
<b>Revenue - 2017-18 Half-Yearly Review</b>	<b>79,842</b>	<b>80,755</b>	<b>83,142</b>	<b>84,594</b>

Chart 3.3: 2017-18 changes in revenue – 2017-18 Budget to Half-Yearly Review



**Box 3.2: Lowering the cost of living – toll relief**

Starting from 1 July 2018, toll road users will be eligible for free car registration as part of the NSW Government’s commitment to tackle cost of living pressures.

Eligible NSW motorists who spend \$25 a week or more on tolls, on average, over a 12 month period will receive free registration. NSW tolls paid from 1 July 2017 will be taken into account in determining eligibility.

Eligibility will be restricted to standard privately registered cars, utility vehicles, four-wheel drives and motorcycles renewing registration from 1 July 2018. Private motor vehicles weighing more than 2,795kg, such as trucks, are not included in the scheme.

The scheme will apply to existing toll roads and any new toll roads in the future. Customers who use the M5 Cashback Scheme can choose to continue to use that scheme or use the Toll Relief Program.

This measure forms part of NSW Government initiatives to assist in reducing the cost of living, with other reductions also available as a result of reforms to Compulsory Third Party Green Slips and the introduction of the FuelCheck app.

## Taxation revenue

Taxation revenue in 2017-18 is estimated to be \$31.4 billion, \$149.0 million lower than the 2017-18 Budget estimate. The change is partly the product of lower forecast transfer duty as growing numbers of first homebuyers benefit from new concessions. Higher payroll tax and land tax have partly offset the reduction. Over the forward estimates taxation revenue has been revised up by \$1.2 billion.

*Transfer duty* revenue in 2017-18 is forecast to be \$461.0 million lower than at the Budget. The Housing Affordability package and other policy changes announced in the 2017-18 Budget have changed the mix of transactions between first homebuyers, domestic investors and foreign investors, resulting in lower revenue. The success of the Government's assistance for first homebuyers is an important part of the revised transfer duty forecasts (see Box 3.3).

The average price of residential properties sold in 2017-18 is forecast to be around 1.8 per cent above the average price for 2016-17, a significant slowing compared with the 6.2 per cent growth in the year to the September 2017 quarter.

Moderating growth in residential transfer duty was incorporated at the time of the Budget. Since then, transfer duty revenue is forecast to be \$657.0 million lower over the forward estimates. This is largely driven by an increase in the number of property purchases eligible for first homebuyer concessions, with only a slight downward revision to the outlook from lower activity of non-first homebuyers. However, the revenue forecasts are subject to downside risk if transaction volumes fall.

*Land tax* revenue in 2017-18 is expected to be \$105.9 million higher than at the Budget as a result of new land valuations determined by the Valuer General as at 1 July 2017. Land tax revenue is expected to be \$867.2 million higher in the three years to 2020-21 compared to budget estimates, due to higher than expected land values and their ongoing effect through three year averaging.

Strong NSW employment growth in 2017-18 has resulted in *payroll tax* revenue being revised up by \$189.5 million since the 2017-18 Budget. Wage growth remains broadly consistent with the Budget forecasts. Employment growth, particularly in full-time employment, has been stronger than expected, supported by infrastructure and housing construction. Payroll tax collections in the first quarter of 2017-18 have reflected this strength.

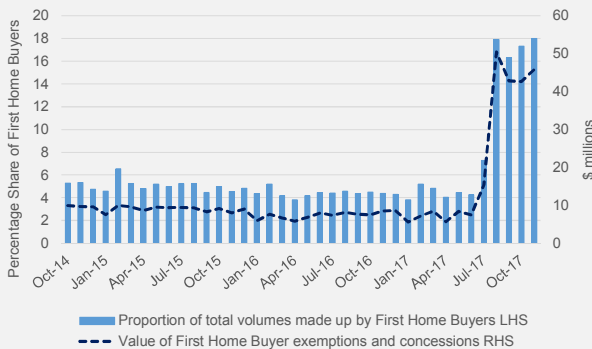
Over the three years to 2020-21, payroll tax revenue is expected to be \$991.2 million higher than at the Budget, as stronger employment growth in 2017-18 flows through to the forward estimates.

**Box 3.3: Boosting housing affordability**

On 1 June 2017, the NSW Government announced its comprehensive housing affordability package aimed at supporting first homebuyers by providing stamp duty relief, boosting housing supply and delivering infrastructure to support growing communities across the State. NSW dwelling completions have been at record levels in recent years - representing the best way the Government can encourage downward pressure on house price growth. Addressing housing affordability continues to be one of the Government’s key priorities.

To give first homebuyers a better opportunity to own a home, the housing package abolished stamp duty for first homebuyers of new and existing homes up to \$650,000 in value, with stamp duty reductions for properties between \$650,000 and \$800,000. The package also offered \$10,000 grants for first homebuyer purchases of new homes up to \$600,000 in value.

*Chart 3.4: First homebuyer duty concessions have risen sharply*



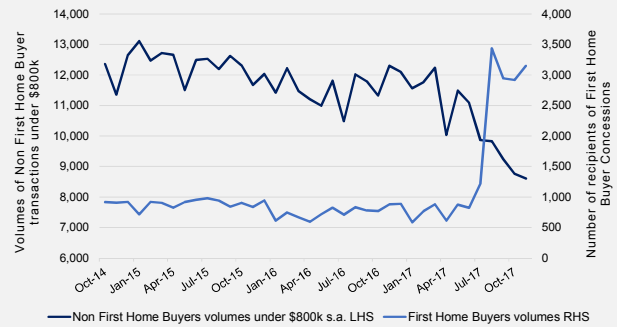
Source: Revenue NSW and Treasury

Many have taken advantage of the stamp duty relief offered. In the five months to November 2017, 13,672 first homebuyers received stamp duty concessions and exemptions worth \$197.0 million (see Chart 3.4).

This compares with 3,970 first homebuyers and \$39.2 million over the same period in 2016-17.

While the volume of transactions less than \$800,000 has not significantly changed, the share of first homebuyers in this price range has increased dramatically (see Chart 3.5).

*Chart 3.5: First homebuyers have displaced other buyers under \$800,000*



Source: Revenue NSW and Treasury

Improving housing outcomes remains a key priority for the NSW Government, with a Cross-Government Build-to-Rent Working Group established to investigate the opportunities presented in a build-to-rent housing sector.

Build-to-rent developments in overseas markets generally refer to purpose built residential rental properties held by a single owner, with dwellings rented out to the market using long-term rental agreements. Build-to-rent property owners in the United Kingdom and United States commonly include institutional investors who have a long-term investment horizon. With the number of renter households increasing in New South Wales, this sector represents a potential opportunity to improve housing diversity and choice.

Working closely with industry, the Build-to-Rent Working Group is investigating whether there are any regulatory and non-regulatory barriers that may prevent the sector from flourishing. The Working Group is scheduled to present recommendations to the Government in early 2018.

## Non-taxation revenue

Total non-taxation revenue is expected to be \$48.4 billion in 2017-18, \$106.1 million higher than at the 2017-18 Budget. Non-taxation revenue is forecast to be \$828.0 million higher over the forward estimates.

Of these changes, GST revenue is now forecast to be \$119.4 million higher in 2017-18 than expected at the Budget. The revision is due to the Commonwealth's 2016-17 determination of the final GST entitlement for New South Wales, incorporating a higher than expected GST pool, and a lower than expected NSW population share.

Over the three years to 2020-21, the forecast NSW share of the national GST pool has been revised up, delivering an additional \$268.4 million compared to the 2017-18 Budget. One of the major factors driving the revised GST forecast is NSW population growth, increasing the expenditure needed to provide infrastructure services. Nevertheless, the NSW share of the GST pool remains significantly below its population share, and the system for dividing the pool remains unfair, overly complex and inefficient (see Box 3.4).

*National Partnership payments* are projected to be \$288.0 million higher over the forward estimates period due primarily to revised revenue from the Commonwealth for disability services.

Commonwealth grants, including GST revenue and National Agreement payments will represent around 40 per cent of total revenue and 65 per cent of non-tax revenue in 2017-18. Other states and territories are similarly dependent on Commonwealth grants, so all Australian governments have a stake in improving the effectiveness of federal relations. This is one of the goals of the Board of State and Territory Treasurers, recently initiated by New South Wales (see Box 3.5).

Revenue received by schools from the community, including rent for use of school property outside of school hours, has recently been reclassified for reporting purposes. As a result *other grants and subsidies* will be \$386.2 million lower in 2017-18 and around \$1.5 billion lower over the three years to 2020-21, while *sales of goods and services* will increase by similar amounts over the forward estimates. Revised reporting has not changed total revenue or revenue available to schools.

*Sales of goods and services* have been revised up by \$36.0 million in 2017-18 due largely to a higher take-up of new Hepatitis C vaccinations, for which New South Wales receives Commonwealth funding under the Highly Specialised Drugs arrangements. This is partially offset by reprofiling of fees for services in other sectors to better align with planned activity.

*Interest income* is expected to be \$47.2 million lower in 2017-18 and \$153.7 million lower over the forward estimates period compared to the Budget. This is due primarily to comparatively lower cash and deposit balances, offset by higher returns on NSW Treasury Corporation (TCorp) managed funds reported as other dividends and distributions.

*Dividends and income tax equivalents* in 2017-18 have been revised up by \$82.7 million and revised up by \$54.4 million over the forward estimates period since the 2017-18 Budget (see Section 3.9 for more detailed explanations of the factors driving these changes).

*Other dividends and distributions* are received from entities other than State Owned Corporations. They have been revised up by \$126.1 million in 2017-18 since the Budget. This reflects higher than expected financial returns in funds managed by TCorp year-to-date.

### **Box 3.4: GST and the Productivity Commission Inquiry into Horizontal Fiscal Equalisation**

New South Wales welcomes the draft report findings of the Productivity Commission (PC) that the basis for distributing GST between the states is in need of repair and the pursuit of complete Horizontal Fiscal Equalisation (HFE) comes at a cost to economic efficiency and productivity.

The PC concludes that a better balance must be struck between equity, efficiency, transparency, simplicity and accountability. New South Wales' submissions to the PC Inquiry continue to point out that states should not be penalised for undertaking sound, fiscally responsible reform to drive economic growth, increased efficiency and productivity.

New South Wales continues to support an equal per capita (EPC) distribution of GST as well as broader reform to federal financial relations. An EPC model is efficient, equitable, simple, transparent and predictable and eliminates the perverse incentives and unintended consequences that characterise the current arrangements.

Successful and enduring reform to the distribution of GST between the states also requires rigorous, high quality governance arrangements that ensure all decision-making is subject to a high accountability standard. As part of this, the policy and implementation functions currently performed by the Commonwealth Grants Commission (CGC) should be separated.

The GST is a states' tax and provides a significant share of total state revenue. States should therefore be given a meaningful role in defining the objective of HFE.

New South Wales believes the PC must be more ambitious in its final report. Modest reforms to HFE risk inaction and failure to realise meaningful change. Far-reaching and specific recommendations from the PC are needed to help break the impasse that characterises the dialogue between the Commonwealth and States on HFE, and federal financial relations more broadly.

*Mineral royalties* revenue has been revised up by \$64.3 million in 2017-18 and \$359.6 million over the forward estimates, as a result of higher coal price forecasts, partially offset in 2017-18 by lower export volumes and a higher exchange rate. Current market expectations for prices are higher than at the Budget. The expectations are influenced by stockpiling by Chinese power plants due to import restrictions, new thermal coal plants in South Korea, and concerns that industrial action may restrict South Africa's coal production.

*Fines, fees and other charges* in 2017-18 have been revised upwards by \$116.6 million and by \$155.8 million in the three years to 2020-21 compared to the Budget.



**Box 3.5: Board of Treasurers – a new approach to Commonwealth-State relations**

On 27 October 2017, state and territory Treasurers supported a proposal of the NSW Government to establish a Board of Treasurers (the Board). The purpose of the Board is to work together on issues of common interest and advance national reform priorities from a state and territory perspective, including but not limited to an agenda setting role in relation to federal affairs.

The creation of the Board represents a move to a more collaborative form of federalism that will improve understanding and cooperation among state and territory Treasurers.

At the first meeting of the Board held on 21 November 2017, state and territory Treasurers agreed to pursue an ambitious reform agenda, particularly in enhancing productivity to encourage economic growth. The Treasurers also discussed health and education funding, which are key to driving productivity and each state and territory's ability to meet the needs of their communities while achieving budget sustainability.

Treasurers agreed to explore opportunities to harmonise the taxation of wagering activities across states and territories. The Board also discussed the need for more constructive dialogue with the Commonwealth to create sustainable reforms that address vertical fiscal imbalance.

The Board represents an exciting opportunity to build collaboration amongst states and territories and present a unified voice in Commonwealth-State relations.

### 3.3 Expenses outlook

General government sector expenses in 2017-18 are estimated to be \$76.5 billion, \$676.8 million lower than at the time of the 2017-18 Budget. This movement is primarily due to the reprofiling of expenses across the forward estimates to better align with planned activity.

However, expense growth in 2017-18 is expected to increase to 5.5 per cent compared to 5 per cent at the time of the 2017-18 Budget. The higher rate of expense growth reflects new policy measures and the lower than anticipated 2016-17 expenditure outcome, offset by expense reprofiling.

Over the forward estimates, expenditure is estimated to be \$2.1 billion higher than at the time of the 2017-18 Budget. This principally reflects the impact of new policy decisions, including recognising future Restart NSW reservations.

Four year average expense growth over the period 2017-18 to 2020-21 is 3.4 per cent, compared to 2.8 per cent at the time of the 2017-18 Budget, reflecting new policy measures and a lower than anticipated 2016-17 expenditure outcome.

Table 3.4 provides a reconciliation of changes to the budget expense aggregates between the 2017-18 Budget and the Half-Yearly Review.

Table 3.4: Expense reconciliation – 2017-18 Budget to Half-Yearly Review

	2017-18	2018-19	2019-20	2020-21
	Revised	Forward Estimates		
	\$m	\$m	\$m	\$m
<b>Expenses - 2017-18 Budget</b>	<b>77,186</b>	<b>78,098</b>	<b>80,939</b>	<b>82,270</b>
Policy measures	92	458	1,039	821
Reforms, savings and offsets	...	2	(1)	(26)
Total parameter and other budget variations	(768)	104	(277)	(29)
<b>Expenses - 2017-18 Half-Yearly Review</b>	<b>76,510</b>	<b>78,661</b>	<b>81,699</b>	<b>83,036</b>

New policy measures increase expenses by \$2.4 billion over the four years to 2020-21. Key expense measures since the 2017-18 Budget include:

- \$2.0 billion over four years reflecting the inclusion of Restart NSW reservations for projects primarily delivered by local government and government businesses.
- \$169.8 million for additional energy rebates over three years to 2019-20, as part of the Government's Energy Affordability Package, to assist eligible NSW households with the cost of their energy bills. This includes current year costs (\$59.3 million) that will be met from existing resources. Box 3.6 contains further detail on how the Government is supporting households with energy related living costs.
- \$114.2 million over four years to assist local councils with the repair and upgrade of regional NSW roads. This includes 67 projects as part of Round Three of the Fixing Country Roads program. These projects help connect regional communities and boost freight productivity, reduce costs for businesses and provide faster access from local and regional roads to state highways and key freight hubs.
- \$73.8 million over three years to 2019-20 from the Housing Acceleration Fund, for delivery of road projects by Blacktown, Dubbo and Liverpool councils. The Housing Acceleration Fund helps support the delivery of critical infrastructure to stimulate housing development across New South Wales, speeding up the delivery of new homes and supporting growing communities.
- \$34.8 million over three years to 2020-21 towards New South Wales hosting matches during the ICC Twenty20 tournament in 2020. This will showcase both the men's and women's tournaments. This includes expenses of \$4.8 million in 2017-18 that will be met from existing resources.
- \$21.6 million over four years for new water and wastewater treatment plants in Liverpool Plains, Hay, Scone, Junee and Bowraville, improving water security and public health. These projects are part of the Safe and Secure Water Program, ensuring water and sewerage infrastructure in regional New South Wales meets contemporary standards for water security, public health, environmental and safety outcomes into the future.
- A further commitment from the Social and Affordable Housing Fund, with Phase 2 seeking to deliver 1,200 additional houses. These homes will be provided through innovative partnerships between community housing providers, financiers, developers and other organisations. The new homes will deliver access to accommodation, property and tenancy management and tailored support coordination services.

**Box 3.6: Energy Bill Relief Package for households and small businesses**

The NSW Government is providing an additional \$169.8 million to assist low income and vulnerable customers in meeting the cost of their energy bills. All NSW energy rebates have been increased by approximately 20 per cent and are effective from 1 July 2017. Rebates include the:

- Low Income Household Rebate
- Family Energy Rebate
- NSW Gas Rebate
- Medical Energy Rebate
- Life Support Rebate.

This initiative is part of the Government's *Energy Affordability Package*, which also includes energy efficiency measures to assist households and small businesses, and the removal of unnecessary energy retailer fees and charges.

With energy costs proving an ongoing challenge for households and businesses around New South Wales, the Government's energy relief package provides vital assistance to those who need it most.

New policy measures being funded from existing resources with no impact on aggregate expenses include:

- \$48.3 million as part of the \$79.3 million Foundations for the Jobs of the Future package, to assist young people in developing the skills they need to secure current and future jobs across New South Wales. This initiative:
  - supports NSW Public Schools in providing young people with early and ongoing Science, Technology, Engineering and Mathematics (STEM) exposure to develop an interest and aptitude in STEM career choices
  - aims to further develop work-integrated tertiary pathways and higher apprenticeships and traineeships, providing young people with career support and Regional Industry-Education partnerships between industry and schools.

Parameter adjustments and other budget variations are expected to decrease expenses in 2017-18 by \$768 million relative to the 2017-18 Budget. Key variations that impact expenses include:

- lower forecast agency expenses in 2017-18, which are partially reprofiled across the forward estimates to better align expenditure profiles with planned activity
- reduced interest expenses of \$65.8 million due to lower interest rates and lower debt restructuring costs.

These are offset by additional expenses of \$120.0 million in 2017-18 to provide additional drug treatments for Hepatitis C, funded by the Commonwealth Government. From 2018-19 to 2020-21, parameter adjustments and other budget variations are forecast to decrease expenses by \$203 million relative to the 2017-18 Budget. Significant drivers impacting expenses over this period include the reprofiling of expenses from 2017-18 across the forward estimates. This is offset by reduced expenses due to lower price growth than forecast in 2019-20 and 2020-21, lower interest costs due to lower borrowings, and revised agency forecasts.

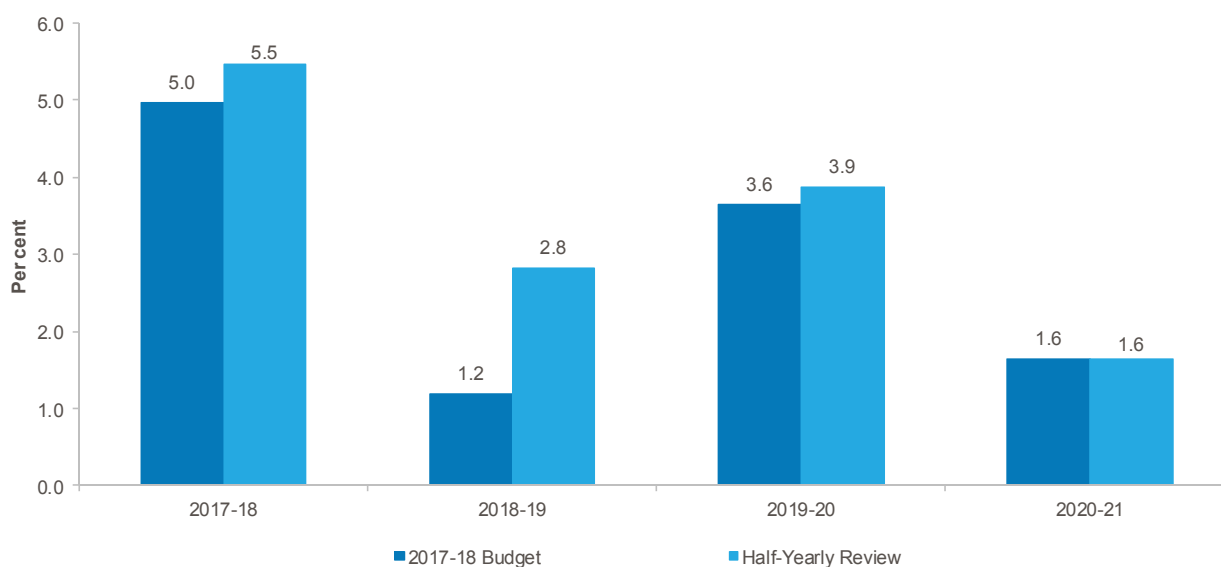
Table 3.5 provides a summary of general government expenses by major category.

Table 3.5: General government sector expenses

	2016-17 Actual	2017-18 Budget	2017-18 Revised	2018-19 Forward Estimates	2019-20 Forward Estimates	2020-21 Forward Estimates	% Average growth p.a. 2016-17 to 2020-21
	\$m	\$m	\$m	\$m	\$m	\$m	
Total employee-related expenses	34,911	35,957	35,663	37,990	39,501	40,339	3.7%
Employee expenses	30,585	31,483	31,165	33,728	35,226	36,072	4.2%
Superannuation	4,326	4,474	4,498	4,263	4,275	4,266	-0.3%
Other operating	18,312	19,627	19,469	19,103	19,015	18,882	0.8%
Depreciation and amortisation	4,614	4,937	4,946	5,185	5,569	5,784	5.8%
Recurrent grants and subsidies	11,729	13,359	13,486	13,171	14,075	14,734	5.9%
Capital grants	837	1,212	917	1,070	1,069	742	-3.0%
Interest	2,149	2,094	2,028	2,141	2,471	2,556	4.4%
<b>Total expenses</b>	<b>72,551</b>	<b>77,186</b>	<b>76,510</b>	<b>78,661</b>	<b>81,699</b>	<b>83,036</b>	<b>3.4%</b>
Annual change	4.2%	5.0%	5.5%	2.8%	3.9%	1.6%	

Chart 3.6 shows the change in annual expense growth rates from the 2017-18 Budget to the Half-Yearly Review.

Chart 3.6: Comparison of expected expense annual growth rate



Emerging expense pressures across the forward estimates present a significant challenge for the budget in the coming years. Key pressures include Gonski 2.0, rising service demands and the flow-on effects of the record State infrastructure investment program, including higher maintenance and depreciation costs.

These challenges will require the Government’s continued commitment to fiscal discipline to effectively manage expense growth. This has been demonstrated through ongoing efficiency savings measures, which has included the new expenditure that has been met from within existing resources where possible. The Government’s wages policy established in March 2011 has also continued to reduce costs.

### 3.4 Expense measures statement

The Government continues to invest in services and projects for communities across regions and cities of New South Wales.

Table 3.6 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 3.6: *New policy measures since the 2017-18 Budget – recurrent expenses* <sup>(a)(b)</sup>

	2017-18 Revised	2018-19	2019-20	2020-21	Four year total	Comment on major decisions included in totals
	\$m	\$m	\$m	\$m	\$m	
<b>Family and Community Services</b>	47.9	5.3	11.9	24.1	<b>89.2</b>	<ul style="list-style-type: none"> <li>Delivering the second phase of the Social and Affordable Housing Fund.</li> <li>Supporting NSW Disability Transition Fund initiatives for the Hunter residences redevelopment program and the cost of transferring disability services to non-government providers.</li> </ul>
<b>Finance, Services and Innovation</b>	1.5	8.6	0.5	0.5	<b>11.1</b>	<ul style="list-style-type: none"> <li>Supporting the delivery of the Commonwealth Government's Mobile Black Spot program.</li> <li>Delivering the Regional Digital Connectivity project to upgrade around 52 economically significant towns from satellite to faster fixed wireless internet to enable regional growth and to meet future connectivity demand.</li> </ul>
<b>Health</b>	3.1	2.7	-	-	<b>5.8</b>	<ul style="list-style-type: none"> <li>Supporting the NSW Disability Transition Fund initiative for an integrated service response for people with intensive support needs.</li> </ul>
<b>Industry</b>	(7.4)	15.4	8.5	8.3	<b>24.8</b>	<ul style="list-style-type: none"> <li>Successfully bidding to host the ICC Twenty20 Cricket World Cup.</li> <li>Reclassification of Stronger Country Communities Fund expenses in 2017-18 to capital projects.</li> </ul>
<b>Planning and Environment</b> <sup>(c)</sup>	-	55.5	55.5	0.2	<b>111.1</b>	<ul style="list-style-type: none"> <li>Increasing energy rebates for low-income customers as part of the Government's recently announced Energy Relief Package.</li> </ul>
<b>Premier and Cabinet</b>	9.7	3.4	2.7	2.3	<b>18.1</b>	<ul style="list-style-type: none"> <li>Providing support to deliver regional infrastructure projects through the Regional Growth: Economic Activation Fund.</li> <li>Supporting the completion of studies and analysis required for the South Creek Corridor Strategy to support population growth in the area through the development of liveable and sustainable communities.</li> </ul>
<b>Transport and Infrastructure</b>	1.9	-	-	-	<b>1.9</b>	<ul style="list-style-type: none"> <li>Delivering Fixing Country Rail projects.</li> <li>Supporting the delivery of final business cases for Cycling Infrastructure Fund projects.</li> </ul>
<b>Treasury</b>	34.8	367.0	959.7	785.5	<b>2,147.1</b>	<ul style="list-style-type: none"> <li>Restart NSW grants across New South Wales and Restart NSW reservations for planned future projects.</li> </ul>

(a) A positive figure increases expenses and a negative figure decreases expenses.

(b) The figures presented are the net figure for new policy decisions that increase or decrease expenses.

(c) Current year costs for energy rebates are being met from within existing resources.

### 3.5 Capital expenditure outlook

#### General government capital expenditure

Over the budget and forward estimates, capital expenditure in the general government sector (GGS) is expected to be \$56.6 billion as the Government delivers record levels of investment in infrastructure. This is \$7.0 billion higher than projected in the 2017-18 Budget, largely due to new spending initiatives in the transport sector and the estimated impact of spending reserved funds in Restart NSW (refer to Box 3.9 for more details).

Table 3.7 provides a reconciliation of capital expenditure between the 2017-18 Budget and Half-Yearly Review.

Table 3.7: Capital reconciliation – 2017-18 Budget to Half-Yearly Review

	2017-18 Revised	2018-19	2019-20 Forward Estimates	2020-21
	\$m	\$m	\$m	\$m
<b>Capital - 2017-18 Budget</b>	<b>14,515</b>	<b>16,490</b>	<b>10,707</b>	<b>7,938</b>
<i>Capital changes since Budget</i>				
Policy				
- New capital works <sup>(a)</sup>	610	1,810	2,103	2,300
Parameter and other budget variations	(800)	351	91	494
<b>Total variations since 2017-18 Budget</b>	<b>(190)</b>	<b>2,161</b>	<b>2,194</b>	<b>2,794</b>
<b>Capital - 2017-18 Half-Yearly Review</b>	<b>14,325</b>	<b>18,651</b>	<b>12,902</b>	<b>10,732</b>

(a) Includes estimated impact of spending reserved funds in Restart NSW (refer to Box 3.9 for more details).

#### Box 3.7: Continuing record levels of infrastructure investment

The Half-Yearly Review allocates a record \$80.1 billion over the four years to 2020-21 across both the GGS and public non-financial corporation (PNFC) sectors<sup>8</sup>. This is \$7.4 billion higher than estimated in the 2017-18 Budget.

In addition to the record capital spending by agencies, the State is also making substantial financial contributions to major projects, which are not classified as capital expenditure. This includes financial contributions to WestConnex Stage 3, Sydney Metro Northwest, and the CBD and South East Light Rail.

Previously announced infrastructure investment being delivered includes the following major transport projects and programs:

- Sydney Metro City and Southwest
- Sydney Metro Northwest
- WestConnex
- CBD and South East Light Rail
- New Intercity Fleet
- Regional Growth Roads
- Fixing Country Roads
- Bridges for the Bush.

<sup>8</sup> Includes estimated impact of spending reserved funds in Restart NSW (refer to Box 3.9 for more details).

New Government initiatives for infrastructure projects that are expected to commence in 2017-18 have contributed to the growth in capital expenditure. New capital expenditure supported by the Government since the 2017-18 Budget includes:

- \$882.5 million from Restart NSW, including as part of the Rebuilding NSW plan for Stage 1 of Parramatta Light Rail<sup>9</sup> (see Box 3.8)
- around \$550 million released for construction of the Princes Highway Albion Park Rail bypass<sup>10</sup>
- over \$75 million towards the NSW contribution for a new Murray River Bridge between Moama and Echuca
- \$73.7 million for the Sydney Coordinated Adaptive Traffic System (SCATS) Congestion Improvement Program
- \$46.8 million for the Northern Road as part of the Western Sydney Infrastructure Plan
- \$38.0 million towards Campbelltown Road upgrade Stage 1 delivery.

Since the 2017-18 Budget, the Government has announced further commitments for investment in health and education from Restart NSW including:

- \$255.0 million for the Future Focused Schools program to service growing student populations<sup>11</sup>
- \$69.5 million for the Regional Schools Renewal Program to create technology rich learning places in schools<sup>11</sup>
- \$13.7 million for the Regional Health Infrastructure Program to fast-track health infrastructure in regional areas<sup>11</sup>.

This is in addition to the record infrastructure investment supported by the State in the 2017-18 Budget, which included record state investment in health (\$7.7 billion over four years<sup>12</sup>) and education (\$4.2 billion over four years).

<sup>9</sup> Total funding amount from sources other than Restart NSW is commercial-in-confidence. The finalisation of project cost estimates for Stage 1 is underway.

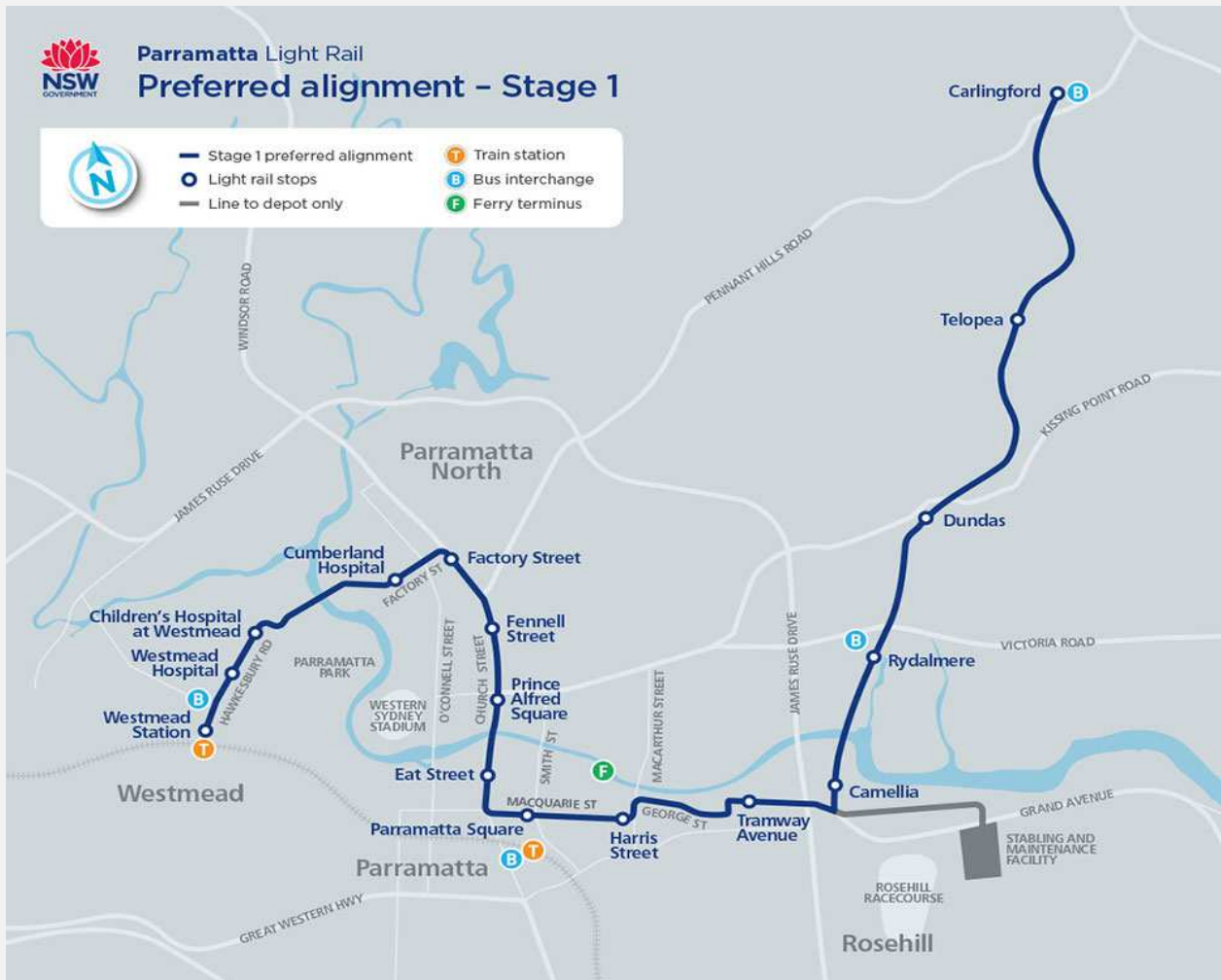
<sup>10</sup> Total funding amount is commercial-in-confidence.

<sup>11</sup> Includes Restart NSW funds to repay or replace funding from the Consolidated Fund.

<sup>12</sup> Includes capital expenses falling below the capitalisation threshold.

**Box 3.8: Parramatta Light Rail Stage 1**

**Project:** The Parramatta Light Rail Stage 1 is one of the NSW Government’s latest major infrastructure projects being delivered to serve a growing Sydney, connecting Westmead to Carlingford via Parramatta CBD and Camellia.



The NSW Government has committed \$1.0 billion to the project from Restart NSW, including as part of the Rebuilding NSW plan with additional funding also committed. The finalisation of project cost estimates for Stage 1 is underway.

The project will provide high frequency ‘turn-up-and-go’ services seven days a week from 5am to 1am. Services will operate approximately every 7.5 minutes in the peak period between 7am and 7pm, and interchange with existing rail, bus and/or ferry facilities at Westmead, Parramatta CBD, and Carlingford.

The project will also deliver active transport corridors and additional urban design features along sections of the alignment and within stop precincts, and create two light rail and pedestrian zones (no general vehicle access) within the Parramatta CBD along Church Street and Macquarie Street.

Construction of the project is expected to commence in mid-2018 (subject to planning approval) with services commencing in 2023.



### 3.6 Restart NSW Fund (including Rebuilding NSW)

In 2011, the Government established the Restart NSW Fund (Restart NSW) to enable a range of high priority infrastructure projects to be funded and delivered. Restart NSW is also the vehicle for the delivery of the \$20 billion Rebuilding NSW plan.

Since the 2017-18 Budget, the Government has committed \$2.8 billion from Restart NSW to deliver critical infrastructure projects in both urban and regional New South Wales (see Table 3.9). Rebuilding NSW projects are detailed in Table 3.11.

#### Restart NSW

Total receipts of \$29.9 billion have been deposited into Restart NSW as at the Half-Yearly Review.

The table below summarises aggregate commitments and reservations for current and future projects funded from Restart NSW.

Table 3.8: Restart NSW Fund (expected position at 2017-18 Half-Yearly Review)

	Restart NSW (excluding Rebuilding NSW)	Rebuilding NSW	Total
<b>Total inflows<sup>(a)</sup></b>			<b>\$29.9 billion</b>
Commitments	\$6.2 billion	\$14.1 billion	\$20.3 billion
Reservations	\$3.4 billion	\$5.9 billion	\$9.3 billion

(a) Reflects inflows received as at the Half-Yearly Review but not future inflows, such as further Commonwealth Government Asset Recycling Initiative payments or future asset recycling proceeds. Total inflows exclude unrealised gains in the NSW Infrastructure Future Fund. Total inflows include funds that have been deposited into Restart NSW but have not yet been committed or reserved for infrastructure projects.

The Half-Yearly Review incorporates a number of new Restart NSW funding commitments, including commitments to fund Rebuilding NSW projects. These projects have been subject to a rigorous selection process, supported by sound business cases demonstrating that they are financially and economically justifiable. Table 3.9 summarises these commitments.

Table 3.9: Additional Restart NSW commitments from 2017-18 Budget to the Half-Yearly Review

	Commitments \$m
Parramatta Light Rail Stage 1	282.5
Housing Acceleration Fund 4	101.7
Housing Acceleration Fund 3	49.4
Western Sydney Infrastructure Plan	46.8
Connecting Country Communities <sup>(a)(b)</sup>	38.7
Regional Health Infrastructure Program <sup>(a)</sup>	13.7
Administration costs for the Regional Growth: Economic Activation Fund	10.0
Cycling Infrastructure Fund	5.2
Resources for Regions	4.8
Additional Support for Tourism Infrastructure Program	3.3
Water Security for Regions <sup>(c)</sup>	(22.6)
<b>Restart NSW commitments (excluding Rebuilding NSW)</b>	<b>533.4</b>
Parramatta Light Rail Stage 1 <sup>(a)</sup>	600.0
Regional Growth Roads	568.5
Future Focused Schools <sup>(a)</sup>	255.0
Culture and Arts <sup>(a)</sup>	151.6
Regional Road Freight Corridor	135.8
Fixing Country Roads	114.2
Primary and Integrated Care Strategy <sup>(a)</sup>	100.0
Regional Multipurpose Services (MPS) health facilities <sup>(a)</sup>	76.7
Traffic Management Upgrades	73.7
Regional Schools Renewal Program <sup>(a)</sup>	69.5
Bridges for the Bush	44.5
Western Harbour Tunnel and F6	37.0
Safe and Secure Water Program	21.6
Regional Growth: Environment and Tourism Fund	7.2
Corridor Identification and Reservation Fund	7.0
Smart Motorways	1.8
Fixing Country Rail	1.1
<b>Rebuilding NSW commitments</b>	<b>2,265.2</b>
<b>Total commitments since the Budget</b>	<b>2,798.6</b>

(a) Includes Restart NSW funds to repay or replace advances from the Consolidated Fund (primarily used to accelerate the delivery of Rebuilding NSW projects).

(b) The Connecting Country Communities program is part of the Regional Growth: Economic Activation Fund, funded from within Restart NSW.

(c) The funding commitment for the Broken Hill Emergency Water Supply project was reduced by amounts no longer needed by the funding recipient to complete the project. These funds have been returned to the uncommitted and unreserved balance in Restart NSW.

The Government also reserves 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 3.10 below summarises the new project-level reservations made since the 2017-18 Budget.

Table 3.10: Additional project-level reservations from 2017-18 Budget to the Half-Yearly Review

	Reservations \$m
Tamworth Intermodal Rail Line Activation <sup>(a)</sup>	7.4
Northern Rivers Livestock Exchange <sup>(a)</sup>	7.0
<b>Total additional reservations since the Budget</b>	<b>14.4</b>

(a) The project-level reservations have been made from within the Growing Local Economies program, which is part of the \$1.0 billion reservation for the Regional Growth: Economic Activation Fund.

From this Half-Yearly Review forward, the estimated impact of spending funds reserved in Restart NSW will be included in the budget aggregates. Box 3.9 below sets out the reasons for the change and the estimated budget impact.

### Box 3.9: Reflecting Restart NSW reservations in the budget

As at the Half-Yearly Review, \$9.3 billion has been reserved in Restart NSW to fund further projects and programs.

Projects and programs covered by reservations are subject to further development by proponents, and review by Infrastructure NSW, before a final government decision on whether to proceed. Reservations are listed in full in the budget papers with new reservations reported in the Half-Yearly Review (see Table 3.10).

From this Half-Yearly Review forward, the budget estimates will include the estimated direct budget impact of spending funds reserved in Restart NSW. This better aligns the budget aggregates with the anticipated future fiscal position of the State. This change reflects the Government's commitment to invest the entire amount reserved for projects and programs in Restart NSW.

The change is timely, given the recent completion of major asset recycling transactions (including the finalisation of the Ausgrid, Endeavour Energy, and Land and Property Information transactions). The completion of these transactions has allowed the Government to fund the whole of the \$20 billion Rebuilding NSW plan.

Reflecting Restart NSW reservations in the budget increases expenses by \$2.0 billion over the four years to 2020-21, primarily as a result of expenditure on projects that will be delivered by local government and government businesses. This change also increases the general government four year capital program by \$3.9 billion. The impact on the net lending result is \$5.8 billion over the four years to 2020-21.

Estimates of the timing and type of expenditure for Restart NSW reservations are expected to change as project plans are developed, assurance processes are completed, and as reservations for new projects are made.

Consistent with current practice, individual projects will not be included in agency budgets until a payment has been formally approved by the Government in accordance with the *Restart NSW Fund Act 2011* and following completion of assurance processes and advice from Infrastructure NSW.

The Government continues to support regional communities, with \$1.1 billion in additional Restart NSW funds committed to infrastructure projects in regional New South Wales since the 2017-18 Budget. New Restart NSW commitments to regional projects are detailed in Box 3.10.

### **Box 3.10: Restart NSW – regional investment**

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

Since the 2017-18 Budget, significant commitments from Restart NSW to regional projects and programs include:

- \$864.1 million for regional transport projects, including:
  - around \$550 million for construction of the Princes Highway, Albion Park Rail bypass<sup>13</sup>
  - over \$75 million towards the New South Wales contribution for a new Murray River Bridge between Moama and Echuca
  - \$92.1 million for 67 projects as part of Round Three of the Fixing Country Roads program
- \$69.5 million for the Connecting Country Schools project (Regional Schools Renewal Program)<sup>14</sup>
- \$38.7 million for the Connecting Country Communities program (Regional Growth: Economic Activation Fund), comprising:
  - \$27.2 million for the Mobile Black Spot program
  - \$11.5 million for the Regional Digital Connectivity project
- \$21.6 million for the Safe and Secure Water Program, including:
  - \$10.0 million for the Liverpool Plains District Water Quality project
  - \$5.3 million for the Hay Wastewater Treatment project.

## **Rebuilding NSW plan**

The successful completion of the electricity network transactions at the 2017-18 Budget will enable the Government to deliver in full the \$20 billion Rebuilding NSW plan through Restart NSW. The Rebuilding NSW plan has allowed critical infrastructure projects and programs to be fast-tracked. This includes bringing forward project start dates, accelerating project timeframes and funding projects that would not otherwise have been funded.

<sup>13</sup> Exact funding commitment is commercial-in-confidence.

<sup>14</sup> Includes Restart NSW funds to repay or replace advances from the Consolidated Fund (primarily used to accelerate the delivery of Rebuilding NSW projects).

Table 3.11: Rebuilding NSW plan

Priority areas	Project/Program	Rebuilding NSW plan contribution \$m <sup>(a)</sup>	Restart NSW commitments \$m <sup>(b)</sup>	Restart NSW reservations \$m <sup>(b)</sup>
<b>Urban public transport</b>	Sydney Metro City and South west	7,000.0	7,000.0	...
	More Trains, More Services	1,000.0	1,000.0	...
	Parramatta Light Rail	600.0	600.0	...
	Bus Priority Infrastructure (including B-Line)	300.0	290.4	9.6
<b>Urban roads</b>	Western Harbour Tunnel and F6	1,100.0	72.3	1,027.7
	Pinch Points and Clearw ays	400.0	396.0	4.0
	Smart Motorw ays	400.0	385.0	15.0
	Gatew ay to the South Pinch Points	300.0	295.0	5.0
	Traffic Management Upgrades	200.0	95.1	104.9
<b>Regional transport</b>	Regional Road Freight Corridor	2,000.0	784.2	1,215.8
	Regional Grow th Roads	1,000.0	977.3	22.7
	Fixing Country Roads	500.0	168.4	331.6
	Fixing Country Rail	400.0	12.1	387.9
	Bridges for the Bush	200.0	83.1	116.9
<b>Water security</b>	Safe and Secure Water Program <sup>(c)</sup>	1,000.0	430.0	570.0
<b>Education</b>	Future Focused Schools	700.0	255.0	445.0
	Regional Schools Renew al Program	300.0	69.5	230.5
<b>Health</b>	Hospitals Grow th program	600.0	...	600.0
	Regional Multipurpose Services (MPS) health facilities	300.0	300.0	...
	Primary and Integrated Care Strategy	100.0	100.0	...
<b>Culture and sport</b>	Culture and Arts	600.0	341.7	258.3
	Sports Stadia	600.0	370.5	229.5
	Regional Grow th: Environment and Tourism Fund	300.0	31.6	268.4
	Corridor Identification and Reservation	100.0	67.5	32.5
<b>Total</b>		<b>20,000.0</b>	<b>14,124.8</b>	<b>5,875.2</b>

(a) In some cases the amount included is less than the expected total cost of the project and funding from other sources will be required.

(b) Restart NSW commitments and reservations include funds to repay or replace advances from the Consolidated Fund.

(c) The Safe and Secure Water Program includes \$408.4 million for the Broken Hill Water Supply project, with an additional \$72.7 million in Restart NSW funds committed to the project from outside the Rebuilding NSW plan. In total, \$481.1 million has been committed from Restart NSW to the Broken Hill Water Supply project.

Infrastructure projects funded from Restart NSW, including Rebuilding NSW projects, are a core component of the State's \$80.1 billion capital program over the four years to 2020-21. Over this period, capital expenditure across both the general government and public non-financial corporation sector is forecast to be \$7.4 billion higher than estimated in the 2017-18 Budget. This increase reflects significant new spending on Rebuilding NSW projects and the estimated impact of spending funds reserved in Restart NSW.

### 3.7 Managing the State’s assets and liabilities

The State’s balance sheet remains strong, with the Government’s successful asset recycling strategy enabling the implementation of its record \$80.1 billion infrastructure program, which has increased by \$7.4 billion. This increase is driven by both new infrastructure investment (e.g. Parramatta Light Rail Stage 1) and the recognition of future Restart NSW reservation spending.

General government net debt is estimated to be negative \$2.9 billion at June 2018, the lowest amongst all states and territories. This represents a reduction of \$2.4 billion compared to the estimate at the 2017-18 Budget and is largely a result of the higher than expected budget surpluses in 2016-17 and 2017-18.

Since the 2017-18 Budget, net worth is expected to increase by a further \$9.7 billion to \$247.6 billion by June 2018, driven by increased non-financial assets and a higher than expected 2016-17 budget result raising financial assets.

#### Net debt

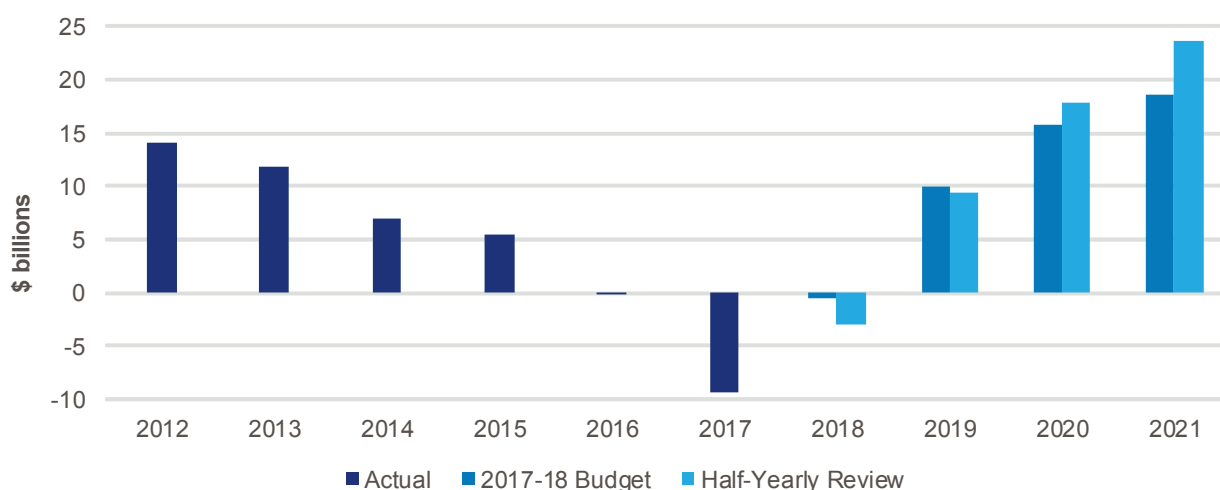
Since the 2017-18 Budget, the projections for general government net debt at June 2018 have improved from negative \$0.5 billion to negative \$2.9 billion, this is the lowest of all states and territories. This improvement is a result of higher than expected budget surpluses, offset in part by new capital expenditure and the recognition of expenditure to fund current Restart NSW reservations.

Net debt at June 2017 was lower than expected in the 2017-18 Budget at negative \$9.3 billion. This is largely the result of an improved operating result in 2016-17 as outlined in the 2016-17 NSW Report on State Finances.

Over the forward estimates, net debt will increase as the Government recycles the proceeds from the State’s successful asset recycling strategy, investing in the Restart NSW programs including Rebuilding NSW.

Chart 3.7 presents the movements in net debt between 2012 to 2021, including a comparison of estimated net debt at the time of the 2017-18 Budget and the Half-Yearly Review.

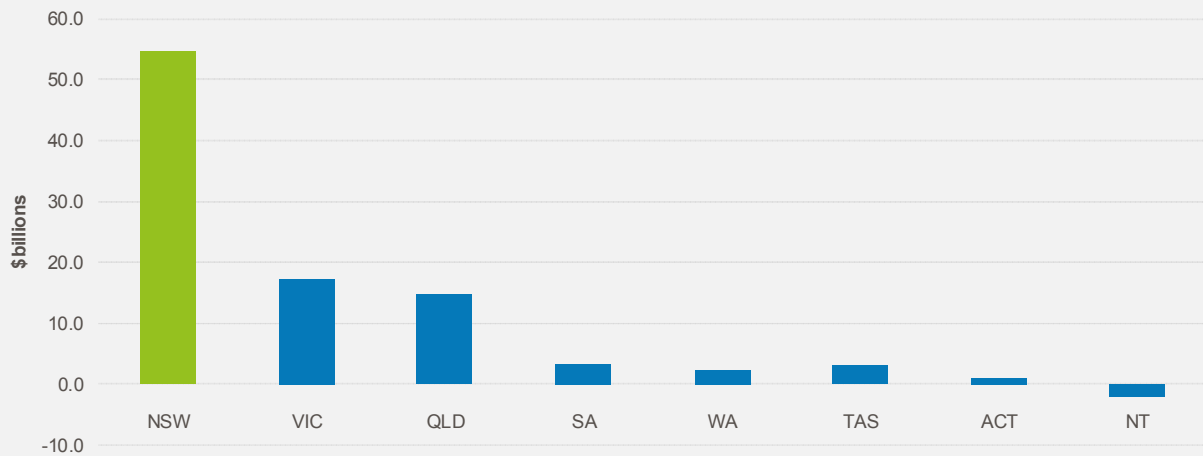
Chart 3.7: Movements in net debt since 2012



**Box 3.11: NSW is improving its net worth more than all other states and territories combined**

The NSW Government continues to grow the Government’s net worth to record levels, projected to be \$247.6 billion at June 2018. Not only will New South Wales be the first state to have net worth exceeding a quarter of a trillion dollars (by June 2019), it is also increasing its net worth from June 2017 to June 2021 by more than all the other states and territories combined, see Chart 3.8.

Chart 3.8: Forecast increase in net worth from June 2017 to June 2021

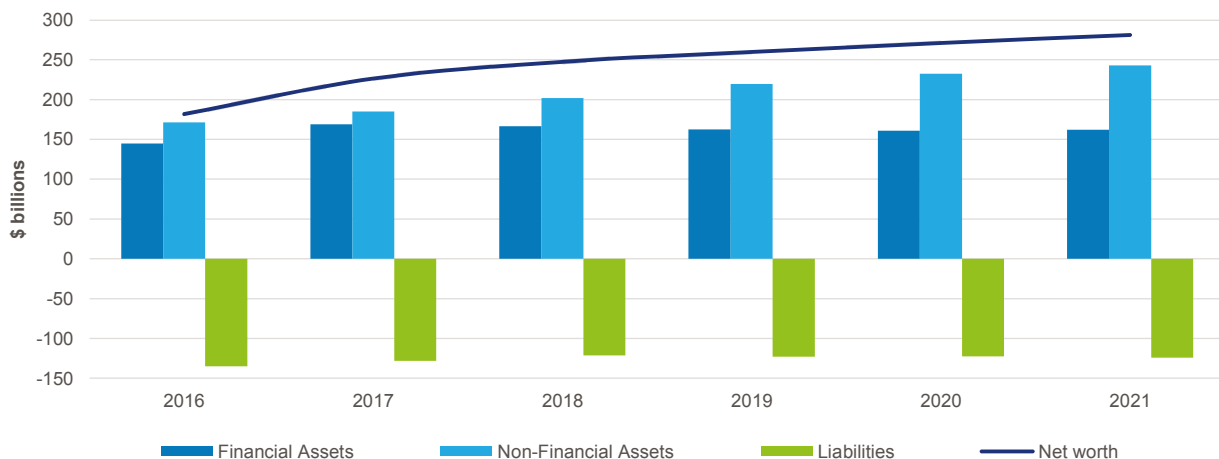


**Net worth**

Net worth is estimated to reach a record \$247.6 billion by June 2018 and is forecast to increase to \$281.2 billion by June 2021. The increase in the State’s net worth over the forward estimates is consistent with the State’s prudent balance sheet management. From June 2017 to June 2021 NSW net worth is growing faster than any other mainland state by 24.2 per cent or \$54.7 billion (see Box 3.11).

This growth is being driven by the Government’s infrastructure program, with significant increases in non-financial assets over the four years to June 2021. A decrease in superannuation liabilities is also contributing to the growth in net worth over the four years to June 2021. This is being offset to some extent by a modest increase in borrowings over the same period.

Chart 3.9: Changes in NSW assets and liabilities since June 2016



## Financial assets

General government financial assets are expected to be \$166.6 billion at June 2018, decreasing to \$162.1 billion by June 2021 (see Chart 3.9). Financial assets include cash, receivables, financial investments and equity investments. These are principally invested by the State to match against future liabilities, manage liquidity needs and enhance returns within acceptable risk parameters (e.g. NSW Infrastructure Future Fund (NIFF) and the Social and Affordable Housing Fund).

As part of their assessment of the State's overall creditworthiness, credit rating agencies also consider the State's access to and holdings of liquid assets. The State's liquidity position is particularly robust, due to the successful sale or lease of significant state assets.

## Non-financial assets

Total general government non-financial assets are projected to be \$202.2 billion at June 2018, an increase of \$6.0 billion relative to the 2017-18 Budget, with non-financial assets increasing to \$242.8 billion by June 2021 (see Chart 3.9). This increase is largely driven by new infrastructure projects, reflecting the Government's record capital program, and the impact of net asset revaluations.

### Box 3.12: Investing to deliver a greater return to New South Wales

The Government continues to improve the way it manages its financial assets.

The Government has committed to Phase 2 of the Social and Affordable Housing Fund (SAHF), which aims to deliver 1,200 additional houses. The SAHF is being managed by TCorp to help increase the volume of housing that can ultimately be provided through enhancing investment returns.

The NIFF is also performing successfully. TCorp is managing the NIFF to achieve long-term investment returns that are significantly higher than fixed term deposits or cash. The investment approach generates additional funds to be directed towards infrastructure investment.

## Liabilities

Total general government liabilities are projected to be \$121.2 billion at June 2018 increasing to \$123.8 billion by June 2021 (see Chart 3.9). Since the Budget, the forecast for total liabilities at June 2021 has decreased by \$2.6 billion primarily due to a reduction in forecast borrowings of approximately \$2.0 billion following better than expected 2016-17 outcomes.

These liabilities include borrowings, superannuation liabilities, other employee liabilities and payables. New South Wales is committed to eliminating the State's unfunded superannuation liability by 2030, as outlined in the *Fiscal Responsibility Act 2012*.

## Contingent assets and liabilities

Contingent assets and contingent liabilities are possible future assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the State.

Contingent assets and liabilities can be classified into quantifiable (where its financial effect can be estimated) or non-quantifiable.



The State issues a variety of warranties and guarantees, with the two most notable being:

- the securities, borrowings and derivatives issued by TCorp which move broadly in line with the State's funding requirements
- the defined benefit superannuation guarantee the State makes for certain ex-public sector employees following divestment of state businesses.

### 3.8 Fiscal risks

The 2017-18 Budget and Half-Yearly Review are prepared, in part, on forecasts and assumptions, some of which are subject to 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. 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.

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.

#### 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, for example Commonwealth payments, performance of financial markets, and interest rates. The Commonwealth provides updated forecasts of its payments to the states as part of its Mid-Year Economic and Fiscal Outlook and Budget. New South Wales will update its fiscal position and outlook following the release of Commonwealth data.

The performance of global financial markets and changes in interest rates can impact investment returns and borrowing costs. Investment returns below those estimated will have a negative impact on revenues. Higher interest rates will result in higher borrowing costs for new borrowings while lower interest rates reduce new borrowing costs.

Some expense risks have offsetting revenue and can impact expenses and expense growth without affecting the budget result, for example Commonwealth grants.

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

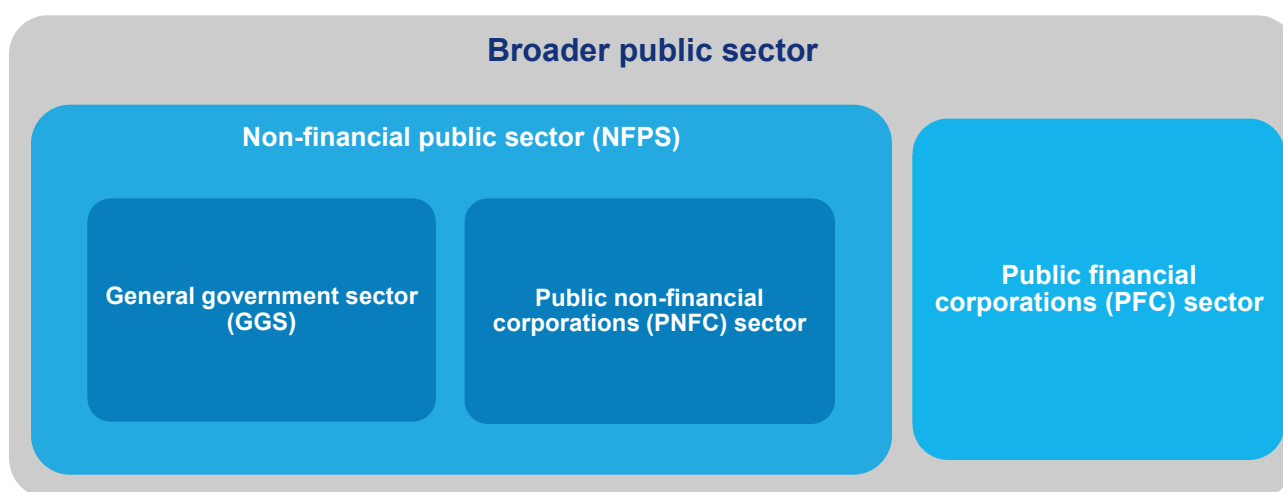
Capital risks can also arise from changes to existing plans, and procurement risks. As the State plans its future capital requirements across the medium and long-term, significant additional capital requirements may be identified.

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.

### 3.9 Commercial performance in the broader public sector

The broader public sector is made up of entities within the public financial corporations (PFC) sector and non-financial public sector (NFPS).

The NFPS is comprised of the general government sector (GGS) and the public non-financial corporations (PNFC) sector.



## Review of the Commercial Policy Framework

The Commercial Policy Framework (CPF) is a suite of policies that set expectations for government businesses in the PNFC and PFC sectors. The CPF aims to replicate in government businesses the disciplines and incentives that lead private sector businesses toward efficient commercial practices. The Government continuously reviews and updates the CPF to ensure it reflects commercial best practice and to incorporate changes in government priorities and the regulatory environment.

In 2017-18, changes to the CPF will include a stronger assurance and monitoring policy for major capital investments, revised annual reporting and performance monitoring requirements, updated board governance guidelines, and revised guidelines for CEO appointments that reflect current industry best practice.

## Reform of government businesses since the 2017-18 Budget

In August 2017, the Government announced its intent to sell 51 per cent of Sydney Motorway Corporation (SMC), the authority delivering WestConnex, to help fund the M4-M5 Link. On 22 September 2017, the Government launched the sale, calling for parties to register interest. The Government is targeting a transaction closing date of mid-2018.

WaterNSW has appointed John Holland MPC Group Joint Venture to design and construct the Broken Hill pipeline. Detailed planning and design works have commenced, with construction to start in January 2018. The pipeline will ensure a secure water supply for Broken Hill. It will also benefit both the Wentworth and Broken Hill communities by creating more than 150 local construction jobs and further jobs with steel manufacturers and other suppliers.

Essential Energy continues to focus on reducing network charges for customers in 2017-18. Essential Energy also completed the first phase of its mobile device rollout to employees, which involved implementing the 'eWorks' works management program in depots to facilitate real time network maintenance from the field. This program is expected to improve productivity, increase efficiency and create a more empowered workforce, while supporting a drive towards reduced network charges for customers.

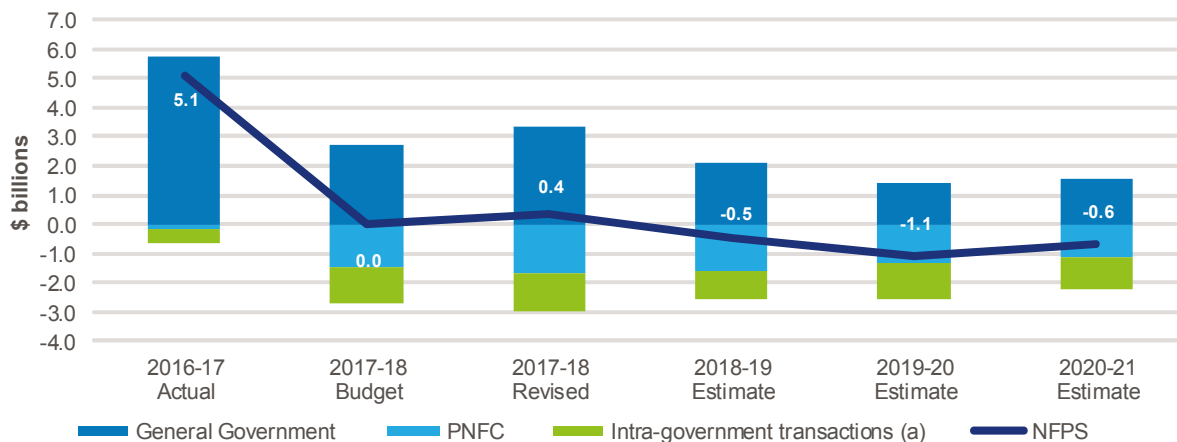
Landcom has completed its organisational separation. In November 2017, Landcom released its new strategy, which reflects the Government's intent for Landcom to take a lead role in improving supply, diversity and affordability of new housing in Sydney and New South Wales.

### Non-financial public sector operating performance

The operating performance of the NFPS has improved relative to the 2017-18 Budget. The net operating balance has been revised up by \$0.3 billion in 2017-18, mainly due to lower general government expenses. Over the forward estimates, the net operating balance has been revised down by \$0.4 billion, mainly due to higher PNFC expenditure.

Further details on the performance of the GGS are set out in Section 3.2 and Section 3.3. Chart 3.10 below shows the key components of the NFPS net operating balance.

Chart 3.10: 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 GGS from PNFCs and PFCs are based on the operating performance of those businesses. To ensure competitive neutrality with private sector businesses, PNFCs and PFCs also make tax equivalent payments and pay debt neutrality charges (government guarantee fees).

In 2017-18, the dividend and tax equivalent payments are forecast at \$1.7 billion, which is \$82.7 million higher than forecast at the 2017-18 Budget. The change since the Budget primarily reflects increased payments from the water sector due to higher than expected revenue as a result of warm weather increasing demand for water as well as increased developer contributed assets, combined with lower than expected operating expenses.

Government guarantee fees are forecast to be \$303.5 million in 2017-18, which is \$15.3 million lower than forecast at the Budget.

Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be \$6.1 billion, \$137.1 million higher than forecast at the 2017-18 Budget. Table 3.12 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors over the period 2016-17 to 2020-21.

*Table 3.12: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations*

	2016-17	2017-18	2017-18	2018-19	2019-20	2020-21
	Actual	Budget	Revised	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
Electricity	260	47	25	52	66	131
Water	569	966	1,069	938	1,096	824
Property and Resources	137	328	324	274	299	271
Ports	13	202	202	30	44	50
Public Financial Corporations	123	77	82	84	89	90
Other	...	...	...	...	...	102
<b>Total Dividends and Tax Equivalent Payments</b>	<b>1,102</b>	<b>1,620</b>	<b>1,703</b>	<b>1,378</b>	<b>1,595</b>	<b>1,468</b>

## Capital expenditure

In 2017-18, capital expenditure within the PNFC sector is forecast to be \$7.3 billion, \$0.4 billion lower than the 2017-18 Budget, primarily due to lower capital spending by Rail Corporation New South Wales.

Capital expenditure within the PNFC sector over the budget and forward estimates is forecast to be \$23.5 billion, \$0.5 billion higher than the 2017-18 Budget, mainly due to higher capital spending by Sydney Motorway Corporation.

## Public Financial Corporations

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

TCorp's total funds under management have increased from \$68.3 billion to \$89.1 billion over the year to 31 October 2017, largely because of the establishment of the NSW Infrastructure Future Fund into which the net proceeds from the State's asset recycling program are being invested.

## 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 2018, and estimates for the three forward years ending 30 June 2019, 2020 and 2021.

### 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 2017-18 Budget Paper No.1 *Budget Statement*.

### Basis of preparation

The Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2017-18 Budget and based on the assumptions outlined below.

The 2017-18 Budget information included in the Estimated Financial Statements reflects the original budget tabled in Parliament on 20 June 2017.

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 2017-18 are based on actual amounts as at and for the four month period ending 31 October 2017, 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 as at 7 December 2017.

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 (e.g. 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.

Therefore, except for the matters set out below under *Change in accounting policies*, these Estimated Financial Statements follow the presentation and principles in the 2017-18 Budget and the accounting policies applied in the audited *2016-17 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 2016-17 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.

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.

## Change in accounting policies

There are no significant changes to accounting policies adopted in the preparation of the estimates to those used in preparing the 2017-18 Budget.

## Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 37 of the *2016-17 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2017-18 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, i.e. AAS) with GFS principles in accordance with the Government Financial Statistics (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 (i.e. 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 expense *transactions*. It excludes *other economic flows*, which represent changes in the volume or value of assets or liabilities that do not arise from transactions with other entities and which are often outside the control of government
- the *operating result* is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

Further, AASB 1049 requires:

- the 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 Australian Accounting Standards as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

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

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

Tables may not add in all instances due to rounding.

## 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<sup>(a)</sup>

	2016-17 Outcomes	2017-18 Forecasts	2018-19 Forecasts	2019-20 Forecasts	2020-21 Forecasts
New South Wales population (persons) <sup>(b)</sup>	7,868,000	7,991,000	8,107,000	8,223,000	8,340,000
Nominal gross state product (\$million)	576,700	604,200	629,600	660,200	691,800
Real gross state product	2.9	3	2¾	2¾	2½
Real state final demand	3.6	3½	2¾	–	–
Employment	0.9	2½	1¾	1½	1¼
Unemployment rate (year average, per cent)	5.0	4¾	4¾	4¾	4¾
Sydney consumer price index <sup>(c)</sup>	2.0	2¼	2¼	2¼	2½
Wage Price index <sup>(d)</sup>	2.1	2	2½	2¾	3
Nominal gross state product	6.4	4¾	4¼	4¾	4¾

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

(b) As at June each year. 2016-17 is a forecast as June quarter 2017 data is not yet available.

(c) Includes 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, 6345.0 and 6401.0 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 2016-17. For 2017-18, the GST forecast is based on the assessed relativity for New South Wales in 2017-18 and the Commonwealth Government's population projections. The assessed relativity is the average of actual data (2013-14, 2014-15 and 2015-16) as published by the Commonwealth Grants Commission.

Beyond 2017-18, 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 government.

**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 budget 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

	2016-17 %	2017-18 %	2018-19 %	2019-20 %	2020-21 %
	Actual	Forecasts	Forecasts	Forecasts	Forecasts
Liability discount rate	2.77	3.02	3.28	3.53	3.53
Expected return on investments <sup>(a)</sup>	9.60	7.80	7.80	7.80	7.80
Expected salary increases <sup>(b)</sup>					
- SSS and SASS members	2.50	2.50	2.50	2.50	3.50
- PSS members	2.50	2.50	2.50	2.50	3.50
Expected rate of CPI	2.00	2.25	2.25	2.25	2.50

(a) For the EISS, the expected return on investments is 6.3 per cent per annum from 2016-17 and beyond.

(b) Taking the increased Superannuation Guarantee Contribution (SGC) into account, total remuneration will increase by 2.50 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 is generally allocated on a straight-line basis.

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

Certain heritage assets, including original artworks and collections and heritage buildings, may not have 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 expenses**

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

## **Other economic flows**

### **Revaluations**

The estimates are based on an examination and extrapolation of historical trends in the valuation of non-financial physical assets. The forward estimates include the estimated impact of revaluations of non-financial physical assets.

### **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 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 adjusted for transactions with owners. The underlying management estimates of future comprehensive results are based on current Statements of Corporate Intent. Future distributions to owners are based on Treasury's *Commercial Policy Framework*.

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

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

## **Assets**

### **Property, Plant and Equipment**

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

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The Uniform Presentation Framework (UPF) for financial aggregates has been agreed by the Australian Loan Council. As part of the Framework, each jurisdiction is to publish a mid-year report, i.e. a half-yearly review of the budget, by the end of February each year.

The UPF tables have been prepared consistent with the 2017-18 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-6 of 2017-18 Budget Paper No.1 *Budget Statement*.

This UPF report 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 UPF and Loan Council reporting obligations are currently under review following the Australian Bureau of Statistics (ABS) release of their revised GFS publication. Whilst the presentation requirements of the current UPF have been reflected in this chapter, the tables that previously showed the derivation of the GFS cash surplus/ (deficit) have been omitted. This treatment mirrors the presentation of each sector's cash flow statement at Budget time.

The 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.

Table B.1: General government sector operating statement

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>					
Taxation	31,560	31,411	32,940	34,680	36,090
Grants and Subsidies					
- Commonwealth General Purpose	17,592	17,700	17,724	17,714	18,428
- Commonwealth Specific Purpose Payments	9,824	9,719	9,713	10,240	10,782
- Commonwealth National Partnership Payments	3,470	3,580	2,594	1,847	1,252
- Other Commonwealth Payments	251	253	245	256	268
- Other Grants and Subsidies	723	336	352	607	588
Sale of Goods and Services	8,976	9,012	9,593	9,478	9,015
Interest	413	366	292	283	269
Dividend and Income Tax Equivalents from Other Sectors	1,620	1,703	1,378	1,595	1,468
Other Dividends and Distributions	1,016	1,142	1,263	1,300	1,411
Fines, Regulatory Fees and Other	4,439	4,620	4,660	5,143	5,023
<b>Total Revenue from Transactions</b>	<b>79,885</b>	<b>79,842</b>	<b>80,755</b>	<b>83,142</b>	<b>84,594</b>
<b>Expenses from Transactions</b>					
Employee	31,483	31,165	33,728	35,226	36,072
Superannuation					
- Superannuation Interest Cost	1,465	1,480	1,486	1,478	1,452
- Other Superannuation	3,009	3,018	2,777	2,797	2,814
Depreciation and Amortisation	4,937	4,946	5,185	5,569	5,784
Interest	2,094	2,028	2,141	2,471	2,556
Other Operating	19,627	19,469	19,103	19,015	18,882
Grants, Subsidies and Other Transfer Expenses	14,571	14,403	14,241	15,145	15,475
<b>Total Expenses from Transactions</b>	<b>77,186</b>	<b>76,510</b>	<b>78,661</b>	<b>81,699</b>	<b>83,036</b>
Transactions from Discontinuing Operations	...	...	...	...	...
<b>BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]</b>	<b>2,698</b>	<b>3,332</b>	<b>2,093</b>	<b>1,442</b>	<b>1,558</b>



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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Other Economic Flows - Included in the Operating Result</b>					
Gain/(Loss) from Other Liabilities	159	166	152	151	(8)
Other Net Gains/(Losses)	236	229	328	393	251
Share of Earnings from Associates (excluding Dividends)	6	69	45	(18)	(0)
Dividends from Asset Sale Proceeds	193	137	19	...	...
Allowance for Impairment of Receivables	(38)	(37)	(38)	(38)	(38)
Deferred Income Tax from Other Sectors	(11)	(1)	(10)	(3)	6
Others	81	83	81	81	81
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>627</b>	<b>646</b>	<b>577</b>	<b>566</b>	<b>292</b>
<b>Operating Result</b>	<b>3,326</b>	<b>3,978</b>	<b>2,670</b>	<b>2,008</b>	<b>1,850</b>
<b>Other Economic Flows - Other Comprehensive Income</b>					
<b>Items that will not be Reclassified to Operating Result</b>					
Revaluations	4,054	7,156	4,321	4,052	4,087
Share of Earnings from Associates from Revaluations	...	(2)	...	...	...
Superannuation Actuarial Gain/(Loss)	4,316	7,466	4,227	3,843	1,527
Deferred Tax Adjustment through Equity	83	183	68	105	119
<b>Items that may be Reclassified Subsequently to Operating Result</b>					
Net Gain/(Loss) on Equity Investments in Other Sectors	1,194	2,672	1,753	982	2,548
Net Gain/(Loss) on Financial Instruments at Fair Value	(0)	...	...	...	...
Other	(33)	(337)	(627)	93	(18)
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>9,613</b>	<b>17,137</b>	<b>9,743</b>	<b>9,075</b>	<b>8,264</b>
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>12,939</b>	<b>21,116</b>	<b>12,413</b>	<b>11,084</b>	<b>10,114</b>
<b>Key Fiscal Aggregates</b>					
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>12,939</b>	<b>21,116</b>	<b>12,413</b>	<b>11,084</b>	<b>10,114</b>
Less: Net Other Economic Flows	(10,240)	(17,783)	(10,320)	(9,642)	(8,556)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>2,698</b>	<b>3,332</b>	<b>2,093</b>	<b>1,442</b>	<b>1,558</b>
<b>Less: Net Acquisition of Non-Financial Assets</b>					
Purchases of Non-Financial Assets	14,325	14,195	15,125	11,986	9,826
Sales of Non-Financial Assets	(526)	(536)	(580)	(285)	(163)
Less: Depreciation	(4,937)	(4,946)	(5,185)	(5,569)	(5,784)
Plus: Change in Inventories	(22)	(19)	(13)	4	9
Plus: Other Movements in Non-Financial Assets					
- Assets Acquired Using Finance Leases	190	130	3,526	915	906
- Other	116	103	73	375	369
<b>Equals: Total Net Acquisition of Non-Financial Assets</b>	<b>9,146</b>	<b>8,929</b>	<b>12,946</b>	<b>7,427</b>	<b>5,163</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>(6,447)</b>	<b>(5,597)</b>	<b>(10,853)</b>	<b>(5,985)</b>	<b>(3,605)</b>
<b>OTHER FISCAL AGGREGATES</b>					
Capital Expenditure <sup>(b)</sup>	<b>14,515</b>	<b>14,325</b>	<b>18,651</b>	<b>12,902</b>	<b>10,732</b>

(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 2018 Budget	June 2018 Revised	June 2019	June 2020	June 2021
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	2,494	1,104	907	1,003	1,021
Receivables	5,544	6,602	6,378	6,748	7,202
Tax Equivalents Receivable	109	52	54	43	61
Investments, Loans and Placements					
Financial Assets at Fair Value	27,254	31,240	25,696	20,157	16,718
Other Financial Assets	2,972	2,985	1,629	1,755	1,416
Advances Paid	1,054	1,039	1,127	1,241	1,436
Deferred Tax Equivalent Assets	2,216	2,264	2,310	2,408	2,529
Equity					
Investments in Other Public Sector Entities	109,535	110,480	113,759	116,840	120,766
Investments in Associates	9,438	5,870	5,870	5,870	5,870
Other Equity Investments	674	4,939	4,984	5,043	5,127
<b>Total Financial Assets</b>	<b>161,289</b>	<b>166,575</b>	<b>162,716</b>	<b>161,109</b>	<b>162,147</b>
<b>Non- Financial Assets</b>					
Inventories	263	279	266	270	279
Forestry Stock and Other Biological Assets	11	10	10	10	10
Assets Classified as Held for Sale	228	343	134	109	114
Property, Plant and Equipment					
Land and Buildings	77,158	77,332	80,466	82,867	85,109
Plant and Equipment	12,599	11,458	11,459	11,362	11,398
Infrastructure Systems	96,240	102,102	118,300	124,917	131,260
Intangibles	3,495	3,761	3,539	3,239	2,902
Other Non-Financial Assets	6,242	6,925	5,679	9,580	11,747
<b>Total Non- Financial Assets</b>	<b>196,235</b>	<b>202,209</b>	<b>219,852</b>	<b>232,354</b>	<b>242,818</b>
<b>Total Assets</b>	<b>357,525</b>	<b>368,783</b>	<b>382,569</b>	<b>393,462</b>	<b>404,965</b>
<b>Liabilities</b>					
Deposits Held	104	91	77	78	82
Payables	5,309	6,355	6,578	6,984	7,386
Tax Equivalents Payable	3	...	2	2	2
Borrowings and Derivatives at Fair Value	5	5	3	2	2
Borrowings at Amortised Cost	32,566	32,578	37,988	41,129	43,301
Advances Received	578	758	736	784	918
Employee Provisions	16,806	16,890	17,068	17,289	17,622
Superannuation Provision <sup>(a)</sup>	49,491	49,080	44,895	40,961	39,238
Deferred Tax Equivalent Provision	105	102	101	100	99
Other Provisions	8,620	8,898	8,779	8,882	9,056
Other Liabilities	6,079	6,436	6,340	6,163	6,054
<b>Total Liabilities</b>	<b>119,665</b>	<b>121,192</b>	<b>122,567</b>	<b>122,374</b>	<b>123,759</b>
<b>NET ASSETS</b>	<b>237,859</b>	<b>247,591</b>	<b>260,002</b>	<b>271,088</b>	<b>281,206</b>
<b>NET WORTH</b>					
Accumulated Funds	44,106	81,669	85,735	89,579	91,521
Reserves	193,754	165,922	174,266	181,509	189,684
<b>TOTAL NET WORTH</b>	<b>237,859</b>	<b>247,591</b>	<b>260,002</b>	<b>271,088</b>	<b>281,206</b>
<b>OTHER FISCAL AGGREGATES</b>					
<b>Net Debt<sup>(b)</sup></b>	<b>(521)</b>	<b>(2,935)</b>	<b>9,444</b>	<b>17,838</b>	<b>23,712</b>
<b>Net Financial Liabilities<sup>(c)</sup></b>	<b>67,910</b>	<b>65,097</b>	<b>73,610</b>	<b>78,106</b>	<b>82,378</b>
<b>Net Financial Worth<sup>(d)</sup></b>	<b>41,624</b>	<b>45,383</b>	<b>40,149</b>	<b>38,734</b>	<b>38,388</b>

(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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	31,538	31,657	32,931	34,660	36,086
Receipts from Sales of Goods and Services	9,743	9,591	9,941	9,877	9,285
Grant and Subsidies Received	31,860	31,573	30,624	30,661	31,317
Interest Receipts	404	335	261	310	306
Dividends and Income Tax Equivalents	1,037	943	1,750	1,431	1,299
Other Receipts	8,822	7,160	8,942	9,041	8,028
<b>Total Cash Receipts from Operating Activities</b>	<b>83,403</b>	<b>81,259</b>	<b>84,447</b>	<b>85,980</b>	<b>86,321</b>
<b>Cash Payments from Operating Activities</b>					
Payments for Employees	(31,401)	(31,108)	(33,344)	(34,804)	(35,757)
Payments for Superannuation	(4,518)	(4,358)	(4,257)	(4,453)	(4,612)
Payments for Goods and Services	(20,478)	(20,870)	(20,320)	(20,300)	(20,687)
Grants and Subsidies Paid	(12,943)	(12,742)	(12,594)	(13,525)	(13,792)
Interest Paid	(1,518)	(1,509)	(1,526)	(1,813)	(1,874)
Other Payments	(5,315)	(3,438)	(5,284)	(5,045)	(3,904)
<b>Total Cash Payments from Operating Activities</b>	<b>(76,174)</b>	<b>(74,023)</b>	<b>(77,324)</b>	<b>(79,940)</b>	<b>(80,626)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>7,229</b>	<b>7,236</b>	<b>7,123</b>	<b>6,040</b>	<b>5,695</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>					
Sales of Non-Financial Assets	601	617	661	366	238
Purchases of Non-Financial Assets	(14,358)	(13,982)	(15,257)	(13,089)	(10,873)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(13,757)</b>	<b>(13,365)</b>	<b>(14,597)</b>	<b>(12,723)</b>	<b>(10,635)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>					
Receipts	818	1,006	250	19	...
Payments	(2,535)	(1,907)	(2,516)	(2,264)	(1,610)
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(1,717)</b>	<b>(901)</b>	<b>(2,266)</b>	<b>(2,245)</b>	<b>(1,610)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>					
Receipts from Sale/Maturity of Investments	11,527	6,214	8,920	7,616	5,423
Payments for the Purchase of Investments	(5,856)	(6,300)	(1,266)	(1,627)	(1,050)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>5,671</b>	<b>(86)</b>	<b>7,654</b>	<b>5,989</b>	<b>4,373</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(9,803)</b>	<b>(14,353)</b>	<b>(9,208)</b>	<b>(8,979)</b>	<b>(7,872)</b>
<b>Cash Flows from Financing Activities</b>					
Advances Received	12	70	9	115	146
Advances Repaid	(58)	(70)	(73)	(75)	(73)
Proceeds from Borrowings	1,002	1,087	2,551	3,581	2,341
Repayment of Borrowings	(1,699)	(1,739)	(654)	(701)	(363)
Deposits Received - Net	(12)	(15)	(14)	1	4
Other Financing Receipts/ (Payments)	230	191	66	105	121
<b>Net Cash Flows from Financing Activities</b>	<b>(525)</b>	<b>(476)</b>	<b>1,884</b>	<b>3,026</b>	<b>2,175</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(3,098)</b>	<b>(7,593)</b>	<b>(201)</b>	<b>87</b>	<b>(2)</b>

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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
<b>Derivation of Cash Result</b>					
Net Cash Flows From Operating Activities	7,229	7,236	7,123	6,040	5,695
Net Cash Flows from Investments in Non-Financial Assets	(13,757)	(13,365)	(14,597)	(12,723)	(10,635)
<b>Cash Surplus/(Deficit)</b>	<b>(6,527)</b>	<b>(6,129)</b>	<b>(7,473)</b>	<b>(6,683)</b>	<b>(4,940)</b>

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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>					
Grants and Subsidies					
- Other Grants and Subsidies	3,073	2,809	2,831	3,045	3,458
Sale of Goods and Services	8,188	8,082	8,031	8,364	8,684
Interest	82	87	79	72	63
Fines, Regulatory Fees and Other	735	763	729	774	736
<b>Total Revenue from Transactions</b>	<b>12,078</b>	<b>11,741</b>	<b>11,670</b>	<b>12,254</b>	<b>12,941</b>
<b>Expenses from Transactions</b>					
Employee	3,001	2,874	2,948	2,948	2,960
Superannuation					
- Superannuation Interest Cost	55	57	59	56	53
- Other Superannuation	176	173	163	158	155
Depreciation and Amortisation	2,766	2,754	2,949	3,266	3,445
Interest	1,167	1,155	1,258	1,329	1,335
Income Tax Expense	339	333	286	327	312
Other Operating	5,869	5,950	5,514	5,461	5,755
Grants, Subsidies and Other Transfer Expenses	147	140	67	65	64
<b>Total Expenses from Transactions</b>	<b>13,520</b>	<b>13,435</b>	<b>13,243</b>	<b>13,611</b>	<b>14,079</b>
Transactions from Discontinuing Operations	...	...	...	...	...
<b>NET OPERATING BALANCE - SURPLUS AFTER TAX</b>	<b>(1,442)</b>	<b>(1,694)</b>	<b>(1,574)</b>	<b>(1,356)</b>	<b>(1,138)</b>

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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Other Economic Flows - Included in the Operating Result</b>					
Gain/(Loss) from Other Liabilities	...	1	1	1	1
Other Net Gains/(Losses)	411	560	129	64	114
Allowance for Impairment of Receivables	(2)	(2)	(2)	(2)	(2)
Deferred Income Tax	14	1	10	3	(6)
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>423</b>	<b>560</b>	<b>138</b>	<b>65</b>	<b>107</b>
<b>Operating Result</b>	<b>(1,019)</b>	<b>(1,134)</b>	<b>(1,435)</b>	<b>(1,291)</b>	<b>(1,031)</b>
<b>Other Economic Flows - Other Comprehensive Income</b>					
<b>Items that will not be Reclassified to Operating Result</b>					
Revaluations	2,299	3,263	2,389	3,162	4,177
Superannuation Actuarial Gain/(Loss)	292	753	273	259	95
Deferred Tax Adjustment through Equity	(148)	(183)	(68)	(105)	(119)
<b>Items that may be Reclassified Subsequently to Operating Result</b>	<b>(1,977)</b>	<b>(20)</b>	<b>1,159</b>	<b>904</b>	<b>176</b>
Net Gain/(Loss) on Financial Instruments at Fair Value	1	29	...	...	...
Other	(1,978)	(49)	1,159	904	176
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>466</b>	<b>3,813</b>	<b>3,753</b>	<b>4,220</b>	<b>4,329</b>
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>(553)</b>	<b>2,679</b>	<b>2,318</b>	<b>2,929</b>	<b>3,297</b>
<b>Key Fiscal Aggregates</b>					
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>(553)</b>	<b>2,679</b>	<b>2,318</b>	<b>2,929</b>	<b>3,297</b>
Less: Net Other Economic Flows	(889)	(4,373)	(3,891)	(4,286)	(4,435)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>(1,442)</b>	<b>(1,694)</b>	<b>(1,574)</b>	<b>(1,356)</b>	<b>(1,138)</b>
<b>Less: Net Acquisition of Non-Financials Assets</b>					
Purchases of Non-Financials Assets	7,748	7,318	6,489	5,360	4,202
Sales of Non-Financial Assets	(931)	(740)	(664)	(715)	(591)
Less: Depreciation	(2,766)	(2,754)	(2,949)	(3,266)	(3,445)
Plus: Change in Inventories	(155)	(156)	153	194	(60)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	11	11	110	...	...
- Other	225	220	282	286	293
<b>Equals: Total Net Acquisition of Non-Financial Assets</b>	<b>4,132</b>	<b>3,899</b>	<b>3,421</b>	<b>1,860</b>	<b>398</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>(5,574)</b>	<b>(5,594)</b>	<b>(4,995)</b>	<b>(3,216)</b>	<b>(1,536)</b>
<b>OTHER FISCAL AGGREGATES</b>					
Capital Expenditure <sup>(b)</sup>	7,759	7,329	6,598	5,360	4,202
Dividends Accrued <sup>(c)</sup>	954	1,038	608	679	714

(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 2018 Budget	June 2018 Revised	June 2019	June 2020 Forward Estimates	June 2021
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	2,742	2,940	2,140	1,663	2,057
Receivables	1,004	1,034	1,032	1,053	1,082
Tax Equivalents Receivable	3	...	2	2	2
Investments, Loans and Placements					
Financial Assets at Fair Value	14	101	101	100	100
Other Financial Assets	961	887	790	755	762
Advances Paid	...	...	...	...	...
Deferred Tax Equivalent Assets	105	102	101	100	99
Equity					
Other Equity Investments	...	...	...	...	...
<b>Total Financial Assets</b>	<b>4,828</b>	<b>5,064</b>	<b>4,165</b>	<b>3,673</b>	<b>4,102</b>
<b>Non- Financial Assets</b>					
Inventories	332	359	479	599	531
Forestry Stock and Other Biological Assets	992	992	992	992	1,017
Assets Classified as Held for Sale	52	74	76	76	76
Investment Properties	447	453	464	476	488
Property, Plant and Equipment					
Land and Buildings	71,219	72,776	74,210	76,163	77,574
Plant and Equipment	6,217	6,063	6,643	7,091	7,832
Infrastructure Systems	61,369	59,201	62,689	64,950	67,147
Intangibles	999	1,100	1,139	1,126	1,121
Other Non-Financial Assets	146	166	169	174	180
<b>Total Non- Financial Assets</b>	<b>141,774</b>	<b>141,185</b>	<b>146,862</b>	<b>151,648</b>	<b>155,966</b>
<b>Total Assets</b>	<b>146,602</b>	<b>146,249</b>	<b>151,027</b>	<b>155,321</b>	<b>160,068</b>
<b>Liabilities</b>					
Deposits Held	13	40	41	42	42
Payables	2,134	2,213	2,130	2,119	2,171
Tax Equivalents Payable	102	47	48	36	54
Borrowings and Derivatives at Fair Value	2,329	2,306	3,090	3,282	3,282
Borrowings at Amortised Cost	24,613	24,292	26,732	28,019	29,346
Advanced Received	374	374	358	343	328
Employee Provisions	1,132	1,083	1,090	1,091	1,091
Superannuation Provision <sup>(a)</sup>	2,027	1,603	1,361	1,125	1,042
Deferred Tax Equivalent Provision	2,216	2,264	2,310	2,408	2,529
Other Provisions	1,464	1,528	1,075	1,134	1,161
Other Liabilities	320	260	225	219	213
<b>Total Liabilities</b>	<b>36,725</b>	<b>36,009</b>	<b>38,461</b>	<b>39,818</b>	<b>41,260</b>
<b>NET ASSETS</b>	<b>109,878</b>	<b>110,240</b>	<b>112,566</b>	<b>115,503</b>	<b>118,808</b>
<b>NET WORTH</b>					
Accumulated Funds	33,637	38,630	36,607	34,612	32,640
Reserves	76,241	71,609	75,958	80,891	86,169
<b>TOTAL NET WORTH</b>	<b>109,878</b>	<b>110,240</b>	<b>112,566</b>	<b>115,503</b>	<b>118,808</b>
<b>OTHER FISCAL AGGREGATES</b>					
<b>Net Debt <sup>(b)</sup></b>	<b>23,612</b>	<b>23,084</b>	<b>27,190</b>	<b>29,167</b>	<b>30,078</b>
<b>Net Financial Liabilities <sup>(c)</sup></b>	<b>31,897</b>	<b>30,945</b>	<b>34,296</b>	<b>36,145</b>	<b>37,157</b>
<b>Net Financial Worth <sup>(d)</sup></b>	<b>(31,897)</b>	<b>(30,945)</b>	<b>(34,296)</b>	<b>(36,145)</b>	<b>(37,157)</b>

(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

	2017-18 Budget \$m	2017-18 Revised \$m	2018-19 \$m	2019-20 Forward Estimates \$m	2020-21 \$m
<b>Cash Receipts from Operating Activities</b>					
Receipts from Sales of Goods and Services	8,786	9,010	8,280	8,613	9,135
Grant and Subsidies Received	3,058	2,791	2,809	3,023	3,436
Interest Receipts	76	82	60	53	56
Other Receipts	1,027	1,122	1,025	1,078	1,037
<b>Total Cash Receipts from Operating Activities</b>	<b>12,947</b>	<b>13,005</b>	<b>12,174</b>	<b>12,766</b>	<b>13,664</b>
<b>Cash Payments from Operating Activities</b>					
Payments for Employees	(3,096)	(2,995)	(3,054)	(3,063)	(3,077)
Payments for Superannuation	(194)	(189)	(189)	(191)	(193)
Payments for Goods and Services	(5,777)	(5,618)	(5,614)	(5,486)	(5,564)
Grants and Subsidies Paid	(75)	(67)	(67)	(65)	(64)
Interest Paid	(973)	(1,006)	(1,109)	(1,191)	(1,222)
Other Payments	(671)	(835)	(593)	(558)	(575)
<b>Total Cash Payments from Operating Activities</b>	<b>(10,787)</b>	<b>(10,709)</b>	<b>(10,625)</b>	<b>(10,553)</b>	<b>(10,695)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>2,161</b>	<b>2,295</b>	<b>1,549</b>	<b>2,213</b>	<b>2,969</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>					
Sales of Non-Financial Assets	931	748	664	715	591
Purchases of Non-Financial Assets	(7,798)	(7,286)	(6,468)	(5,355)	(4,198)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(6,867)</b>	<b>(6,539)</b>	<b>(5,804)</b>	<b>(4,640)</b>	<b>(3,606)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>					
Receipts	...	...	...	...	...
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>...</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>					
Receipts from Sale/Maturity of Investments	83	340	169	111	63
Payments for Purchase of Investments	(37)	(53)	(55)	(56)	(52)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>46</b>	<b>287</b>	<b>114</b>	<b>55</b>	<b>10</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(6,821)</b>	<b>(6,252)</b>	<b>(5,690)</b>	<b>(4,585)</b>	<b>(3,596)</b>
<b>Cash Flows from Financing Activities</b>					
Advances Received	2,459	1,724	2,201	2,147	1,494
Advances Repaid	(31)	(879)	(50)	(31)	(31)
Proceeds from Borrowings	4,303	4,293	4,098	1,588	1,295
Repayment of Borrowings	(973)	(142)	(1,165)	(302)	(152)
Dividends Paid	(784)	(784)	(1,538)	(1,208)	(1,276)
Deposits Received (net)	(1)	(0)	1	1	1
Other Financing Receipts/ (Payments)	(398)	(63)	(205)	(298)	(296)
<b>Net Cash Flows from Financing Activities</b>	<b>4,575</b>	<b>4,150</b>	<b>3,342</b>	<b>1,897</b>	<b>1,035</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(85)</b>	<b>193</b>	<b>(799)</b>	<b>(475)</b>	<b>407</b>



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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
<b>Derivation of Cash Result</b>					
Net Cash Flows from Operating Activities	2,161	2,295	1,549	2,213	2,969
Net Cash Flows from Investments in Non-Financial Assets	(6,867)	(6,539)	(5,804)	(4,640)	(3,606)
Dividends Paid	(784)	(784)	(1,538)	(1,208)	(1,276)
<b>Cash Surplus/(Deficit)</b>	<b>(5,490)</b>	<b>(5,027)</b>	<b>(5,793)</b>	<b>(3,634)</b>	<b>(1,913)</b>

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

	2017-18	2017-18	2018-19	2019-20	2020-21
	Budget	Revised	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>					
Taxation	31,086	30,942	32,439	34,136	35,532
Grants and Subsidies					
- Commonwealth General Purpose	17,592	17,700	17,724	17,714	18,428
- Commonwealth Specific Purpose Payments	9,824	9,719	9,713	10,240	10,782
- Commonwealth National Partnership Payments	3,470	3,580	2,594	1,847	1,252
- Other Commonwealth Payments	251	257	248	260	272
- Other Grants and Subsidies	654	231	169	192	428
Sale of Goods and Services	13,402	13,899	13,871	14,563	15,116
Interest	423	360	307	298	271
Dividend and Income Tax Equivalents from Other Sectors	77	82	84	89	90
Other Dividends and Distributions	1,016	1,142	1,263	1,300	1,411
Fines, Regulatory Fees and Other	5,107	5,345	5,359	5,887	5,729
<b>Total Revenue from Transactions</b>	<b>82,902</b>	<b>83,256</b>	<b>83,772</b>	<b>86,526</b>	<b>89,312</b>
<b>Expenses from Transactions</b>					
Employee	33,863	33,442	36,060	37,551	38,399
Superannuation					
- Superannuation Interest Cost	1,520	1,537	1,545	1,534	1,505
- Other Superannuation	3,185	3,191	2,938	2,953	2,967
Depreciation and Amortisation	7,703	7,699	8,134	8,835	9,229
Interest	3,188	3,089	3,336	3,743	3,830
Other Operating	21,876	22,348	20,972	21,272	22,128
Grants, Subsidies and Other Transfer Expenses	11,543	11,597	11,273	11,728	11,898
<b>Total Expenses from Transactions</b>	<b>82,878</b>	<b>82,904</b>	<b>84,257</b>	<b>87,616</b>	<b>89,955</b>
Transactions from Discontinuing Operations	...	...	...	...	...
<b>NET OPERATING BALANCE - SURPLUS/(DEFICIT)</b>	<b>23</b>	<b>352</b>	<b>(485)</b>	<b>(1,090)</b>	<b>(644)</b>

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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Other Economic Flows - Included in the Operating Result</b>					
Gain/(Loss) from Other Liabilities	159	167	153	152	(7)
Other Net Gains/(Losses)	647	789	457	457	365
Share of Earnings from Associates (excluding Dividends)	6	69	45	(18)	(0)
Allowance for Impairment of Receivables	(40)	(39)	(40)	(40)	(40)
Others	81	83	81	81	81
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>854</b>	<b>1,069</b>	<b>696</b>	<b>632</b>	<b>399</b>
<b>Operating Result</b>	<b>877</b>	<b>1,421</b>	<b>211</b>	<b>(458)</b>	<b>(245)</b>
<b>Other Economic Flows - Other Comprehensive Income</b>					
<b>Items that will not be Reclassified to Operating Result</b>					
Revaluations	6,384	10,624	6,703	7,205	8,253
Share of Earnings from Associates from Revaluations	...	(2)	...	...	...
Superannuation Actuarial Gain/(Loss)	4,608	8,219	4,499	4,101	1,623
Deferred Tax Adjustment through Equity	(65)	...	...	(0)	...
<b>Items that may be Reclassified Subsequently to Operating Result</b>	<b>826</b>	<b>1,310</b>	<b>1,083</b>	<b>273</b>	<b>476</b>
Net Gain/(Loss) on Equity Investments in Other Sectors	2,694	1,168	1,046	187	621
Net Gain/(Loss) on Financial Instruments at Fair Value	0	29	...	...	...
Other	(1,868)	112	36	86	(145)
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>11,753</b>	<b>20,150</b>	<b>12,285</b>	<b>11,579</b>	<b>10,351</b>
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>12,631</b>	<b>21,572</b>	<b>12,496</b>	<b>11,121</b>	<b>10,107</b>
<b>Key Fiscal Aggregates</b>					
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>12,631</b>	<b>21,572</b>	<b>12,496</b>	<b>11,121</b>	<b>10,107</b>
Less: Net Other Economic Flows	(12,607)	(21,219)	(12,981)	(12,211)	(10,750)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>23</b>	<b>352</b>	<b>(485)</b>	<b>(1,090)</b>	<b>(644)</b>
<b>Less: Net Acquisition of Non-Financials Assets</b>					
Purchases of Non-Financials Assets	22,074	21,513	21,614	17,346	14,028
Sales of Non-Financial Assets	(1,435)	(1,253)	(1,244)	(1,000)	(754)
Less: Depreciation	(7,703)	(7,699)	(8,134)	(8,835)	(9,229)
Plus: Change in Inventories	(177)	(175)	140	198	(51)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	200	141	3,636	915	906
- Other	294	306	344	651	652
<b>Equals: Total Net Acquisition of Non-Financial Assets</b>	<b>13,252</b>	<b>12,833</b>	<b>16,356</b>	<b>9,276</b>	<b>5,551</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>(13,229)</b>	<b>(12,481)</b>	<b>(16,841)</b>	<b>(10,366)</b>	<b>(6,195)</b>
<b>OTHER FISCAL AGGREGATES</b>					
Capital Expenditure <sup>(b)</sup>	22,274	21,654	25,249	18,262	14,933
Dividends Accrued	200	...	...	...	...

(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 2018 Budget	June 2018 Revised	June 2019	June 2020	June 2021
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	5,236	4,044	3,047	2,666	3,079
Receivables	4,789	5,763	5,820	5,842	6,008
Tax Equivalents Receivable	6	6	6	7	7
Investments, Loans and Placements					
Financial Assets at Fair Value	27,215	31,288	25,744	20,205	16,766
Other Financial Assets	3,499	3,535	2,084	2,175	1,843
Advances Paid	680	665	768	898	1,108
Deferred Tax Equivalent Assets	0	...	...	0	...
Equity					
Investments in Other Public Sector Entities	2,708	3,317	4,363	4,550	5,171
Investments in Associates	9,438	5,870	5,870	5,870	5,870
Other Equity Investments	674	4,939	4,984	5,043	5,127
<b>Total Financial Assets</b>	<b>54,245</b>	<b>59,425</b>	<b>52,688</b>	<b>47,254</b>	<b>44,979</b>
<b>Non- Financial Assets</b>					
Inventories	595	638	745	869	810
Forestry Stock and Other Biological Assets	1,003	1,002	1,002	1,002	1,027
Assets Classified as Held for Sale	280	417	209	185	191
Investment Properties	447	453	464	476	488
Property, Plant and Equipment					
Land and Buildings	148,407	150,688	155,282	159,661	163,339
Plant and Equipment	18,817	17,521	18,102	18,453	19,229
Infrastructure Systems	157,609	161,303	180,989	189,867	198,407
Intangibles	4,494	4,861	4,678	4,365	4,023
Other Non-Financial Assets	6,347	6,702	5,427	9,297	11,433
<b>Total Non- Financial Assets</b>	<b>337,999</b>	<b>343,584</b>	<b>366,898</b>	<b>384,175</b>	<b>398,946</b>
<b>Total Assets</b>	<b>392,244</b>	<b>403,009</b>	<b>419,585</b>	<b>431,430</b>	<b>443,924</b>
<b>Liabilities</b>					
Deposits Held	117	131	118	120	124
Payables	7,033	8,029	7,919	8,015	8,191
Borrowings and Derivatives at Fair Value	2,281	2,258	3,040	3,231	3,231
Borrowings at Amortised Cost	56,745	56,532	64,385	68,812	72,313
Advanced Received	578	758	736	784	918
Employee Provisions	17,921	17,955	18,141	18,364	18,697
Superannuation Provision <sup>(a)</sup>	51,518	50,683	46,257	42,086	40,280
Deferred Tax Equivalent Provision	...	...	...	...	...
Other Provisions	8,805	9,092	8,947	9,037	9,199
Other Liabilities	6,332	6,696	6,671	6,488	6,372
<b>Total Liabilities</b>	<b>151,332</b>	<b>152,134</b>	<b>156,214</b>	<b>156,937</b>	<b>159,326</b>
<b>NET ASSETS</b>	<b>240,913</b>	<b>250,875</b>	<b>263,371</b>	<b>274,492</b>	<b>284,599</b>
<b>NET WORTH</b>					
Accumulated Funds	78,307	93,855	95,321	97,124	97,094
Reserves	162,605	157,020	168,050	177,368	187,505
<b>TOTAL NET WORTH</b>	<b>240,913</b>	<b>250,875</b>	<b>263,371</b>	<b>274,492</b>	<b>284,599</b>
<b>OTHER FISCAL AGGREGATES</b>					
<b>Net Debt <sup>(b)</sup></b>	<b>23,092</b>	<b>20,149</b>	<b>36,635</b>	<b>47,005</b>	<b>53,791</b>
<b>Net Financial Liabilities <sup>(c)</sup></b>	<b>99,795</b>	<b>96,026</b>	<b>107,889</b>	<b>114,233</b>	<b>119,518</b>
<b>Net Financial Worth <sup>(d)</sup></b>	<b>(97,087)</b>	<b>(92,709)</b>	<b>(103,526)</b>	<b>(109,683)</b>	<b>(114,347)</b>

(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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Cash Receipts from Operating Activities</b>					
Taxes Received	31,072	31,199	32,458	34,152	35,545
Receipts from Sales of Goods and Services	12,571	14,761	14,470	15,235	15,917
Grant and Subsidies Received	31,760	31,439	30,418	30,224	31,135
Interest Receipts	422	329	263	324	319
Dividends and Income Tax Equivalents	103	108	83	85	89
Other Receipts	9,842	8,191	9,956	10,114	9,060
<b>Total Cash Receipts from Operating Activities</b>	<b>85,770</b>	<b>86,025</b>	<b>87,648</b>	<b>90,135</b>	<b>92,066</b>
<b>Cash Payments from Operating Activities</b>					
Payments for Employees	(33,754)	(33,386)	(35,665)	(37,125)	(38,082)
Payments for Superannuation	(4,712)	(4,546)	(4,446)	(4,644)	(4,805)
Payments for Goods and Services	(20,596)	(22,818)	(22,446)	(22,775)	(23,974)
Grants and Subsidies Paid	(9,842)	(9,863)	(9,625)	(10,108)	(10,214)
Interest Paid	(2,433)	(2,426)	(2,577)	(2,965)	(3,053)
Other Payments	(5,978)	(4,272)	(5,885)	(5,609)	(4,483)
<b>Total Cash Payments from Operating Activities</b>	<b>(77,315)</b>	<b>(77,313)</b>	<b>(80,645)</b>	<b>(83,227)</b>	<b>(84,611)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>8,455</b>	<b>8,713</b>	<b>7,004</b>	<b>6,908</b>	<b>7,454</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>					
Sales of Non-Financial Assets	1,510	1,342	1,325	1,081	829
Purchases of Non-Financial Assets	(22,256)	(21,260)	(25,141)	(18,602)	(15,084)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(20,746)</b>	<b>(19,918)</b>	<b>(23,816)</b>	<b>(17,522)</b>	<b>(14,255)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>					
Receipts	(94)	127	231	19	...
Payments	(320)	(270)	(270)	(117)	(117)
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(414)</b>	<b>(144)</b>	<b>(39)</b>	<b>(98)</b>	<b>(116)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>					
Receipts from Sale/Maturity of Investments	11,662	6,511	12,318	7,668	5,447
Payments for Purchase of Investments	(5,857)	(6,314)	(1,266)	(1,627)	(1,050)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>5,805</b>	<b>197</b>	<b>11,052</b>	<b>6,041</b>	<b>4,397</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(15,355)</b>	<b>(19,865)</b>	<b>(12,803)</b>	<b>(11,578)</b>	<b>(9,974)</b>
<b>Cash Flows from Financing Activities</b>					
Advances Received	1,019	70	78	84	115
Advances Repaid	(58)	(70)	(73)	(75)	(73)
Proceeds from Borrowings	5,306	5,380	6,648	5,169	3,635
Repayment of Borrowings	(1,740)	(1,776)	(1,733)	(842)	(515)
Dividends Paid	(100)	(100)	(100)	(100)	(245)
Deposits Received (net)	(13)	(15)	(13)	2	5
Other Financing Receipts/ (Payments)	(696)	263	(8)	45	3
<b>Net Cash Flows from Financing Activities</b>	<b>3,717</b>	<b>3,752</b>	<b>4,799</b>	<b>4,282</b>	<b>2,925</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(3,183)</b>	<b>(7,400)</b>	<b>(1,000)</b>	<b>(389)</b>	<b>405</b>

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

	2017-18 Budget	2017-18 Revised	2018-19	2019-20	2020-21
	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m
<b>Derivation of Cash Result</b>					
Net Cash Flows from Operating Activities	8,455	8,713	7,004	6,908	7,454
Net Cash Flows from Investments in Non-Financial Assets	(20,746)	(19,918)	(23,816)	(17,522)	(14,255)
Dividends Paid	(100)	(100)	(100)	(100)	(245)
<b>Cash Surplus/(Deficit)</b>	<b>(12,391)</b>	<b>(11,306)</b>	<b>(16,912)</b>	<b>(10,714)</b>	<b>(7,046)</b>

## B.2 Loan Council Allocation

Table B.10 presents the Budget estimates of the State's Loan Council Allocation (LCA) for 2017-18 and a revised estimate taking into account recent fiscal and economic developments.

Overall, the LCA for 2017-18 is estimated to be a \$12.6 billion deficit. This is an improvement of \$2.3 billion on the Budget estimate of a \$14.9 billion deficit. The variance is outside the tolerance limit of \$1.8 billion set by the Loan Council. This tolerance limit is calculated as 2 per cent of cash receipts from operating activities for the NFPC.

The variance is largely due to:

- an improvement in GGS and PNFC cash deficit related to the changes in the timing of expenditure payments
- an improvement in the cash flows from investments in financial assets for policy purpose associated with changes in the timing of capital expenditure payments on infrastructure
- the memorandum items included in the LCA which were impacted by an increase in the value of financial assets of \$0.8 billion from the Budget estimate. This is driven by the State Super Scheme earnings that are now estimated to be 8.6 per cent in 2017-18, which is 0.8 per cent higher than the 7.8 per cent estimate at the Budget.

Table B.10: Loan Council Allocation estimates<sup>(a)</sup>

	2016-17 Actual \$m	2017-18 Budget-time Estimate \$m	2017-18 Half-Yearly Estimate \$m
General Government Sector Cash Deficit/(Surplus)	(3,573)	6,527	6,129
Public Non-Financial Corporations Sector Cash Deficit/(Surplus)	4,407	5,490	5,027
<b>Non-Financial Public Sector Cash Deficit/(Surplus)<sup>(b)</sup></b>	<b>2,311</b>	<b>12,391</b>	<b>11,306</b>
Minus: Net Cash Flows From Investments in Financial Assets For Policy Purposes <sup>(c)</sup>	28,002	(414)	(144)
Plus: Memorandum Items <sup>(d)</sup>	1,467	2,066	1,128
<b>Loan Council Allocation</b>	<b>(24,225)</b>	<b>14,871</b>	<b>12,577</b>

- (a) Cash surplus/deficits and finance leases are displayed with the opposite sign to that under which they are reported in cash flow statements. That is, a surplus is displayed as a negative number.
- (b) The non-financial public sector cash surplus/(deficit) may not directly equate to the sum of the general government and public non-financial corporation sectors' cash deficits due to intersectoral transfers which are netted out.
- (c) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as reported in cash flow statements.
- (d) Memorandum items are used to adjust the ABS deficit to include in LCAs certain transactions, such as operating leases, that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the ABS deficit certain transactions that the Loan Council has agreed should not be included in LCAs – for example, the funding of more than an employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as universities.

## Public private partnerships

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

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

Therefore, only new toll road PPP's, which are generally outside of key balance sheet metrics, are reported below as Memo items.

## Contracts expected to be entered into in 2017-18

Stage 3 of WestConnex is being progressed by the NSW Government together with the Sydney Motorway Corporation Pty Ltd and its subsidiaries. Stage 3, the M4-M5 Link, comprises a tunnel (three lanes in each direction) which will connect Stages 1 and 2 of WestConnex from Haberfield to St Peters with an interchange at Rozelle to Iron Cove. This Stage is expected to be completed in 2023 (pending planning approval).

Expected Government Contingent Liability	Nil
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## C. VARIATIONS ON REVISED 2017-18 BUDGET

### C.1 Revised 2017-18 Budget

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The revised budget result for 2017-18 is a surplus of \$3.3 billion compared to a forecast surplus of \$2.7 billion at the time of the 2017-18 Budget.

Total revenue in 2017-18 is estimated to be \$79.8 billion, which is \$42.9 million lower than the Budget forecast of \$79.9 billion.

Total expenses in 2017-18 are estimated to be \$76.5 billion, which is \$676.8 million lower than the Budget forecast of \$77.2 billion.

### C.2 Operating statement

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Total revenue in 2017-18 is projected to be lower than forecast at the time of the 2017-18 Budget, reflecting lower transfer duty and lower interest income. This decrease is partially offset by increases in other revenues, primarily higher payroll tax revenue as a result of strong NSW employment growth and an upward revision of land tax revenue as a result of new land valuations.

Expenses in 2017-18 are forecast to be lower than estimated at the time of the 2017-18 Budget. This is primarily due to parameter and other budget variations, including:

- reprofiling of expenditure across the forward estimates to better align with planned activity
- reduced interest expenses due to lower interest rates and lower debt restructuring costs.

This decrease in expenses is partially offset by \$91.5 million in new policy measures in key areas including regional roads, household affordability and regional development.

The reduction in 2017-18 expenditure is more than offsetting the decrease in revenue, with the revised 2017-18 budget result higher than estimated at the time of the 2017-18 Budget.

### C.3 Balance sheet

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The State's net worth is expected to increase since the 2017-18 Budget. This is largely driven by higher financial investment balances, and equity investments in other public sector entities.

Forecast increases in non-financial assets largely reflect assets previously carried at nil value being brought to account for the first time as at 30 June 2017. This is partially offset by an increase in forecast liabilities since the Budget, reflecting increases in payables and other liabilities.

Net debt has also improved compared to Budget, reflecting the improvement in the 2016-17 actual budget result.

### C.4 Cash flow statement

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The state's forecast cash deficit has improved since the time of the Budget. This is primarily driven by the revised timing of the State's capital program and improved actual budget result. Cash invested in Restart NSW from previous asset sales continues to generate investment returns allowing greater reinvestment into productive infrastructure.

Table C.1: General government sector operating statement

	2016-17	2017-18		Variance	Variance	4 Months to
	Actual	Budget	Revised			Actual
	\$m	\$m	\$m			\$m
<b>Revenue from Transactions</b>						
Taxation	30,789	31,560	31,411	(149)	(0.5)	10,065
Grants and Subsidies						
- Commonwealth General Purpose	17,202	17,592	17,700	107	0.6	5,851
- Commonwealth Specific Purpose Payments	9,435	9,824	9,719	(105)	(1.1)	3,197
- Commonwealth National Partnership Payments	4,121	3,470	3,580	110	3.2	327
- Other Commonwealth Payments	0	251	253	2	0.7	107
- Other Grants and Subsidies	592	723	336	(386)	(53.4)	307
Sale of Goods and Services	8,159	8,976	9,012	36	0.4	2,725
Interest	769	413	366	(47)	(11.4)	181
Dividend and Income Tax Equivalents from Other Sectors	1,102	1,620	1,703	83	5.1	568
Other Dividends and Distributions	1,267	1,016	1,142	126	12.4	213
Fines, Regulatory Fees and Other	4,703	4,439	4,620	181	4.1	1,542
<b>Total Revenue from Transactions</b>	<b>78,139</b>	<b>79,885</b>	<b>79,842</b>	<b>(43)</b>	<b>(0.1)</b>	<b>25,084</b>
<b>Expenses from Transactions</b>						
Employee	30,585	31,483	31,165	(318)	(1.0)	10,358
Superannuation						
- Superannuation Interest Cost	1,334	1,465	1,480	15	1.0	489
- Other Superannuation	2,992	3,009	3,018	10	0.3	970
Depreciation and Amortisation	4,614	4,937	4,946	8	0.2	1,565
Interest	2,149	2,094	2,028	(66)	(3.1)	643
Other Operating	18,312	19,627	19,469	(158)	(0.8)	5,907
Grants, Subsidies and Other Transfer Expenses	12,565	14,571	14,403	(168)	(1.2)	4,271
<b>Total Expenses from Transactions</b>	<b>72,551</b>	<b>77,186</b>	<b>76,510</b>	<b>(677)</b>	<b>(0.9)</b>	<b>24,203</b>
Transactions from Discontinuing Operations	136	...	...	...	...	...
<b>BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]</b>	<b>5,724</b>	<b>2,698</b>	<b>3,332</b>	<b>634</b>	<b>23.5</b>	<b>880</b>

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

	2016-17		2017-18		4 Months to	
	Actual	Budget	Revised	Variance	Variance	31/10/2017
	\$m	\$m	\$m	\$m	%	Actual
<b>Result</b>						
Gain/(Loss) from Other Liabilities	367	159	166	6	4.0	(51)
Other Net Gains/(Losses)	12,444	236	229	(7)	(3.0)	835
Share of Earnings from Associates (excluding Dividends)	48	6	69	62	980.1	36
Dividends from Asset Sale Proceeds	115	193	137	(56)	(29.0)	(0)
Allowance for Impairment of Receivables	(84)	(38)	(37)	1	(2.4)	(3)
Deferred Income Tax from Other Sectors	(2,521)	(11)	(1)	10	(91.5)	(0)
Others	916	81	83	2	2.7	28
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>11,285</b>	<b>627</b>	<b>646</b>	<b>19</b>	<b>3.0</b>	<b>845</b>
<b>Operating Result</b>	<b>17,009</b>	<b>3,326</b>	<b>3,978</b>	<b>653</b>	<b>19.6</b>	<b>1,725</b>
<b>Other Economic Flows - Other Comprehensive Income</b>						
<b>Items that will not be Reclassified to Operating Result</b>	<b>14,725</b>	<b>8,453</b>	<b>14,802</b>	<b>6,350</b>	<b>75.1</b>	<b>2,517</b>
Revaluations	2,354	4,054	7,156	3,102	76.5	19
Share of Earnings from Associates from Revaluations	361	...	(2)	(2)	...	...
Superannuation Actuarial Gain/(Loss)	12,011	4,316	7,466	3,150	73.0	2,498
Deferred Tax Adjustment through Equity	...	83	183	100	120.5	...
<b>Items that may be Reclassified Subsequently to Operating Result</b>	<b>4,434</b>	<b>1,160</b>	<b>2,335</b>	<b>1,175</b>	<b>101.2</b>	<b>1,845</b>
Net Gain/(Loss) on Equity Investments in Other Sectors	4,381	1,194	2,672	1,478	123.8	1,832
Net Gain/(Loss) on Financial Instruments at Fair Value	...	(0)	...	0	(100.0)	1
Other	53	(33)	(337)	(304)	919.8	11
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>19,160</b>	<b>9,613</b>	<b>17,137</b>	<b>7,524</b>	<b>78.3</b>	<b>4,361</b>
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>36,169</b>	<b>12,939</b>	<b>21,116</b>	<b>8,177</b>	<b>63.2</b>	<b>6,087</b>
<b>Key Fiscal Aggregates</b>						
<b>Comprehensive Result - Total Change in Net Worth <sup>(a)</sup></b>	<b>36,169</b>	<b>12,939</b>	<b>21,116</b>	<b>8,177</b>	<b>63.2</b>	<b>6,087</b>
Less: Net Other Economic Flows	(30,445)	(10,240)	(17,783)	(7,543)	73.7	(5,207)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>5,724</b>	<b>2,698</b>	<b>3,332</b>	<b>634</b>	<b>23.5</b>	<b>880</b>
<b>Less: Net Acquisition of Non-Financial Assets</b>						
Purchases of Non-Financial Assets	10,419	14,325	14,195	(131)	(0.9)	3,361
Sales of Non-Financial Assets	(3,500)	(526)	(536)	(10)	1.8	(95)
Less: Depreciation	(4,614)	(4,937)	(4,946)	(8)	0.2	(1,565)
Plus: Change in Inventories	7	(22)	(19)	3	(15.3)	3
Plus: Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	127	190	130	(59)	(31.2)	42
- Other	245	116	103	(13)	(11.0)	105
Equals: Total Net Acquisition of Non-Financial Assets	<b>2,684</b>	<b>9,146</b>	<b>8,929</b>	<b>(217)</b>	<b>(2.4)</b>	<b>1,851</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>3,040</b>	<b>(6,447)</b>	<b>(5,597)</b>	<b>851</b>	<b>(13.2)</b>	<b>(971)</b>
<b>OTHER FISCAL AGGREGATES</b>						
Capital Expenditure <sup>(b)</sup>	<b>10,546</b>	<b>14,515</b>	<b>14,325</b>	<b>(190)</b>	<b>(1.3)</b>	<b>3,403</b>

(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 2017		June 2018		Variance	Variance	4 Months to
	Actual	Budget	Revised	Variance			31/10/2017
	\$m	\$m	\$m	\$m	%	Actual	
<b>Assets</b>							
<b>Financial Assets</b>							
Cash and Cash Equivalents	8,731	2,494	1,104	(1,391)	(55.8)		3,664
Receivables	6,216	5,544	6,602	1,058	19.1		7,077
Tax Equivalents Receivable	91	109	52	(56)	(51.8)		81
Investments, Loans and Placements							
Financial Assets at Fair Value	26,561	27,254	31,240	3,985	14.6		30,368
Other Financial Assets	6,778	2,972	2,985	13	0.4		6,256
Advances Paid	1,005	1,054	1,039	(15)	(1.4)		1,013
Deferred Tax Equivalent Assets	2,049	2,216	2,264	47	2.1		2,060
Equity							
Investments in Other Public Sector Entities	107,117	109,535	110,480	945	0.9		108,614
Investments in Associates	5,870	9,438	5,870	(3,567)	(37.8)		5,870
Other Equity Investments	4,896	674	4,939	4,265	632.6		4,868
<b>Total Financial Assets</b>	<b>169,315</b>	<b>161,289</b>	<b>166,575</b>	<b>5,285</b>	<b>3.3</b>		<b>169,873</b>
<b>Non- Financial Assets</b>							
Inventories	296	263	279	16	6.0		303
Forestry Stock and Other Biological Assets	10	11	10	(1)	(9.5)		10
Assets Classified as Held for Sale	155	228	343	115	50.5		159
Property, Plant and Equipment							
Land and Buildings	72,752	77,158	77,332	175	0.2		72,935
Plant and Equipment	11,300	12,599	11,458	(1,142)	(9.1)		11,228
Infrastructure Systems	92,147	96,240	102,102	5,862	6.1		93,162
Intangibles	3,448	3,495	3,761	266	7.6		3,579
Other Non-Financial Assets	4,935	6,242	6,925	683	10.9		6,477
<b>Total Non- Financial Assets</b>	<b>185,043</b>	<b>196,235</b>	<b>202,209</b>	<b>5,974</b>	<b>3.0</b>		<b>187,854</b>
<b>Total Assets</b>	<b>354,358</b>	<b>357,525</b>	<b>368,783</b>	<b>11,259</b>	<b>3.1</b>		<b>357,727</b>
<b>Liabilities</b>							
Deposits Held	106	104	91	(13)	(12.4)		113
Payables	6,385	5,309	6,355	1,046	19.7		6,126
Tax Equivalents Payable	18	3	...	(3)	(100.0)		17
Borrowings and Derivatives at Fair Value	905	5	5	(1)	(11.3)		511
Borrowings at Amortised Cost	31,909	32,566	32,578	12	0.0		31,878
Advances Received	812	578	758	180	31.2		807
Employee Provisions	16,842	16,806	16,890	84	0.5		17,057
Superannuation Provision <sup>(a)</sup>	56,285	49,491	49,080	(411)	(0.8)		53,866
Deferred Tax Equivalent Provision	59	105	102	(3)	(2.7)		71
Other Provisions	8,815	8,620	8,898	278	3.2		8,827
Other Liabilities	5,752	6,079	6,436	357	5.9		5,911
<b>Total Liabilities</b>	<b>127,887</b>	<b>119,665</b>	<b>121,192</b>	<b>1,527</b>	<b>1.3</b>		<b>125,182</b>
<b>NET ASSETS</b>	<b>226,471</b>	<b>237,859</b>	<b>247,591</b>	<b>9,732</b>	<b>4.1</b>		<b>232,545</b>
<b>NET WORTH</b>							
Accumulated Funds	74,463	44,106	81,669	37,563	85.2		75,882
Reserves	152,009	193,754	165,922	(27,832)	(14.4)		156,663
<b>TOTAL NET WORTH</b>	<b>226,471</b>	<b>237,859</b>	<b>247,591</b>	<b>9,732</b>	<b>4.1</b>		<b>232,545</b>
<b>OTHER FISCAL AGGREGATES</b>							
<b>Net Debt<sup>(b)</sup></b>	<b>(9,344)</b>	<b>(521)</b>	<b>(2,935)</b>	<b>(2,414)</b>	<b>463.7</b>		<b>(7,993)</b>
<b>Net Financial Liabilities<sup>(c)</sup></b>	<b>65,690</b>	<b>67,910</b>	<b>65,097</b>	<b>(2,813)</b>	<b>(4.1)</b>		<b>63,923</b>
<b>Net Financial Worth<sup>(d)</sup></b>	<b>41,428</b>	<b>41,624</b>	<b>45,383</b>	<b>3,758</b>	<b>9.0</b>		<b>44,691</b>

(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

	2016-17		2017-18		4 Months to	
	Actual	Budget	Revised	Variance	Variance	31/10/2017
	\$m	\$m	\$m	\$m	%	\$m
<b>Cash Receipts from Operating Activities</b>						
Taxes Received	31,291	31,538	31,657	120	0.4	9,698
Receipts from Sales of Goods and Services	8,487	9,743	9,591	(152)	(1.6)	2,614
Grant and Subsidies Received	31,202	31,860	31,573	(288)	(0.9)	9,792
Interest Receipts	698	404	335	(68)	(16.9)	85
Dividends and Income Tax Equivalents	1,321	1,037	943	(94)	(9.1)	374
Other Receipts	10,333	8,822	7,160	(1,662)	(18.8)	3,444
<b>Total Cash Receipts from Operating Activities</b>	<b>83,332</b>	<b>83,403</b>	<b>81,259</b>	<b>(2,144)</b>	<b>(2.6)</b>	<b>26,007</b>
<b>Cash Payments from Operating Activities</b>						
Payments for Employees	(30,232)	(31,401)	(31,108)	294	(0.9)	(9,707)
Payments for Superannuation	(3,898)	(4,518)	(4,358)	161	(3.6)	(1,401)
Payments for Goods and Services	(20,751)	(20,478)	(20,870)	(391)	1.9	(7,501)
Grants and Subsidies Paid	(10,599)	(12,943)	(12,742)	201	(1.6)	(3,797)
Interest Paid	(1,642)	(1,518)	(1,509)	9	(0.6)	(548)
Other Payments	(5,645)	(5,315)	(3,438)	1,877	(35.3)	(2,254)
<b>Total Cash Payments from Operating Activities</b>	<b>(72,767)</b>	<b>(76,174)</b>	<b>(74,023)</b>	<b>2,150</b>	<b>(2.8)</b>	<b>(25,207)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>10,565</b>	<b>7,229</b>	<b>7,236</b>	<b>7</b>	<b>0.1</b>	<b>799</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>						
Sales of Non-Financial Assets	3,262	601	617	16	2.7	171
Purchases of Non-Financial Assets	(10,255)	(14,358)	(13,982)	375	(2.6)	(3,563)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(6,992)</b>	<b>(13,757)</b>	<b>(13,365)</b>	<b>392</b>	<b>(2.8)</b>	<b>(3,392)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>						
Receipts	14,185	818	1,006	188	23.0	684
Payments	(2,917)	(2,535)	(1,907)	628	(24.8)	(527)
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>11,268</b>	<b>(1,717)</b>	<b>(901)</b>	<b>816</b>	<b>(47.5)</b>	<b>158</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>						
Receipts from Sale/Maturity of Investments	21,112	11,527	6,214	(5,313)	(46.1)	961
Payments for the Purchase of Investments	(33,262)	(5,856)	(6,300)	(444)	7.6	(3,039)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(12,150)</b>	<b>5,671</b>	<b>(86)</b>	<b>(5,757)</b>	<b>(101.5)</b>	<b>(2,078)</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(7,874)</b>	<b>(9,803)</b>	<b>(14,353)</b>	<b>(4,550)</b>	<b>46.4</b>	<b>(5,312)</b>
<b>Cash Flows from Financing Activities</b>						
Advances Received	(0)	12	70	58	490.8	3
Advances Repaid	(70)	(58)	(70)	(13)	21.8	(3)
Proceeds from Borrowings	4,040	1,002	1,087	85	8.5	61
Repayment of Borrowings	(3,411)	(1,699)	(1,739)	(40)	2.3	(610)
Deposits Received - Net	(21)	(12)	(15)	(3)	25.8	8
Other Financing Payments (net)	(0)	230	191	(39)	(17.0)	12
<b>Net Cash Flows from Financing Activities</b>	<b>538</b>	<b>(525)</b>	<b>(476)</b>	<b>48</b>	<b>(9.2)</b>	<b>(530)</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>3,228</b>	<b>(3,098)</b>	<b>(7,593)</b>	<b>(4,495)</b>	<b>145.1</b>	<b>(5,043)</b>
<b>Derivation of Cash Result</b>						
Net Cash Flows From Operating Activities	10,565	7,229	7,236	7	0.1	799
Assets	(6,992)	(13,757)	(13,365)	392	(2.8)	(3,392)
<b>Cash Surplus/(Deficit)</b>	<b>3,573</b>	<b>(6,527)</b>	<b>(6,129)</b>	<b>398</b>	<b>(6.1)</b>	<b>(2,593)</b>