PRE-ELECTION BUDGET UPDATE

2019

2019 Pre-election Budget Update

Released by Michael Pratt AM, Secretary
NSW Treasury

5 March 2019

FOREWORD

The NSW State election will be held on Saturday, 23 March 2019.

The *Parliamentary Budget Officer Act 2010* requires the Secretary of the Treasury to release a Pre-election Budget Update as soon as reasonably practicable after the commencement of the caretaker period. The caretaker period for the election commenced on Friday, 1 March 2019.

The purpose of this Pre-election Budget Update is to update the information set out in the 2018-19 Half-Yearly Review, which was released on Tuesday, 18 December 2018 and which can be found at www.budget.nsw.gov.au. The Pre-election Budget Update only updates fiscal information for the general government sector.

I confirm this Pre-election Budget Update takes into account, to the fullest extent possible, all NSW Government decisions I was aware of up until the commencement of the caretaker period.

Consistent with the requirements of section 24 of the *Parliamentary Budget Officer Act 2010*, this Pre-election Budget Update includes:

- revised fiscal aggregates for the period 2018-19 to 2021-22 and a discussion of possible fiscal risks which could alter these estimates
- updated economic projections that impact the New South Wales, Australian and international economies – including any risks to the outlook
- a discussion and explanation of any significant variations that have emerged since the 2018-19 Half-Yearly Review
- revised estimated financial statements for the general government sector, which are consistent with the applicable Australian Accounting Standards at the 2018-19 Half-Yearly Review
- an update to the matters set out in section 8(b) of the *Fiscal Responsibility Act 2012.*

The Pre-election Budget Update is based on economic and financial data available to NSW Treasury up to 28 February 2019 and includes all known circumstances that may have a material effect on the economic and fiscal outlook.

Michael Pratt AM
Secretary, NSW Treasury
5 March 2019

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1. OVERVIEW

The 2019 Pre-election Budget Update[1] provides an update on the fiscal and economic position of New South Wales since the 2018-19 Half-Yearly Review, released on 18 December 2018.

The information in this report takes into account, to the fullest extent possible, all NSW Government decisions made before the commencement of the caretaker period. It includes all other known circumstances and market updates that may have a material effect on the economic and fiscal outlook.

Economic conditions and outlook

Last financial year (2017-18) the NSW economy grew by 2.6 per cent. This result followed three years of growth that was well above long-term trends (see Chart 1.1).

Since the Half-Yearly Review, there are signs economic momentum has slowed more than previously expected. In particular, there are signs that deteriorating conditions in the housing market are having a stronger than expected negative impact on consumer spending and dwelling approvals.

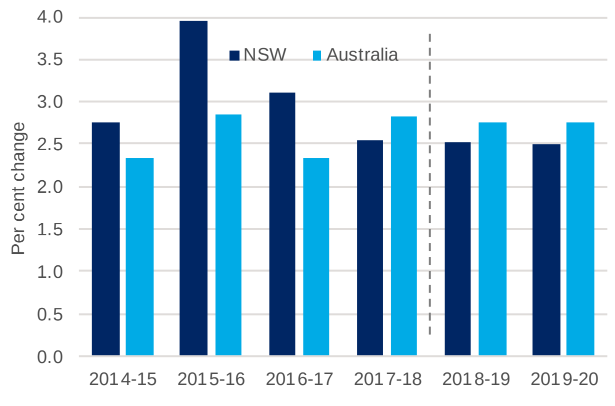
These recent developments have prompted a ¼ per cent downward revision to the State's economic growth for this financial year, from 2¾ to 2½ per cent. Beyond this financial year, economic growth over the forward estimates is forecast to be at trend (2½ per cent per year) and in line with the forecasts in the Half-Yearly Review.

Risks to the outlook appear to have tilted more to the downside since Half-Yearly Review. These include growing uncertainty around the global outlook and several domestic risks, particularly risks associated with the housing sector.

Labour market conditions continue to be strong in New South Wales. In January 2019:

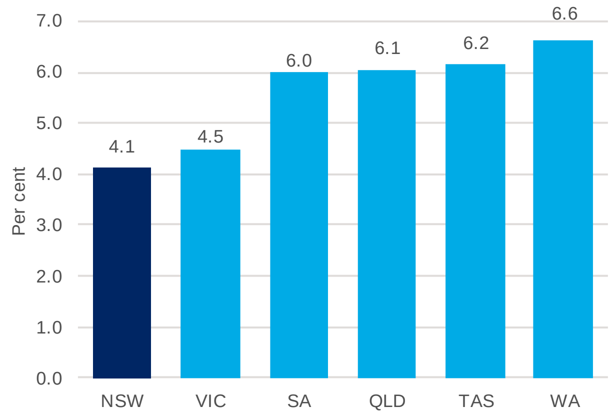
- employment increased by more than twice its long-run pace of growth through the year
- the unemployment rate hit its lowest level in more than four decades – the trend unemployment rate was 4.1 per cent, (see Chart 1.2), corresponding to a seasonally adjusted unemployment rate of 3.9 per cent
- the labour force participation rate remained near a record high, at just over 65 per cent.

Chart 1.1: NSW economic growth expected to remain around trend (2½ per cent)



Source: ABS 5220.0, ABS 6202.0 and NSW Treasury

Chart 1.2: Unemployment rate (trend, January 2019)



Source: ABS 6202.0

1 Pre-election Budget Update referred to as PEBU in Tables and Charts.

Conditions in the labour market are expected to remain solid, despite an anticipated easing in employment growth. The unemployment rate is forecast to remain slightly below the level consistent with full-employment. Tight capacity in the labour market is expected to gradually flow through to faster wages growth, consistent with the position in the Half-Yearly Review.

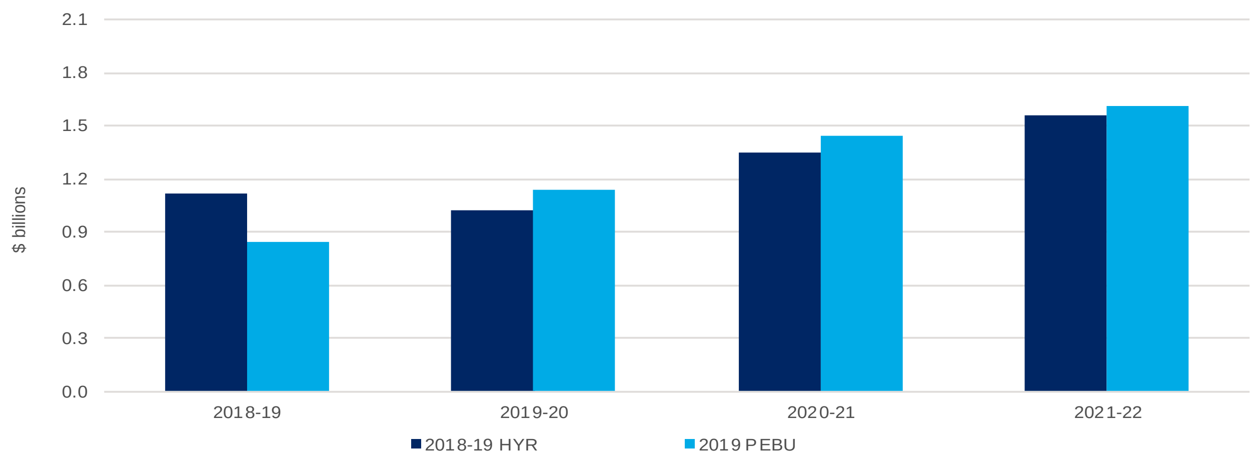
Fiscal position and outlook

The 2018-19 surplus is projected to be $846 million, which is $273 million lower than at Half-Yearly Review.

- Revenue for 2018-19 is forecast to be $477 million lower than at Half-Yearly Review, reflecting weaker taxation estimates, including transfer duty and payroll tax.
- Expenditure for 2018-19 is projected to be $204 million lower than at Half-Yearly Review, reflecting reprofiling of expenses to better align with project and service delivery schedules.

Over the four years to 2021-22, budget surpluses are expected to average $1.3 billion per year. This is consistent with the projection in the Half-Yearly Review. Individual years vary relative to Half-Yearly Review, largely due to lower transfer duties and other parameter and technical adjustments, offset by higher GST revenue in later years. Further detail on projected revenue and expenditure can be found in Chapter 3.

Chart 1.3: Budget surpluses compared to the 2018-19 Half-Yearly Review



Net debt is estimated to be negative $8.0 billion at June 2019. This net debt estimate is lower than the projection at Half-Yearly Review, which was negative $7.7 billion, and takes into account higher financial asset balances. The State's net debt continues to be the lowest of all jurisdictions across Australia (see Chart 1.4).

Chart 1.4: Lowest net debt of all states and territories, estimated for June 2019 (a)

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

Source: State 2018-19 mid-year budget updates.

New South Wales' net worth remains the highest of any state or territory in Australia. The State's net worth is projected to grow to $312.3 billion by June 2022. This is a downward revision of $2.4 billion compared to the projection in the Half-Yearly Review and is largely driven by lower bond rates impacting the State's unfunded superannuation liability.

The State's credit rating remains unchanged from the Half-Yearly Review, with a triple-A rating from both Moody's and S&P Global Ratings.

Risks

The financial estimates contained in this Pre-election Budget Update are subject to uncertainty. Budget aggregates are based on assumptions which may differ from actual outcomes. Higher or lower levels of economic activity, interest rates, exchange rates or market returns will impact the State's revenue, expenditure and balance sheet.

The Budget is also based on assumptions concerning the demand for, and the cost of providing, government services. Unexpected additional demand for services, higher price and wage outcomes or variations in the assumed level of agency operating efficiency will impact on level of government expenditure.

These issues are discussed in more detail in Section 3.8.

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2. ECONOMIC OUTLOOK

2.1 Near-term challenges, but the fundamentals are solid

The NSW economy grew by 2.6 per cent in 2017-18, consistent with trend, while labour market conditions have remained strong. Employment growth is well above-trend, the workforce participation rate is at a record high (led by female workers) and the unemployment rate has fallen to its lowest level in over four decades. Even so, labour market conditions are not a leading indicator of economic performance.

Most indicators of near-term momentum in the economy have softened since late 2018, particularly those associated with the household sector. The deterioration in housing market conditions has been worse than expected at the Half-Yearly Review and is negatively impacting consumer spending and dwelling approvals faster, and to a greater magnitude, than previously anticipated.

Downside risks that were highlighted at Half-Yearly Review have become more prevalent, particularly the outlook for the global and national economies, the domestic housing market and household consumption.

These developments suggest the NSW economy is facing more challenging economic circumstances than previously expected, prompting downgrades to the outlook.
The underlying transition in the sources of growth will see the economy supported less by household consumption and dwelling investment and more by business investment and exports over the next two years.

Economic growth is now expected to be around 2½ per cent in 2018-19. This is in line with trend, but a ¼ percentage point lower than expected at Half-Yearly Review. Most of the revision is due to softer consumption growth, although a downgrade to the national growth outlook should also see a smaller contribution from interstate trade.

For now, the foundations remain broadly in place for trend-like growth of 2½ per cent to continue over the coming years. The public sector is expected to remain a key source of strength, underpinned by a record construction pipeline, while conditions generally remain supportive for business investment and exports. Strong public demand is creating positive spill-overs to the private sector, while greater economic integration with Asia, solid growth potential for our major trading partners, a lower Australian dollar and elevated commodity prices, are all encouraging for the longer-term outlook.

Additionally, a continuation of healthy labour market conditions, above-trend population growth and low interest rates will offset challenges to the household sector.

Table 2.1: Economic Performance and Outlook [(a)]

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

(a) Per cent change, annual average unless otherwise indicated. Half-Yearly Review forecasts in parenthesis where different.
(b) Year average, per cent.
(c) Per cent change through the year to 30 June. Forecasts rounded to nearest 0.1 percentage point.

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

2.2 The household sector has come under pressure

The ongoing deterioration of conditions in the housing market has been a key challenge for the local economy in recent months. Turnover in the housing market has fallen away sharply, while the median Sydney house price has fallen another 1½ per cent in the two months since November 2018. The Sydney house price is now down more than 10 per cent from the peak in mid-2017. This is the largest fall since the 1980s, but represents only a partial unwinding of the sustained price gains experienced in recent years.

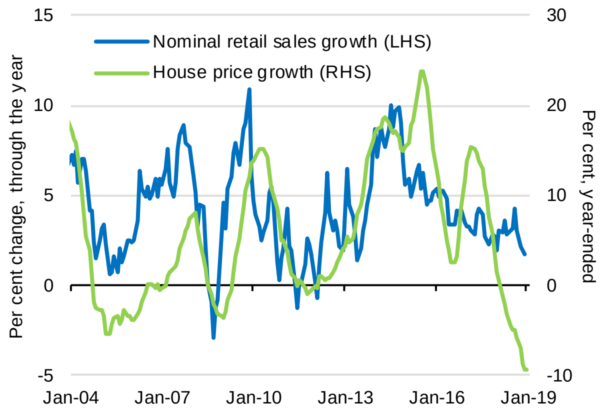
As indicated at the Half-Yearly Review, the broader economic implications from the downturn in housing market conditions are uncertain. One reason is the unusual nature of this downturn, which is not driven by a weakening labour market or rising interest rates. Further, there was an apparent disconnect between property price trends and consumer spending as prices rose rapidly in the current cycle (Chart 2.1). Recent data on consumer spending, suggests that the impact of falling house prices will be more in line with what historical trends suggest. This is a larger and earlier impact than expected at the Half-Yearly Review.

Household consumption is up 2.6 per cent through the year and is below the long-run average, following a September quarter increase of only 0.2 per cent. This weakness appears to have continued into the December quarter, with early analysis of retail sales data ruling out a rebound in consumer spending. Growth in discretionary spending has slowed noticeably, particularly for items most sensitive to changes in wealth (such as motor vehicles).

Given these trends, along with the expectation of a longer downturn in house prices and weaker income growth, the outlook for household consumption has been revised down.

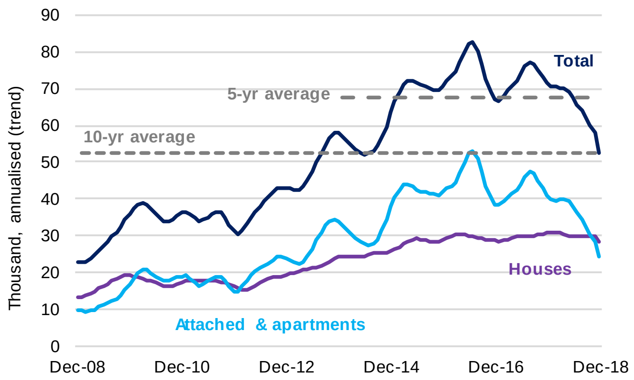
A weaker housing market is also having a dampening effect on residential construction, although an elevated pipeline of projects should keep activity at a high level, at least in the near-term. NSW residential building approvals were revised higher in 2017-18, suggesting a stronger than expected boost to dwelling investment in the near term. However, subsequent approvals data in the first half of 2018-19 declined more sharply than forecast at the Half-Yearly Review (see Chart 2.2). As a result, dwelling investment is expected to be a drag on the economy towards the end of the forecast horizon.

Chart 2.1: Wealth effect has seen some disconnect from spending



Source: ABS 8501.0, CoreLogic and NSW Treasury

Chart 2.2: Dwelling approvals have dipped sharply in recent months



Source: ABS 8731.0 and NSW Treasury

2.3 The labour market remains strong, lifting wages growth

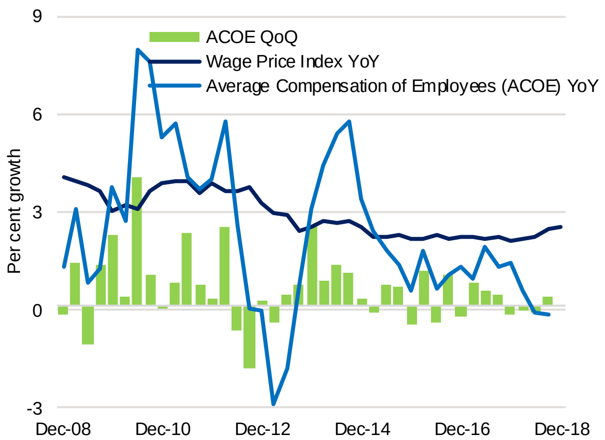
The NSW labour market is operating above what is normally considered to be full-employment. The unemployment rate is currently at its lowest level in over 40 years, while the job vacancy rate is near a record high. Leading job market indicators suggest the maintenance of healthy labour demand in the near term, albeit a touch softer than in the past year. While slower jobs growth poses a risk to incomes, tighter labour market capacity at both the State and national level is expected to gradually flow into faster wages growth.

Until recently, wages growth had been constrained, in large part by spare labour capacity nationally, strong inward migration and the unwinding of the mining boom, which displaced many workers. Nonetheless, the Wage Price Index (WPI) experienced a notable lift in the second half of 2018, while other leading indicators have been broadly encouraging.

Wages growth is expected to gradually accelerate over the next four years, with forecasts for the WPI unchanged since the Half-Yearly Review. This is consistent with the continued decline in national labour market spare capacity, fewer wage freezes, higher advertised salaries for vacant positions and growing wage pressures in some pockets of the economy.

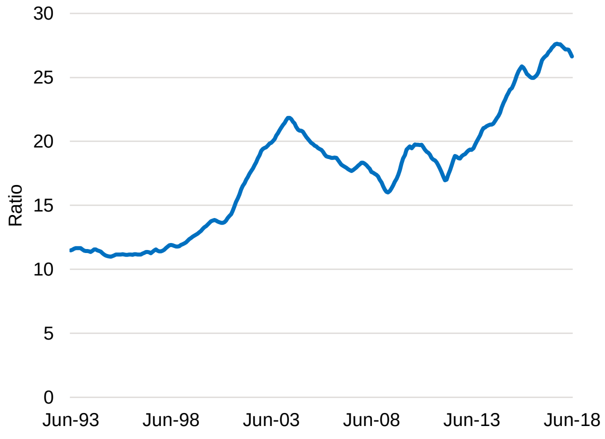
On the other hand, broader wage measures that account for compositional effects in the labour force continue to show weakness (see Chart 2.3). This partly reflects a higher share of recent employment growth being part-time and in lower wage-paying industries. There is also evidence suggesting that employed people are voluntarily changing jobs less frequently, which gives workers less opportunity to seek pay rises. These compositional effects are expected to gradually subside over the forecast period and provide greater support to household income growth.

Chart 2.3: Wages measures showing mixed signals



Source: ABS 5206.0, ABS 6202.0, ABS 6345.0 and NSW Treasury

Chart 2.4: House price-to-income[(a)] ratio remains elevated



Source: ABS 5206.0, ABS 3101.0, CoreLogic and NSW Treasury

(a) Income reflects estimated compensation of employees per capita

The inflation outlook has softened since the Half-Yearly Review, largely reflecting the direct and indirect effects (including via lower business costs) of lower petrol prices and weaker housing rental growth. Underlying inflation is expected to gradually rise over time, driven by faster wages growth, a lower Australian dollar and building global inflation pressures.

2.4 Risks to the economic outlook

Risks to the economic outlook appear to have tilted more to the downside since late 2018, relating to growing uncertainty around the global outlook and several domestic risks.

The outlook for the global economy remains favourable – but rising political tensions, policy uncertainty, financial market volatility and hikes in trade tariffs are all drags on economic activity. Reflecting these developments, global institutions like the International Monetary Fund and the World Bank have pared back their outlook for growth since late last year.

Near-term domestic risks centre around the response of households to falling house prices, particularly at a time when household debt levels are high and income growth is modest. House prices remain elevated when compared to incomes (see Chart 2.4), which leaves some households more vulnerable to shocks. At the same time, lending standards have tightened. This heightens uncertainty around the outlook for consumers and dwelling construction and has implications for financial stability.

The release of the final recommendations by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has helped to mitigate some immediate uncertainty. In addition, the Reserve Bank of Australia has an option to cut interest rates to support the economy, if required.

Other key domestic risks centre around the uncertainty associated with the 2019 Federal election, longer-term issues around population and weak productivity growth and the possibility of slower construction activity (particularly if capacity constraints continue to build). There is a risk that non-residential and residential construction both fall at the same time as public sector investment plateaus (at high levels), amplifying the negative impact on growth in the economy and employment in the next few years.

3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

The Pre-election Budget Update projects surpluses across the four years to 2021-22. The average surplus is $1.3 billion per year (see Table 3.1 below), in line with the projection in the 2018-19 Half-Yearly Review. The updated projection takes into account higher GST revenues, offset by weaker state taxation revenues as well as other parameter and technical adjustments.

Table 3.1: General government operating position and outlook

	2018-19	2018-19	2019-20	2020-21	2021-22
	HYR	PEBU	Forward Estimates		
Revenue ($m)	81,743	81,266	84,455	87,108	89,590
Revenue growth (%)	1.3	0.7	3.9	3.1	2.9
Expenses ($m)	80,623	80,419	83,312	85,659	87,973
Expense growth (%)	5.4	5.1	3.6	2.8	2.7
Budget Result ($m)	1,120	846	1,143	1,449	1,617
Per cent of GSP	0.2	0.1	0.2	0.2	0.2
Budget Result ($m) at 2018-19 Half-Yearly Review		*1,120*	*1,018*	*1,348*	*1,566*

Measures taken since the Half-Yearly Review

Since the Half-Yearly Review, the Government has announced a number of new initiatives, including[2]:

- $291.1 million over four years (from 2019-20 to 2022-23) to expand the Active Kids Rebate program to provide an additional $100 voucher per child per year towards kids' sporting and active recreation activities
- $288.0 million over two years (from 2018-19 to 2019-20) towards backlog maintenance in schools
- an additional $100 million towards the Stronger Country Communities Program to support the delivery of community infrastructure, including youth centres, Police Citizens Youth Clubs (PCYCs), sporting clubs and community colleges
- $42.1 million over four years (from 2019-20 to 2022-23) to provide energy rebates of up to $200 per year to self-funded retirees who hold a Commonwealth Seniors Health Card
- $37.6 million over four years (from 2019-20 to 2022-23) towards safety improvements for New South Wales waterways, including new rescue vessels, new or upgraded bases and an upgraded Marine Rescue NSW radio network
- $16.0 million over four years (from 2019-20 to 2022-23) for Surf Life Saving NSW.

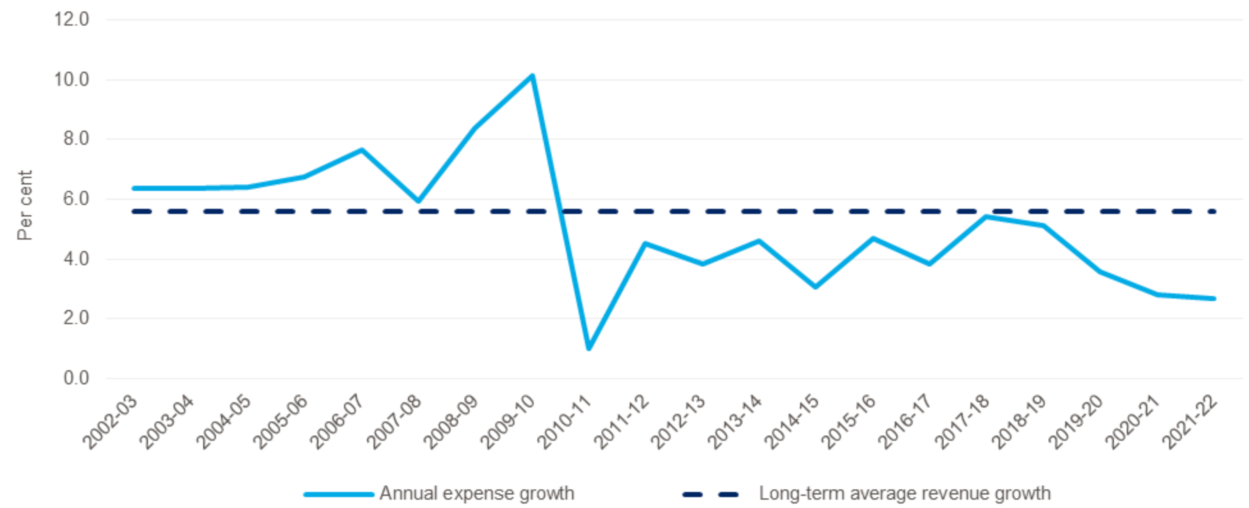
[2] Note: four measures in this list (Active Kids Rebate program, backlog maintenance in schools, Stronger Country Communities Program and the energy rebate for self-funded retirees) are being met from within existing budgets and have no impact on the updated budget result.

Expense growth remains in line with the targets set out in the *Fiscal Responsibility Act 2012* (see Table 3.2). The Half-Yearly Review noted the NSW Government was on track to meet the targets over the four years to 2021-22 and this remains the case for the Pre-election Budget Update.

Table 3.2: Fiscal objective and targets

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

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

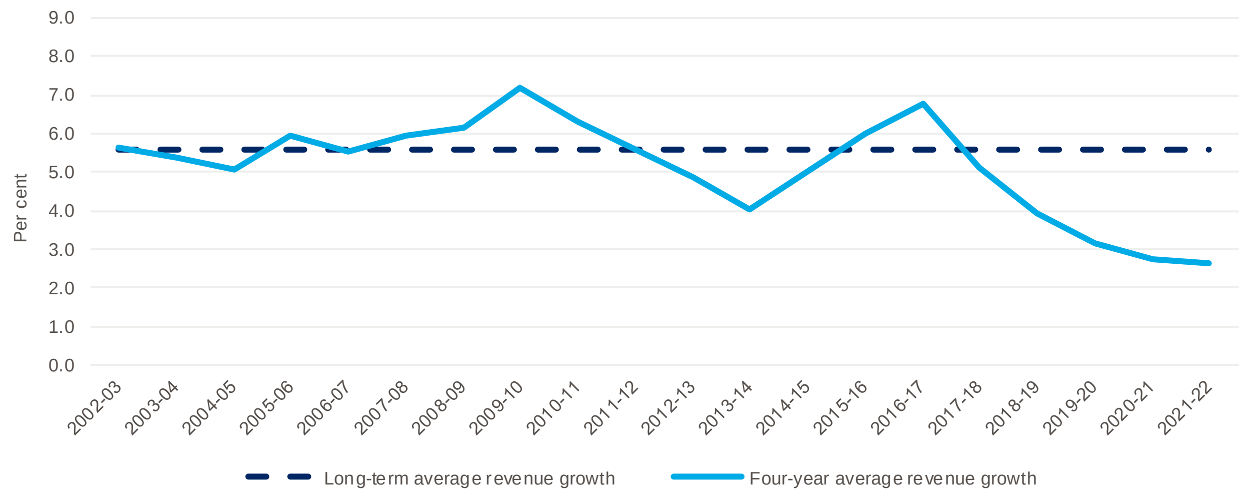


Revenue

Revenue for 2018-19 is projected to be $81.3 billion, which is a downward revision of $477.3 million since the Half-Yearly Review. This takes into account downward revisions to multiple state taxation lines, including transfer duties of $393.0 million.

Since the Half-Yearly Review, revenue has been revised up by $363.0 million over the four years to 2021-22. This is mainly due to higher GST revenue of $1.2 billion (reflecting an improved relativity recommended by the Commonwealth Grants Commission and a lower expected GST pool), largely offset by downward revisions to state taxation – including transfer duties ($747.0 million) and payroll tax ($573.1 million).

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



Balance sheet

The general government infrastructure program is $69.2 billion over the four years to 2021-22. This is a decrease of $137.5 million since the Half-Yearly Review, largely driven by the transfer of a regional rail project to the public non-financial corporations sector ($257.6 million) and offset by additional school maintenance ($161.0 million).

Table 3.3: General government capital and fiscal outlook

	2018-19	2018-19	2019-20	2020-21	2021-22
	HYR	PEBU	Forward Estimates		
Capital Expenditure ($m)	18,536	18,182	19,065	17,265	14,710
Per cent of GSP	2.9	2.9	2.9	2.5	2.0
Net Lending/(Borrowing) Result ($m)	(11,598)	(11,609)	(12,014)	(8,730)	(6,253)
Per cent of GSP	(1.8)	(1.8)	(1.8)	(1.3)	(0.9)
Net Debt ($m)	(7,712)	(7,966)	5,838	16,021	23,271
Per cent of GSP	(1.2)	(1.3)	0.9	2.3	3.2
Net Worth ($m)	275,962	270,700	281,873	299,911	312,337
Per cent of GSP	43.8	43.0	43.0	43.7	43.5

Net lending deficits over the four years to 2021-22 are expected to average $9.7 billion per year, reflecting the call on the balance sheet for the Government's infrastructure program. This is in line with the Half-Yearly Review projections, with individual year variations predominantly driven by changes in the budget result and capital expenditure.

Low net debt levels are forecast to continue in 2018-19, with negative $8.0 billion projected for June 2019. This is a $253.4 million improvement in the forecast from the Half-Yearly Review.

Looking ahead to June 2022, net debt is projected to grow to $23.3 billion. This is $800.2 million higher than the $22.5 billion projected in the Half-Yearly Review and is mainly due to an increase in finance leases that reflect an update to Transport's bus acquisition program.

Net worth projections have decreased across all years compared to the Half-Yearly Review (by $5.3 billion in June 2019 and reducing to $2.4 billion in June 2022) predominantly due to an increase in the State's superannuation liability. This has been driven by a decrease in the discount rate used to value the liability as a result of lower long-term bond yields relative to those at Half-Yearly Review.

3.2 Revenue outlook

General government revenue is forecast to be $81.3 billion in 2018-19, which is $477.3 million lower than forecast in the Half-Yearly Review. This is largely driven by a revised outlook for transfer duty revenue and reflects weaker than expected residential property sales in recent months.

Over the four years to 2021-22, general government revenue is expected to be $363.0 million higher than forecast in the Half-Yearly Review. The revised forecasts include an upward revision to GST revenue in the three years to 2021-22 and an increase in other dividends and distributions, partially offset by lower than expected transfer duty and payroll tax.

General government revenue growth is expected to average 2.7 per cent per year over the four years to 2021-22. This rate is slightly higher than the 2.6 per cent forecast in the Half-Yearly Review.

Table 3.4 provides a summary of revenue in the general government sector.

Table 3.4: General government sector revenue

	2017-18 Actual $m	2018-19 HYR $m	2018-19 PEBU $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	% Average growth p.a. 2017-18 to 2021-22
Revenue from transactions							
Taxation	31,326	31,709	31,179	32,153	34,005	35,178	2.9
Grant revenue (including GST)	31,860	32,455	32,303	33,144	34,935	36,724	3.6
Sales of goods and services	8,508	9,072	9,028	9,754	9,358	9,157	1.9
Interest income	558	452	464	334	319	289	(15.2)
Dividends and income tax equivalents from other sectors	1,578	1,971	1,960	1,631	1,260	761	(16.7)
Other dividends and distributions	2,114	923	1,157	1,631	1,645	1,732	(4.9)
Royalties	1,763	2,141	2,147	2,010	1,933	1,900	1.9
Fines, regulatory fees and other revenues	2,967	3,022	3,027	3,798	3,653	3,850	6.7
Total revenue	**80,672**	**81,743**	**81,266**	**84,455**	**87,108**	**89,590**	**2.7**

Chart 3.3: 2018-19 changes in revenue – 2018-19 Half-Yearly Review to Pre-election Budget Update

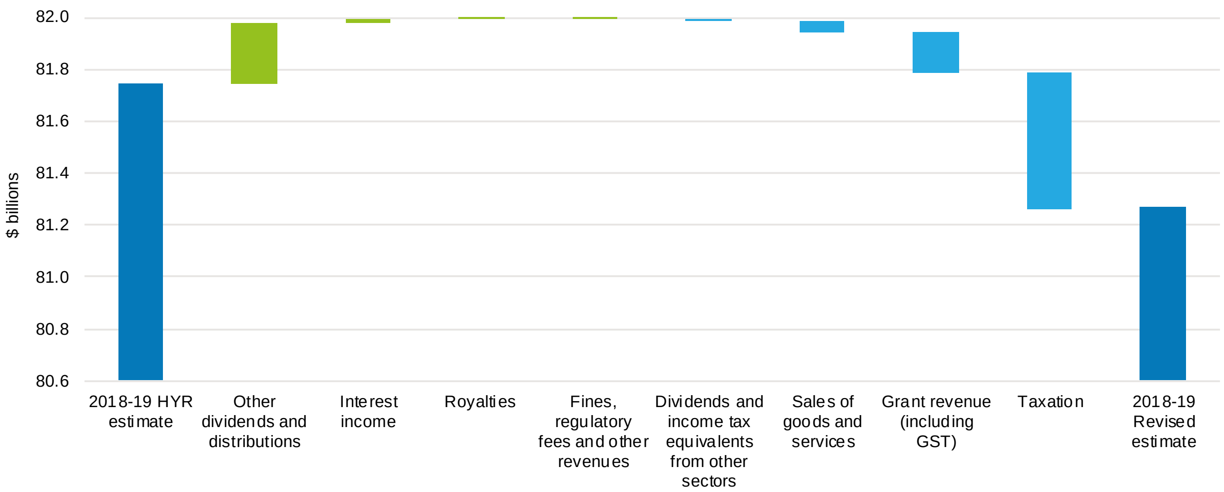


Table 3.5: Revenue reconciliation – 2018-19 Half-Yearly Review to Pre-election Budget Update

	2018-19	2019-20	2020-21	2021-22
	Projection	Forward Estimates		
	$m	$m	$m	$m
Revenue 2018-19 Half-Yearly Review	**81,743**	**84,222**	**86,861**	**89,230**
Changes since the Half-Yearly Review				
Taxation				
Transfer duty	(393)	(180)	(159)	(15)
Payroll tax	(102)	(129)	(167)	(175)
Land tax	(22)	(19)	(20)	(22)
Other taxes	(12)	50	35	13
Grant revenue				
GST	(184)	278	510	571
Other grant revenue	32	78	90	105
Sales of goods and services	(44)	69	(82)	(125)
Interest income	13	12	12	18
Dividends and income tax equivalents from other sectors	(11)	(10)	(30)	(48)
Other dividends and distributions	235	47	(20)	(31)
Royalties	6	21	64	57
Fines, regulatory fees and other revenues	6	17	14	11
Total changes	**(477)**	**233**	**247**	**360**
Revenue 2019 Pre-election Budget Update	**81,266**	**84,455**	**87,108**	**89,590**

Taxation revenue

State taxation revenue is forecast to be $31.2 billion in 2018-19, which is $529.5 million lower than forecast in the Half-Yearly Review. The state taxation revenue forecast for the four years to 2021-22 has been revised down by $1.3 billion. The largest contributing factor to the downward revision to taxation revenue is a further softening of the property market and, consequently, weaker transfer duty.

Table 3.6: Taxation revenue

	2017-18 Actual $m	2018-19 HYR $m	2018-19 PEBU $m	2019-20 Forward Estimates $m	2020-21 Forward Estimates $m	2021-22 Forward Estimates $m	% Average growth p.a. 2017-18 to 2021-22
Stamp duties							
Transfer duty	8,666	7,940	7,547	7,007	7,845	8,381	(0.8)
Insurance	983	950	980	1,036	1,102	1,132	3.6
Motor vehicles	834	813	778	807	831	856	0.6
Other	(1)	0	0	0	0	0	
	10,482	**9,703**	**9,305**	**8,850**	**9,778**	**10,369**	**(0.3)**
Payroll tax	8,835	9,456	9,354	9,793	10,233	10,679	4.9
Land tax	3,735	4,241	4,219	4,593	4,718	4,725	6.0
Taxes on motor vehicle ownership and operation							
Weight tax	2,242	2,211	2,196	2,265	2,396	2,476	2.5
Vehicle registration and transfer fees	436	451	445	451	462	475	2.2
Other motor vehicle taxes	41	42	42	45	47	49	4.5
	2,719	**2,704**	**2,683**	**2,761**	**2,905**	**3,000**	**2.5**
Gambling and betting taxes							
Racing	112	141	141	175	160	170	11.1
Club gaming devices	779	797	787	811	837	863	2.6
Hotel gaming devices	793	862	853	898	945	994	5.8
Lotteries and lotto	356	410	441	455	464	472	7.3
Casino	294	277	296	404	318	329	2.8
Other gambling and betting	16	14	14	15	16	17	1.6
	2,350	**2,502**	**2,532**	**2,758**	**2,740**	**2,844**	**4.9**
Other taxes and levies							
Health insurance levy	204	209	212	218	224	232	3.2
Parking space levy	106	106	106	108	110	112	1.3
Emergency services levy contributions	794	780	780	967	1,131	981	5.4
Emergency services council contributions	124	153	153	180	156	159	6.4
Waste and environment levy	769	701	703	727	724	759	(0.3)
Government guarantee fee	287	309	308	334	379	411	9.4
Private transport operators levy	23	76	76	77	77	32	8.5
Pollution control licences	20	28	28	21	21	22	2.3
Other taxes	877	740	719	766	809	853	(0.7)
	3,204	**3,103**	**3,086**	**3,397**	**3,632**	**3,561**	**2.7**
Total taxation revenue	**31,326**	**31,709**	**31,179**	**32,153**	**34,005**	**35,178**	**2.9**
Annual change	*1.7%*	*1.2%*	*-0.5%*	*3.1%*	*5.8%*	*3.4%*	

Since the Half-Yearly Review:

- **Transfer duty** has been revised down by $393.0 million in 2018-19 and by $747.0 million over the four years to 2021-22. While dwelling price declines have been closely in line with the Half-Yearly Review forecast, residential transaction volumes in recent months have been weaker than expected. Residential transaction volumes in 2018-19 are expected to be 19.5 per cent lower than in 2017-18. Transaction volumes are forecast to return to trend levels by the middle of 2021.
- **Payroll tax** has been revised down by $102.3 million in 2018-19 and by $573.1 million over the four years to 2021-22. Collections have been lower than anticipated since the Half-Yearly Review, which is consistent with a ½ of a percentage point downward revision in the growth forecast for average compensation of employees in 2018-19.
- **Land tax** has been revised down by $21.8 million in 2018-19 and by $82.8 million over the four years to 2021-22. Land tax is assessed based on landholdings at 31 December each year, with assessments typically issued in the first half of the following calendar year. The forecast revenue for 2018-19 incorporates actual landholdings at the end of 2018, replacing the Half-Yearly Review forecast which was based on the previous year's landholdings. For subsequent years, the revenue forecast incorporates lower expectations for residential land value growth.
- **Taxes on motor vehicle ownership and operation** have been revised down by $21.0 million in 2018-19 and $139.0 million over the four years to 2021-22. The revised forecast reflects lower than expected collections during December 2018 and January 2019.
- **Gambling and betting taxes** have been revised up by $30.0 million in 2018-19 and $97.0 million over the four years to 2021-22, primarily due to higher forecast lotteries duty.

Revenue risks and sensitivities

Taxation revenue collected by the NSW Government each year is dependent on underlying economic drivers such as property transaction volumes and prices, employment, compensation of employees and household consumption. Changes in these underlying drivers can have a significant impact on the actual revenue collected.

Table 3.7: Revenue sensitivities – State taxation revenues

Revenue source and assumptions	2018-19	2019-20	2020-21	2021-22	
		Forward Estimates			
	$m	$m	$m	$m	
State tax revenues					
Factors affecting state tax revenues					
Dwelling sales growth [a]	16	52	61	64	**+ 1% movement in factor**
Dwelling price growth [b]	20	65	75	79	
Change in employment growth [a]	35	109	114	119	
Change in compensation of employees [a]	35	110	115	120	

(a) 1 per cent movement in factor is a 1 percentage point increase. The change is assumed to apply only for the remaining four months of 2018-19.
(b) 1 per cent movement in factor is a whole 1 per cent increase (not a 1 percentage point increase). The change is assumed to apply only for the remaining four months of 2018-19.

GST revenue received by New South Wales depends on the amount of GST revenue collected nationally (the pool size), the State's per capita share of this revenue (its relativity) and its population. A reduction in the size of the GST pool is a risk to State revenue. If New South Wales' population share increases as a proportion of national population, GST revenue will increase.

Table 3.8: Revenue sensitivities – GST

Revenue source and assumptions	2018-19	2019-20	2020-21	2021-22	
		Forward Estimates			
	$m	$m	$m	$m	
Goods and Services Tax revenue [a]					**+ 1% movement in GST pool, NSW relativity, or + 0.1% movement in population**
Factors affecting NSW GST revenue					
NSW population [b]	13	14	15	15	
GST pool size [b]	181	192	214	237	
NSW relativity	...	...	205	218	

(a) The GST pool is currently estimated at $66.6 billion in 2018-19. The NSW adjusted population share (population share multiplied by relativity) is estimated to be 27.2 per cent in 2018-19. State GST relativities for 2018-19 and 2019-20 have already been determined by the Commonwealth Treasurer and will not change, so no sensitivity is calculated.
(b) 1 per cent movement in factor is a whole 1 per cent increase (not a 1 percentage point increase). Second round effects from population change are not captured but would have multiple impacts.

Mining royalties are sensitive to currency variations, global coal prices and levels of domestic production. These factors are in turn influenced by numerous domestic and global risks that contribute to their historical volatility as a revenue source.

Table 3.9: Revenue sensitivities – royalties

Revenue source and assumptions	2018-19	2019-20	2020-21	2021-22	
			Forward Estimates		
	$m	$m	$m	$m	
Royalties [(b)]					
Factors affecting NSW Royalties					**+ 1% movement in factor** [(a)]
Coal export volumes	6	17	17	16	
Coal export prices ($US)	6	18	17	17	
Australian-US dollar exchange rate	(7)	(19)	(18)	(18)	

(a) 1 per cent movement in factor is a whole 1 per cent increase (not a 1 percentage point increase). The change is assumed to apply only for the remaining four months of 2018-19.

(b) Royalty sensitivities do not include changes to non-coal revenue or to the composition of coal types.

Section 3.8 has further information on revenue risks.

Grant revenue

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

Grant revenue is forecast to be $32.3 billion in 2018-19, which is $151.7 million lower than in the Half-Yearly Review. Over the four years to 2021-22, grant revenue is expected to total $137.1 billion, which is $1.5 billion higher than in the Half-Yearly Review. Since the Half-Yearly Review:

- **GST revenue** has been revised down by $183.6 million in 2018-19 but will increase by $1.2 billion over the four years to 2021-22, after including the State's share of the $600 million top-up payment in 2021-22 under the new Commonwealth Horizontal Fiscal Equalisation scheme. GST revenue has been revised due to the following:
  - In the 2018-19 MYEFO, the Commonwealth reduced its forecast of the GST pool by $2.6 billion over the four years to 2021-22, in response to expected weaker growth in household consumption.
  - The New South Wales GST relativity is forecast to increase beyond 2019-20, more than offsetting the downward revision to the expected GST pool. The increase in the State's relativity reflects the release of the Commonwealth Grants Commission 2019 Update Report, weaker than expected transfer duty revenue for New South Wales and stronger mineral royalties for Western Australia.
  - New South Wales' share of the GST pool decreased from 28.0 per cent in 2017-18 to 27.2 per cent in 2018-19. With the publication of the CGC 2019 Update Report, the State's share of the GST pool is forecast to increase to 27.8 per cent in 2019-20.
- **National Agreement payments** are expected to be $3.0 million higher in 2018-19 and $18.1 million higher over the four years to 2021-22. This is primarily due to changes in expected student enrolments under Quality Schools (Gonski 2.0) funding arrangements.

- **National Partnership payments** are expected to be $5.3 million lower in 2018-19 and $30.5 million higher over the four years to 2021-22. This includes[3]:
  - a $9.3 million reduction in 2018-19 in payments under Natural Disaster Relief and Recovery arrangements
  - an additional $11.3 million in 2018-19 and $45.1 million over the four years to 2021-22 from the National School Chaplaincy Program 2019
  - an additional $9.5 million in 2018-19 and $25.1 million over the four years to 2021-22 for the expansion of the BreastScreen Australia, National Bowel Cancer Screening and Essential Vaccines programs
  - an agreement relating to pre-construction activities associated with supply and constraints measures under the Murray-Darling Basin Plan. Under this agreement, the Commonwealth will provide a maximum of $97.8 million over the four years to 2021-22 to New South Wales, to reimburse approved expenditure related to these activities (see footnote for further detail).
- **Other grants and Commonwealth payments** are forecast to be $34.3 million higher in 2018-19 and $255.7 million higher over the four years to 2021-22.

Non-taxation revenue

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

- **Mineral royalties** have been revised up by $6.0 million in 2018-19 and by $148.0 million over the four years to 2021-22. While thermal coal spot prices weakened in the months since the Half-Yearly Review, expected price growth has been revised up, reflecting a revised assessment of international capacity constraints and expected growth in supply. NSW export volume estimates have been downgraded since the Half-Yearly Review, reflecting a revised assessment of demand in the major markets of Japan, China and South Korea. China's coal policies, including domestic coal production price targets, environmental controls on mines and power plants, and customs processes, are among the largest sources of uncertainty for world coal trade.
- **Total revenue from fines, regulatory fees and other revenue sources** has been revised up by $5.6 million in 2018-19 and by $47.4 million over the four years to 2021-22. The upward revision in 2018-19 includes the accounting recognition of revenue from confiscated proceeds of crime. Accounting adjustments to revenue, with offsetting expense adjustments, have resulted in additional revenue for the Department of Industry in the four years to 2021-22. This has been offset by downward revisions to revenue received by the Department of Planning and Environment in 2018-19, including reduced revenue from Special Infrastructure Contributions and planning system fees.
- **Sales of goods and services** have been revised down by $44.1 million in 2018-19, due partly to lower fee for service revenue associated with the reprofiling of rail projects from 2018-19 into 2019-20 to better align with the project and service delivery schedule. The downward revision in 2018-19 is also due partly to the Sydney Metro Northwest project being reallocated from RailCorp to the Sydney Metro entity. Sydney Metro will no longer receive fee for service revenue from RailCorp for the delivery of the project. In the four years to 2021-22, sales of goods and services are expected to be $182.1 million lower. Downward revisions reflect a reduction in the expected rate of CPI, partially offset by the finalisation of the Regional Rail Fleet project being transferred to Railcorp resulting in increased fee for service revenue to Transport for NSW for delivering the project.

[3] Note: the financial impacts of the Murray-Darling Basin Plan pre-construction activities have not been incorporated into the Pre-election Budget Update due to timing constraints (the agreement was signed 28 February 2019) and the materiality of the transaction. There is no net impact on the budget result or net lending over the duration of the agreement.

- **Interest income** has been revised up by $12.6 million in 2018-19 and by $54.6 million higher over the four years to 2021-22. This revenue classification encompasses interest returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. Revisions in interest income are due to higher cash balances and improved market performance on TCorpIM Funds since the Half-Yearly Review.
- **Dividends and income tax equivalents** have been revised down by $10.9 million in 2018-19 and by $98.4 million over the four years to 2021-22. The reduction in 2018-19 is largely driven by lower expected distributions from the Sydney Water Corporation, reflecting the impact of increased costs relating to the restart of the Sydney Desalination Plant, as well as further drought-related maintenance costs. From 2019-20 to 2021-22, distributions from Essential Energy have been revised downwards. This follows the release of the Australian Energy Regulator's Rate of Return Guidelines in December 2018, which reduces the allowable rate of return for regulated electricity networks and impacts revenues and government distributions.
- **Other dividends and distributions** are received from entities other than State Owned Corporations, and include investment returns from the Government's investment funds. Revenue from other dividends and distributions is expected to be $234.7 million higher in 2018-19 and $4.2 million lower in the three years to 2021-22. The upward revision in 2018-19 reflects the recent strong financial market performance since the Half-Yearly Review. Over the subsequent three years to 2021-22, expected investment returns are broadly in line with the Half-Yearly Review estimates.

3.3 Expenses outlook

Expenses for the general government sector are forecast to be $80.4 billion in 2018-19. This is $203.9 million lower than expected at the Half-Yearly Review. Over the four years to 2021-22 expenses have been revised up by $359.4 million.

In 2018-19 annual expense growth is expected to be 5.1 per cent, which is down from 5.4 per cent at the Half-Yearly Review. Average expense growth over the four years to 2021-22 is expected to be 3.6 per cent, marginally higher than the 3.5 per cent forecast at the Half-Yearly Review. These changes reflect the impact of:

- new policy measures
- parameter and other budget variations, including changes resulting from the Commonwealth Government's MYEFO and reprofiling of expenditure.

Table 3.10 provides a reconciliation of changes to budget expense aggregates between the Half-Yearly Review and Pre-election Budget Update.

Table 3.10: Expense reconciliation – 2018-19 Half-Yearly Review to Pre-election Budget Update

	2018-19 Projection	2019-20	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m
Expenses - 2018-19 Half-Yearly Review	**80,623**	**83,203**	**85,513**	**87,665**
Policy measures	...	13	13	13
Total parameter and other budget variations	(204)	95	133	295
Expenses - 2019 Pre-election Budget Update	**80,419**	**83,312**	**85,659**	**87,973**

New policy measures announced since the Half-Yearly Review have increased expenses by $40.2 million over the four years to 2021-22 ($52.6 million to 2022-23). These new measures include:

- $37.6 million over four years (from 2019-20 to 2022-23) towards safety improvements for New South Wales waterways, including new rescue vessels, new or upgraded bases and an upgraded Marine Rescue NSW radio network
- $16.0 million over four years (from 2019-20 to 2022-23) to Surf Life Saving NSW towards improved beach safety, including additional lifesaving equipment, support and infrastructure, with the 2018-19 impact of $1 million to be met from within existing agency resources.

The Government has also announced a number of new measures that will be met from within existing budget estimates, including:

- $291.1 million over four years (from 2019-20 to 2022-23) to expand the Active Kids Rebate program to provide an additional $100 voucher per child per year towards kids' sporting and active recreation activities
- an additional $100 million towards the Stronger Country Communities Program to support the delivery of community infrastructure including youth centres, PCYCs, sporting clubs, and community colleges
- $42.1 million over four years (from 2019-20 to 2022-23) provide energy rebates of up to $200 per year to self-funded retirees who hold a Commonwealth Seniors Health Card
- $288.0 million over 2018-19 and 2019-20 towards backlog maintenance in schools, funded from within the Department of Education's existing resources
- $2.0 million for Life Education New South Wales' Healthy Harold program over four years (from 2019-20 to 2022-23), to be absorbed by the Department of Education.

Since the Half-Yearly Review, the Government has also made a number of decisions to allocate expenditure from existing Restart NSW reservations and the Snowy Hydro Legacy Fund into agency budgets[4], including:

- $257.6 million in Restart NSW grants to local governments towards various projects to improve regional roads, support regional tourism and develop local economies
- $14.8 million in expenditure from the Snowy Hydro Legacy Fund towards scoping studies for projects intended to benefit regional New South Wales.

The NSW Government signed an agreement with the Commonwealth Government relating to pre-construction activities associated with supply and constraints measures under the Murray-Darling Basin Plan on 28 February 2019. Under the agreement, the Commonwealth will provide a maximum of $97.8 million over the four years to 2021-22 to New South Wales, to reimburse approved expenditure related to these activities (for more information, see the footnote on page 18).

Parameter and other budget variations are projected to decrease expenses by $203.9 million in 2018-19 and increase expenses by $319.2 million over four years to 2021-22, compared to the Half-Yearly Review. Parameter and other budget variations that have increased expenditure include:

- $327.2 million from 2018-19 to 2021-22 primarily associated with revisions to long service leave liabilities, resulting from a statutory actuarial review of contract cleaning and building schemes

[4] These decisions do not impact general government sector expenditure, as the associated impacts are offset against reservations that were included in the Half-Yearly Review.

- $300.0 million over the four years to 2021-22 from adjustments to Commonwealth funding announced in the 2018-19 Commonwealth MYEFO, including:
  - adjustments to expenses relating to variations in Commonwealth National Agreements and National Partnership Payments[5]
  - higher costs relating to Commonwealth subsidised medications[6]
  - higher GST administration costs
- recognition of $297.7 million in operating expenses across 2019-20 to 2021-22 associated with the transfer of the Regional Rail Fleet project into the public non-financial corporations sector[7].

These increases are partially offset by a reduction in expenditure associated with the reprofiling of expenses across and beyond the forward estimates, to better align with project and service delivery schedules.

Table 3.11 provides a summary of general government sector expenses by major category.

Table 3.11: General government sector expenses

	2017-18 Actual	2018-19 HYR	2018-19 PEBU	2019-20	2020-21 Forward Estimates	2021-22	% Average growth p.a. 2017-18 to 2021-22
	$m	$m	$m	$m	$m	$m	
Total employee-related expenses	36,111	37,157	36,798	38,212	39,695	41,403	3.5
Employee expenses	*31,644*	*32,633*	*32,247*	*33,853*	*35,310*	*36,941*	*3.9*
Superannuation	*4,467*	*4,524*	*4,551*	*4,358*	*4,385*	*4,462*	*0.0*
Other operating	19,652	21,299	21,423	21,960	21,764	22,050	2.9
Depreciation and amortisation	4,873	5,081	5,100	5,366	5,699	5,789	4.4
Grants and subsidies	13,862	15,231	15,247	15,693	16,062	16,116	3.8
Interest	1,994	1,855	1,851	2,081	2,440	2,615	7.0
Total expenses	**76,491**	**80,623**	**80,419**	**83,312**	**85,659**	**87,973**	**3.6**
Annual change	*5.4%*	*5.4%*	*5.1%*	*3.6%*	*2.8%*	*2.7%*	

Total employee expenses, including superannuation, are forecast to be $36.8 billion in 2018-19, representing almost half of total expenses (45.8 per cent). Over the budget and forward estimates, employee related costs are expected to grow by an average of 3.5 per cent per year.

In 2018-19, other operating expenses are forecast to increase by $124.0 million compared with the Half-Yearly Review to $21.4 billion and are expected to increase by an average of 2.9 per cent per annum across the budget and forward estimates.

Depreciation and amortisation expenses are forecast to be $5.1 billion in 2018-19 and are expected to increase by an average of 4.4 per cent per annum over the budget and forward estimates. This growth is driven by the large capital investment program over this period.

Grants and subsidies are forecast to be $15.2 billion in 2018-19, with an expected average annual growth of 3.8 per cent over the budget and forward estimates. Grants and subsidies include payments to other sectors of government, local government, community groups and non-profit organisations for the delivery of services and infrastructure projects.

5 Budget result impacts from these adjustments are largely offset by higher Commonwealth payments.
6 Budget result impacts from these adjustments are offset by higher Commonwealth payments.
7 This adjustment is largely offset by an equivalent increase in fee for service revenue.

Interest expenses are forecast to grow by 7.0 per cent over the budget and forward estimates, increasing to $2.6 billion in 2021-22.

Projections of general government expenditure are based on a range of economic, financial and delivery assumptions that could change as a result of risks materialising. These risks are outlined in Section 3.8.

3.4 Expense measures statement

Table 3.12 shows the net recurrent expense impact of new policy measures since the Half-Yearly Review.

Table 3.12: New policy measures since the 2018-19 Half-Yearly Review – net recurrent expenses [(a)(b)(c)]

	2018-19 PEBU $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m	Four year total $m	Comment on major decisions included in totals
Industry	8.8	40.3	40.3	83.5	**172.8**	• Expenditure from the Snowy Hydro Legacy Fund towards scoping studies for projects intending to benefit regional New South Wales, managed by the Department of Industry. • Expansion of the Active Kids Rebate program to provide an additional $100 voucher per year per child towards sporting and active recreation activities[(d)].
Justice	0.0	13.4	13.4	13.4	**40.2**	• Safety improvements for New South Wales waterways, including new rescue vessels, new or upgraded bases and an upgraded Marine Rescue NSW radio network. • Increased support for Surf Life Saving NSW towards improved beach safety, including additional lifesaving equipment, support and infrastructure.
Planning and Environment	0.0	10.4	10.5	10.6	**31.5**	• Additional energy rebates of up to $200 per year for self-funded retirees who hold a Commonwealth Seniors Health Card[(d)].
Premier and Cabinet	5.8	28.0	42.0	20.0	**95.8**	• Expenditure from the Snowy Hydro Legacy Fund towards scoping studies for projects intending to benefit regional New South Wales, managed by the Department of Premier and Cabinet. • Additional funding for the Stronger Country Communities Program to support the delivery of community infrastructure[(d)].
Treasury	-5.3	129.6	65.6	52.5	**242.4**	• Restart NSW grants to local governments, NGOs and other entities. • Transfer of expenditure from the Snowy Hydro Legacy Fund to the Department of Industry and Department of Premier and Cabinet to support projects primarily across regional New South Wales.
Other	-9.3	-208.3	-158.3	-166.6	**-542.5**	• This includes the reversal of items that were not reflected in an individual cluster, and the transfer of Restart NSW and other commitments into agency budgets.
The following measures will be absorbed within existing agency resources						
Education	140.0	148.5	0.5	0.5	**289.5**	• Eliminating backlog maintenance in schools ($288 million), and continued support for Life Education New South Wales' Healthy Harold program ($2 million over four years).

(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) The table does not include associated revenue or capital expenditure.
(d) These items have been met from within existing budget estimates.

3.5 Capital expenditure outlook

General government capital expenditure

General government capital expenditure is forecast to be $18.2 billion in 2018-19, which is $353.9 million lower than the Half-Yearly Review. General government capital expenditure for the four years to 2021-22 is forecast to be $69.2 billion, which is $137.5 million lower than at the Half-Yearly Review.

The revision to 2018-19 is mainly driven by reprofiling of transport capital expenditure into 2019-20 to better align with project and service delivery schedules. Table 3.13 provides a reconciliation of capital expenditure between the Half-Yearly Review and the Pre-election Budget Update.

Table 3.13: General government capital reconciliation – 2018-19 Half-Yearly Review to Pre-election Budget Update

	2018-19 Projection(a) $m	2019-20 Forward Estimates $m	2020-21 $m	2021-22 $m
Capital - 2018-19 Half-Yearly Review	**18,536**	**18,729**	**17,326**	**14,769**
Capital changes since Half-Yearly Review				
New capital works	...	161	...	...
Parameter and other budget variations	(354)	175	(61)	(59)
Variations since 2018-19 Half-Yearly Review	**(354)**	**336**	**(61)**	**(59)**
Capital - 2019 Pre-election Budget Update	**18,182**	**19,065**	**17,265**	**14,710**

(a) The revision is based on agency advice noting that capital projects are susceptible to continuing variation between years as planning, procurement and constructions will continue to vary.

Projected capital expenditure has decreased by $137.5 million over the four years to 2021-22, when compared to the Half-Yearly Review. Variations include:

- $161.0 million increase in 2019-20 for backlog maintenance in schools
- $257.6 million decrease over the four years to 2021-22, reflecting the transfer of the Regional Rail Fleet project expenditure into the public non-financial corporations sector
- $31.8 million decrease due to reprofiling of the WestConnex Stage 3B project to the 2023-24 outer year.

The Snowy Hydro Legacy Fund was established in June 2018 to enable an amount equal to the proceeds from the sale of the State's share of Snowy Hydro to be invested in infrastructure, for the benefit of regional New South Wales. At the Half-Yearly Review, $25.2 million had been approved from the Fund for scoping studies into potential projects. Since the Half-Yearly Review, a further $14.8 million of expenditure has been approved.

Since the Half-Yearly Review, $97.8 million of general government expenditure for new capital projects from the Restart NSW Fund has been approved. This is within existing budget reservations and therefore has no impact on the estimates.

3.6 Restart NSW Fund (including Rebuilding NSW)

The Restart NSW Fund (Restart NSW) was established in 2011 to enable the funding and delivery of infrastructure projects that improve State economic growth and productivity. For a project to access Restart NSW funds, it must satisfy the requirements set out in the *Restart NSW Act 2011.*

Since the Half-Yearly Review, the Government has committed $357.7 million from Restart NSW for regional infrastructure projects (see Table 3.15).

Restart NSW

As at the Pre-election Budget Update, total receipts of $33.2 billion have been deposited into the Restart NSW Fund. This is unchanged from the Half-Yearly Review.

These inflows have enabled the approval of:

- $24.1 billion in Restart NSW commitments. Commitments are funds that have been allocated to specific projects and approved by the Treasurer under the *Restart NSW Act 2011*. These projects are supported by an independent funding recommendation from Infrastructure NSW and a sound business case demonstrating their economic viability.
- $9.0 billion in Restart NSW reservations. Reservations represent funds that have been earmarked for future projects and programs, but which are yet to be formally approved by the Treasurer under the terms set out in the *Restart NSW Act 2011.*

Table 3.14 summarises the aggregate commitments and reservations for current and future projects funded through Restart NSW.

Table 3.14: Restart NSW Fund as at the Pre-election Budget Update

	Restart NSW (excluding Rebuilding NSW)	Rebuilding NSW	Total
	($b)	($b)	($b)
Total inflows[(a)]			**33.2**
Commitments	7.4	16.7[(b)]	24.1
Reservations	5.7	3.3	9.0
Total	13.1	20.0	

(a) Reflects inflows forecast to be received as at the Pre-election Budget Update but not future inflows. Total inflows include funds that have been deposited into Restart NSW but have not yet been committed or reserved for infrastructure projects. Total inflows exclude a portion of the investment returns in the NSW Infrastructure Future Fund that remain unallocated as a prudential buffer against future volatility.

(b) Includes $527.1 million in funding from the Consolidated Fund for the $1.0 billion Safe and Secure Water Program. This program is partially funded through the Consolidated Fund to enable the funding of crucial water infrastructure based on community needs.

Table 3.15: Additional Restart NSW commitments since the 2018-19 Half-Yearly Review

	Commitments $m
Regional Growth: Economic Activation Fund	
Growing Local Economies	89.0
Resources for Regions	26.0
Doppler Radar Network	24.4
Restart NSW commitments (excluding Rebuilding NSW)	**139.4**
Fixing Country Roads	118.2
Fixing Country Rail	73.4
Regional Growth: Environment and Tourism Fund	26.1
Safe and Secure Water Program	0.6
Rebuilding NSW commitments	**218.3**
Total commitments since the Budget	**357.7**

The Government also reserves Restart NSW funds for projects with a view to a future commitment. This allows for the preparation of a final business case and Infrastructure NSW endorsement, prior to a final funding decision. There has been no change in total reservations since the Half-Yearly Review after allowing for the commitments above.

3.7 Managing the State's assets and liabilities

Key balance sheet variations since the 2018-19 Half-Yearly Review

Since the Half-Yearly Review, variations to the June 2019 projection include:

- Net debt has improved by $253.4 million to negative $8.0 billion. This is driven by an increase in the State's financial assets, which more than offsets an increase in borrowings.
- Total liabilities have increased by $6.2 billion to $131.6 billion which is largely attributable to an increase in the State's valuation of its unfunded superannuation liability.
- Net worth has decreased by $5.3 billion to $270.7 billion which is due to the increase in total liabilities.

Table 3.16: NSW general government balance sheet aggregates

	June 2019	June 2019	June 2020	June 2021	June 2022
	HYR	PEBU		Forward Estimates	
Total Assets ($m)	401,364	402,327	415,309	433,679	448,750
Financial Assets ($m)	172,908	174,011	169,319	171,615	173,967
Non-Financial Assets ($m)	228,456	228,315	245,990	262,064	274,783
Total Liabilities ($m)	125,402	131,627	133,436	133,767	136,412
Net Worth ($m)	275,962	270,700	281,873	299,911	312,337
as a per cent of GSP	43.7	43.0	43.0	43.7	43.5
Net Debt ($m)	(7,712)	(7,966)	5,838	16,021	23,271
as a per cent of GSP	(1.2)	(1.3)	0.9	2.3	3.2

Net Debt

Net debt[8] is projected to be negative $8.0 billion at June 2019, an improvement of $253.4 million in the forecast at the Half-Yearly Review.

Looking further ahead to June 2022, net debt is projected to reach $23.3 billion. This is an increase of $0.8 billion from the $22.5 billion forecast in the Half-Yearly Review.

The financial assets included in the calculation of net debt are projected to be $44.6 billion at June 2019, slightly up from the forecast at the Half-Yearly Review. At June 2022, these financial assets are projected to be $31.2 billion. This is an upward revision of $1.8 billion since the Half-Yearly Review and is primarily due to an increase in financial assets at fair value. This is largely due to a combination of improved fund performance and ongoing investment optimisation associated with the NSW Infrastructure Future Fund, with cash drawdowns now made closer to when the funds are required.

Liabilities included in the calculation of net debt are projected to be $36.6 billion at June 2019, an upward revision from $35.6 billion at the Half-Yearly Review estimates. Over the four years to June 2022, these liabilities are projected to increase to $54.4 billion. This is an increase of $2.6 billion since the Half-Yearly Review and is due to increased borrowings (resulting from the investment optimisation described above) and increased finance leases (reflecting an update to Transport’s bus acquisition program).

Net Worth

New South Wales net worth is projected to be $270.7 billion at June 2019, a decrease of $5.3 billion since the Half-Yearly Review.

Over the medium term, net worth is projected to reach $312.3 billion by June 2022. This is a downward revision of $2.4 billion since the Half-Yearly Review and is primarily driven by an increase in the valuation of the State’s unfunded superannuation provision. There has been no change to the fundamental position of the State’s defined benefit liabilities on a cash basis, rather a decrease in the discount rate used to value the liability due to the prevailing lower long-term bond yields compared to those at the time of the Half-Yearly Review.

3.8 Fiscal risks

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

Revenue risks

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 actual revenue collected.

GST revenue received by New South Wales is affected by the amount of GST revenue collected nationally (the pool size) and the State’s share (its relativity). A lift in New South Wales own revenue performance relative to other states, or a reduction in its assessed need for expenditure relative to other states, or an increase in National Agreement and National Partnership payments relative to other states, may put downward pressure on the NSW relativity and GST distribution.

[8] The Government is assessing the impact of new accounting standards for AASB 16 Leases and AASB1059 Service Concession Arrangements. This may affect the level of net debt reported in the State’s financial statements. Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.

Transfer duty revenue can vary as a result of developments in the property market or policy changes. In 2018-19, transfer duty revenue growth is moderating due to the slowing property market. As transfer duty makes up around 10 per cent of general government revenue, the budget result can be significantly affected by changes in property market transaction volumes and prices. Continued property market weakness for longer than expected would place pressure on the budget result. Conversely, a stronger than projected return to trend (or an above trend) level of activity and price growth would see an improvement to transfer duty and a stronger budget result.

Mining royalties are sensitive to a range of domestic and global risks including changes in coal prices, foreign exchange rates and production volumes. Policy developments in China are among the greatest areas of uncertainty in global coal trade. As China is the world's largest coal producer and consumer, relatively small changes in its domestic balance between coal production and consumption, or policies toward imported coal, could have large effects on international trade in coal, with possible positive or negative effects on traded coal volumes and prices. International efforts to lessen global warming are expected to reduce global demand for coal in the coming decades but are unlikely to reduce NSW coal royalties significantly in the timeframe of current Budget forecasts.

Investment returns from financial assets are becoming a more significant contributor to the budget result. The value of, and the return on, the State's financial investments depend on the performance of global financial markets. Investment returns are estimated to rise from around $1.0 billion in 2018-19 to $1.2 billion in 2021-22, although actual performance can vary from year to year due to financial market volatility. Such volatility means results can be above or below expectations and impact the budget result accordingly. See Table 3.17 for further information.

Table 3.17: Financial markets and interest rates sensitivities

Expense / Revenue source and assumptions	2018-19 PEBU	2019-20	2020-21 Forward estimates	2021-22	2018-19 Sensitivities
	$m	$m	$m	$m	
Financial markets and interest rates					**+ 1% movement in factor**
Investment Revenue [(a)]	41	229	218	220	
Interest Revenue [(b)(c)]	15	34	23	15	
Interest Expenses [(b)]	...	(20)	(75)	(150)	

(a) 1 per cent movement in factor is a 1 percentage point increase in investment returns.
(b) 1 per cent movement in factor is a 1 percentage point increase in interest rates.
(c) Interest revenue sensitivities calculated on Restart NSW and Social and Affordable Housing Fund Cash Balances only.

Expense risks

Some expense risks are within the NSW Government's control and can be actively managed, whereas other risks are exogenous and may be beyond NSW Government control.

For example, the Government has been managing employee-related expenses through the NSW public sector wages policy. Conversely, expenses linked to Commonwealth payments, performance of financial markets and interest rate changes are examples of exogenous expense risks. In addition, unforeseen events may also necessitate unanticipated expenses (for example, a natural disaster).

Employee-related expenses represent the Budget's largest operating expense by type. This consists of wages, salaries, superannuation expenses and employment on-costs. The size of the workforce, new enterprise bargaining agreements and discount rates are important drivers of employee-related expenses. Any changes in these parameters could have a significant impact on the budget result. Since 2011, this risk has been managed through the NSW public sector wages policy.

Health and education make up a large proportion of public sector expenditure by sector. An increase in demand for these services will worsen the budget result. Likewise, a decrease in Commonwealth Government contributions to health and education services will worsen the budget result, if the level of service is maintained.

Increasing demand for public transport services also has implications for the budget result. Average transport patronage growth is trending above 5 per cent per annum, exceeding population growth. Although the Government is making significant investments in public transport, there is a risk that rising demand for services will require additional expenditure to respond to capacity constraints.

Over the coming years, a number of expenditure challenges could emerge that may place pressure on the Budget, including:

- growing maintenance, depreciation and operating costs associated with the delivery of the large capital program, particularly those projects completed outside the forward estimates period
- changes to operating costs to deliver government services – with costs such as electricity, insurance, ICT, fuel, communications and water being subject to market fluctuations
- responding to demographic pressures that lead to increased demand for government services (such as health, justice, education and transport)
- extending existing time-limited programs
- responding to changes in wages policies, enterprise bargaining claims or the number or composition of the workforce.

The performance of global financial markets and changes in interest rates can impact borrowing costs. Higher interest rates will result in higher costs for new borrowings, which will have a negative budget result impact. Changes in interest rates will also impact expenses associated with superannuation and other long-term liabilities, as explained further under balance sheet risks.

Liabilities for superannuation, long service leave, other employee provisions and insurance provisions are estimated with reference to many factors. These include assumed investment returns, salary growth, inflation, discount rates and claims trends. Changes in these parameters can affect the liabilities and the associated expenses. For example, an increase in interest rates would reduce the discounted value of defined benefit superannuation liabilities and impact the annual expense recognised in the budget.

Capital risks

Capital risks reflect any unforeseen or unpredictable changes in timing, scope or cost of delivering the State's infrastructure projects relative to current estimates.

Slippage of the State's capital profile is a risk that can occur due to a variety of factors. Planned capital expenditure may slip into subsequent years due to infrastructure cost escalation, market capacity constraints, availability of labour and other factors such as bad weather.

With a large infrastructure program in New South Wales (and the increase in other states' infrastructure spending), there is a risk that market capacity constraints could arise in the short term.

Balance sheet risks

Risks on the State's balance sheet include unanticipated changes to existing assets and liabilities (as shown on balance sheet) and the potential recognition of contingent assets and liabilities (not shown on balance sheet as the accounting recognition criteria are not yet met).

Risks are inherent in financial asset allocation decisions. These risks include liquidity, counterparty and market risk. The asset allocation strategy for State managed funds seeks to balance the performance and variability characteristics of different asset classes, so that the portfolio's allocation best reflects the objectives, time horizon and risk tolerance of the State. It also aims to maintain liquidity and risk performance metrics consistent with the State's triple-A credit rating.

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 defined benefit superannuation and long service leave liabilities.

The State also faces a range of potential obligations that are non-quantifiable, which can be broadly grouped into commercial transactions and other contingent liabilities.

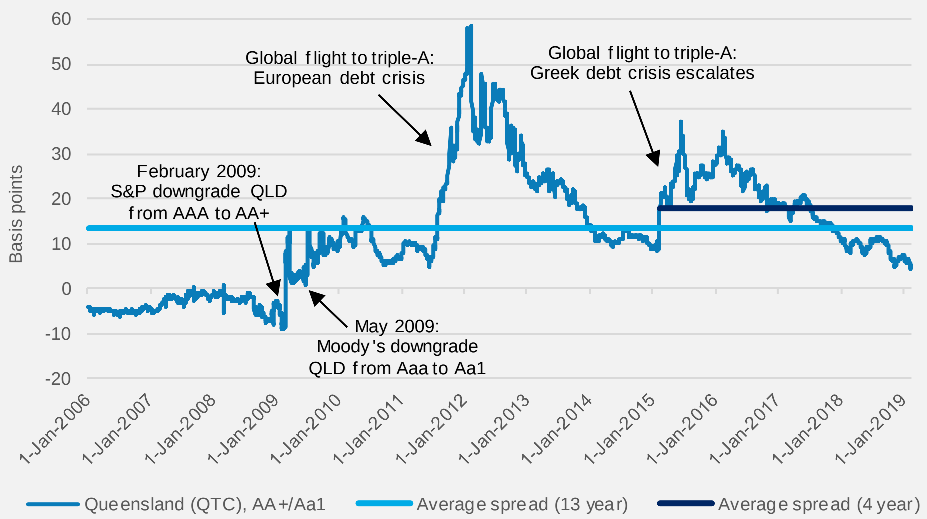
The State is party to non-quantifiable contingent liabilities relating to commercial transactions. As an example, the Government provided limited general warranties to purchasers and lessees under several energy transactions. The Government has also retained responsibility for the costs associated with remediating pre-existing contamination at several power station sites.

The State's triple-A credit rating

The risk of the State's credit rating being downgraded from triple-A would impact the State's cost of borrowing funds.

In the unlikely event the State was downgraded one notch to AA+/Aa1 – similar to Queensland's credit rating – it is estimated the additional cost of borrowings would be between $50 million to $170 million over the four years to 2021-22. This estimate is based on TCorp's current borrowing program and a range of the most recent spread of 5 basis points (mid-February 2019) and an average spread of 18 basis points (over the past four years) to nine-year generic bonds – see Chart 3.4 below.

Chart 3.4: Spreads between 'triple-A' and 'double-A plus' nine-year generic bonds[(a)]



(a) Spread refers to yield difference from nine-year NSW (TCorp) bonds (AAA/Aaa) to nine-year Queensland (QTC) bonds (AA+/Aa1).

This cost would be higher if the borrowing occurred during a period of market stress. For example, during the 2010 European debt crisis, nine-year generic bond spreads between NSW (AAA/Aaa) and Queensland (AA+/Aa1) reached approximately 60 basis points, as highlighted in Chart 3.4 above. Costs would also increase if new borrowing requirements were significantly increased above market expectations.

The loss of the triple-A rating could also potentially inhibit the State's capacity to access wholesale funding markets during times of market stress. TCorp's liquidity policy ensures more than adequate funding levels would be in place should this unlikely event occur. In addition, the NSW Generations Fund (NGF) further supports the State's triple-A credit rating by keeping debt at sustainable levels over the long term.

The State may incur a liability in relation to claims commenced by the ALTRAC Light Rail Consortium and by one of its contractors, as detailed previously in the *2017-18 Report on State Finances*. Any liability cannot be reliably measured at this time and there are significant uncertainties in the possible outcomes, which may include legal proceedings or commercial settlement.

The State also holds non-quantifiable contingent liabilities relating to various other matters. For example, the Government has guaranteed the obligations and performance of various statutory authorities with private sector party contracts. In addition, State agencies and corporations are subject to various claims and litigation in the normal course of operations, however the quantum of these claims cannot accurately be determined at this time.

A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

The Pre-election Budget Update presents the Estimated Financial Statements for the general government sector (GGS).

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

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

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

Scope

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

The GGS comprises government agencies controlled by the State that:

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

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

Basis of preparation

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

The 2018-19 Half-Yearly Review information included in the Estimated Financial Statements reflects the revised budget released on 18 December 2018.

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

The Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by Government, as well as known Commonwealth Government funding revisions and known circumstances that may have a material effect on the Pre-election Budget Update. The revised estimates for 2018-19 are based on updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data available to Treasury up to 28 February 2019.

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

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

Accounting policies

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

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

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

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

Changes in accounting policies

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

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

New accounting standards issued but not effective

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

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

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

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

AASB 1058 Income of Not-for-Profit Entities

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

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

AASB 16 Leases

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

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

AASB 1059 Service Concession Arrangements: Grantors

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

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

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

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

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

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

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

The implementation of AASB 15 and AASB 1058 is expected to lead to an increase in GGS deferred revenue liability of approximately $1.2 billion on the date of transition to the new standards, mainly due to the change in accounting treatment of certain Commonwealth grants and long-term licenses. The expected net impact on revenue from 2019-20 to 2021-22 is below $500 million per annum.

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

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

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

Definitions

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

Presentation of the Estimated Financial Statements

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

AASB 1049 harmonises Generally Accepted Accounting Principles (GAAP), that is the Australian Accounting Standards (AAS) with Government Financial Statistics (GFS) principles in accordance with the GFS framework adopted by the Australian Bureau of Statistics (ABS). This occurs by requiring that the statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective.

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

In the operating statement:

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

Further, AASB 1049 requires:

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

Due to the prospective nature of the statements, detailed notes to the Estimated Financial Statements, including disclosure of contingent assets and liabilities, are not required to be included within the meaning of AAS as outlined in Section 27A (5) of the *Public Finance and Audit Act 1983*.

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

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

Tables may not add in all instances due to rounding.

Material economic and other assumptions

The Estimated Financial Statements included in the Pre-election Budget Update have been prepared using the material economic and other assumptions as set out below.

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

	2017-18 Outcome	2018-19 PEBU	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
New South Wales population (persons) [(b)]	7,987,000	8,107,000	8,227,000	8,348,000	8,467,000
Nominal gross state product ($million)	604,400	630,100	655,300	686,100	718,800
Real gross state product (per cent)	2.6	2½	2½	2½	2½
Real state final demand (per cent)	3.4	2¾	2¾	-	-
Employment (per cent)	3.1	2¾	1½	1¼	1¼
Unemployment rate (per cent)	4.8	4½	4½	4½	4½
Sydney consumer price index (per cent)[(c)]	1.7	1½	1¾	2	2¼
Wage Price index (per cent)[(d)]	2.1	2½	2¾	3	3
Nominal gross state product (per cent)	4.5	4¼	4	4¾	4¾

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

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

Summary of other key assumptions

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

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

Revenue from transactions

Taxation revenue

Taxation revenue is forecast by assessing economic and other factors that influence the various taxation bases. Payroll tax, for example, involves an assessment of the outlook for employment and wages. Forecasts of government debt guarantee fees take into account an assessment of the level of debt of public non-financial corporations (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 GST grants are forecast based on estimates of the national GST pool by the Commonwealth Government. For 2018-19 and 2019-20, the GST forecast is based on the assessed relativity for New South Wales and NSW Treasury's population projections. The assessed relativity is based on the three-year average of actual data (2014-15, 2015-16 and 2016-17 for 2018-19 relativity; 2015-16, 2016-17 and 2017-18 for 2019-20 relativity) as published by the Commonwealth Grants Commission.

Beyond 2019-20, the State's share of GST is based on New South Wales' forecast relativities and population, and the Commonwealth Government's GST pool projections. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared to other States and Territories.

Sale of goods and services

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

Dividend and income tax equivalents from other sectors

Dividend and income tax equivalent revenue from other sectors are estimated by PNFCs and public financial corporations (PFCs) based on expected profitability and the agreed dividend policy at the time of the Pre-election Budget Update.

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 Pre-election Budget Update 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
- 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 expenses (and liabilities)

Superannuation expenses comprise:

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

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

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

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

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

	2017-18 % Actual	2018-19 % Forecast	2019-20 % Forecast	2020-21 % Forecast	2021-22 % Forecast
Liability discount rate	2.65	2.52	2.77	3.28	3.53
Expected return on investments [(a)]	9.10	7.40/6.40	7.40/6.40	7.40/6.40	7.40/6.40
Expected salary increases[(b)]	2.70	2.70	3.20	3.20	3.20
Expected rate of CPI	2.10	1.75	2.00	2.25	2.50

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

(b) Taking the increased Superannuation Guarantee Contribution (SGC) into account, total remuneration will increase by 2.7 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. The depreciation expense is generally allocated on a straight-line basis.

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

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

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

Interest expense

The forecasts for the interest expense are based on:

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

Other operating expenses

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

Grants and subsidies expense

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

Other economic flows

Revaluations

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

Superannuation actuarial gains / losses

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

Net gain / (loss) on equity investments in other public sector entities

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

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

Sale of non-financial assets includes the proceeds from the sale of an intangible asset recognised upfront in GFS, but amortised over the term of the arrangement under 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 provisions also reflect the impact of new initiatives and required efficiency savings.

Superannuation provisions

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

Other provisions

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

B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Tables

The objective of the Uniform Presentation Framework (UPF) is to facilitate a better understanding of an individual government's financial results and projections through the provision of a common 'core' of financial information. This UPF chapter includes the operating statement, balance sheet and cash flow statement for the NSW general government sector (GGS).

These financial statements represent a revision to the projected aggregate outlook over the budget and forward estimated period since the publication of the NSW Government's 2018-19 Half-Yearly Review (HYR). These revised estimates consider fiscal and economic developments since the HYR.

The UPF tables have been prepared consistent with the 2018-19 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages B1-1 to B1-7 of 2018-19 Budget Paper No.1 *Budget Statement*.

Table B.1: General government sector operating statement

	2018-19	2018-19	2019-20	2020-21	2021-22
	HYR	PEBU	Revised Forward Estimates		
	$m	$m	$m	$m	$m
Revenue from Transactions					
Taxation	31,709	31,179	32,153	34,005	35,178
Grants and Subsidies					
- Commonwealth General Purpose	18,379	18,195	19,205	20,501	21,766
- Commonwealth Specific Purpose Payments	10,043	10,046	10,466	11,117	11,786
- Commonwealth National Partnership Payments	3,073	3,067	2,391	2,233	2,080
- Other Commonwealth Payments	436	429	445	442	435
- Other Grants and Subsidies	525	567	638	642	658
Sale of Goods and Services	9,072	9,028	9,754	9,358	9,157
Interest	452	464	334	319	289
Dividend and Income Tax Equivalents from Other Sectors	1,971	1,960	1,631	1,260	761
Other Dividends and Distributions	923	1,157	1,631	1,645	1,732
Fines, Regulatory Fees and Other	5,163	5,174	5,808	5,586	5,750
Total Revenue from Transactions	**81,743**	**81,266**	**84,455**	**87,108**	**89,590**
Expenses from Transactions					
Employee	32,633	32,247	33,853	35,310	36,941
Superannuation					
- Superannuation Interest Cost	1,425	1,403	1,341	1,351	1,381
- Other Superannuation	3,099	3,147	3,017	3,034	3,081
Depreciation and Amortisation	5,081	5,100	5,366	5,699	5,789
Interest	1,855	1,851	2,081	2,440	2,615
Other Operating	21,299	21,423	21,960	21,764	22,050
Grants, Subsidies and Other Transfer Expenses	15,231	15,247	15,693	16,062	16,116
Total Expenses from Transactions	**80,623**	**80,419**	**83,312**	**85,659**	**87,973**
Transactions from Discontinuing Operations	0	0	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,120**	**846**	**1,143**	**1,449**	**1,617**

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

	2018-19 HYR $m	2018-19 PEBU $m	2019-20 Revised Forward Estimates $m	2020-21 $m	2021-22 $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	301	302	185	182	190
Other Net Gains/(Losses)	13,469	13,758	768	1,455	1,145
Share of Earnings from Associates (excluding Dividends)	...	...	...	...	...
Dividends from Asset Sale Proceeds	81	46	64	(0)	...
Allowance for Impairment of Receivables	(23)	(22)	(38)	(38)	(36)
Deferred Income Tax from Other Sectors	(3)	(6)	19	35	38
Others	84	84	84	84	81
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
Other Economic Flows - included in Operating Result	**13,909**	**14,163**	**1,082**	**1,718**	**1,417**
Operating Result	**15,028**	**15,009**	**2,225**	**3,167**	**3,034**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**8,838**	**3,624**	**8,165**	**11,248**	**7,852**
Revaluations	3,160	3,195	3,858	4,874	4,326
Share of Earnings from Associates from Revaluations	...	...	...	...	...
Superannuation Actuarial Gain/(Loss)	5,654	403	4,250	6,281	3,402
Deferred Tax Adjustment through Equity	24	26	57	93	125
Items that may be Reclassified Subsequently to Operating Result	**(2,084)**	**(2,113)**	**782**	**3,624**	**1,539**
Net Gain/(Loss) on Equity Investments in Other Sectors	(2,005)	(1,996)	818	3,668	1,565
Net Gain/(Loss) on Financial Instruments at Fair Value	...	...	...	...	...
Other	(79)	(118)	(35)	(43)	(26)
Other Economic Flows - Other Comprehensive Income	**6,754**	**1,511**	**8,947**	**14,872**	**9,392**
Comprehensive Result - Total Change in Net Worth (a)	**21,782**	**16,520**	**11,173**	**18,039**	**12,426**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth (a)	**21,782**	**16,520**	**11,173**	**18,039**	**12,426**
Less: Net Other Economic Flows	(20,663)	(15,674)	(10,030)	(16,590)	(10,809)
Equals: Budget Result - Net Operating Balance	**1,120**	**846**	**1,143**	**1,449**	**1,617**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets	16,681	16,327	17,432	17,122	14,622
Sales of Non-Financial Assets	(695)	(596)	(780)	(1,803)	(1,514)
Less: Depreciation	(5,081)	(5,100)	(5,366)	(5,699)	(5,789)
Plus: Change in Inventories	(32)	(23)	(41)	(32)	(26)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	1,855	1,855	1,633	143	88
- Other	(11)	(7)	280	447	488
Equals: Total Net Acquisition of Non-Financial Assets	**12,717**	**12,455**	**13,157**	**10,178**	**7,870**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(11,598)**	**(11,609)**	**(12,014)**	**(8,730)**	**(6,253)**
OTHER FISCAL AGGREGATES					
Capital Expenditure (b)	**18,536**	**18,182**	**19,065**	**17,265**	**14,710**

(a) 'Total change in net worth' is before transactions with owners as owners, and before revisions to equity from changes to accounting policies. Therefore, it may not equal the movement in balance sheet net worth.
(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired utilising finance leases.

Table B.2: General government sector balance sheet

	June 2019 HYR	June 2019 PEBU	June 2020 Revised Forward Estimates	June 2021	June 2022
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	4,263	4,062	1,028	1,307	1,056
Receivables	6,506	6,549	6,599	6,812	6,902
Tax Equivalents Receivable	115	103	42	23	29
Investments, Loans and Placements					
Financial Assets at Fair Value	36,126	37,618	32,372	27,882	26,862
Other Financial Assets	1,751	1,751	1,851	1,844	1,315
Advances Paid	1,206	1,170	1,387	1,544	1,921
Deferred Tax Equivalent Assets	2,208	2,207	2,277	2,397	2,553
Equity					
Investments in Other Public Sector Entities	107,264	107,264	110,373	116,188	119,561
Investments in Associates	12,736	12,598	12,689	12,907	13,050
Other Equity Investments	732	690	701	711	718
Total Financial Assets	**172,908**	**174,011**	**169,319**	**171,615**	**173,967**
Non- Financial Assets					
Inventories	289	304	263	231	205
Forestry Stock and Other Biological Assets	9	9	9	9	9
Assets Classified as Held for Sale	131	130	88	93	91
Property, Plant and Equipment					
Land and Buildings	87,585	87,749	91,410	94,099	94,830
Plant and Equipment	11,778	11,831	11,154	11,390	10,989
Infrastructure Systems	119,088	118,562	130,094	142,374	154,126
Intangibles	3,600	3,594	3,401	3,072	2,803
Other Non-Financial Assets	5,976	6,136	9,570	10,796	11,729
Total Non- Financial Assets	**228,456**	**228,315**	**245,990**	**262,064**	**274,783**
Total Assets	**401,364**	**402,327**	**415,309**	**433,679**	**448,750**
Liabilities					
Deposits Held	83	83	84	88	94
Payables	6,826	6,858	7,122	7,540	7,848
Tax Equivalents Payable	...	...	3	4	(0)
Borrowings and Derivatives at Fair Value	4	4	3	3	3
Borrowings at Amortised Cost	34,868	35,870	41,602	47,541	53,332
Advances Received	679	679	787	966	996
Employee Provisions	18,185	18,154	18,379	18,589	18,712
Superannuation Provision [(a)]	48,708	53,927	49,559	43,013	39,233
Deferred Tax Equivalent Provision	74	74	73	72	71
Other Provisions	10,013	10,007	10,081	10,261	10,493
Other Liabilities	5,962	5,972	5,743	5,689	5,630
Total Liabilities	**125,402**	**131,627**	**133,436**	**133,767**	**136,412**
NET ASSETS	**275,962**	**270,700**	**281,873**	**299,911**	**312,337**
NET WORTH					
Accumulated Funds	98,116	92,847	99,321	108,769	115,212
Reserves	177,846	177,853	182,551	191,142	197,125
TOTAL NET WORTH	**275,962**	**270,700**	**281,873**	**299,911**	**312,337**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**(7,712)**	**(7,966)**	**5,838**	**16,021**	**23,271**
Net Financial Liabilities [(c)]	**59,758**	**64,880**	**74,490**	**78,341**	**82,006**
Net Financial Worth [(d)]	**47,506**	**42,385**	**35,883**	**37,848**	**37,555**

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

Table B.3: General government sector cash flow statement

	2018-19 HYR	2018-19 PEBU	2019-20 Revised	2020-21 Forward Estimates	2021-22
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxes Received	31,803	31,273	32,273	34,122	35,308
Receipts from Sales of Goods and Services	9,358	9,285	10,436	9,911	9,606
Grant and Subsidies Received	32,448	32,295	33,140	34,931	36,717
Interest Receipts	516	529	245	226	209
Dividends and Income Tax Equivalents	1,955	1,953	1,770	1,257	802
Other Receipts	8,035	8,244	10,260	9,031	8,303
Total Cash Receipts from Operating Activities	**84,114**	**83,579**	**88,123**	**89,477**	**90,944**
Cash Payments from Operating Activities					
Payments for Employees	(32,225)	(31,869)	(33,441)	(34,986)	(36,745)
Payments for Superannuation	(4,363)	(4,422)	(4,480)	(4,623)	(4,840)
Payments for Goods and Services	(21,488)	(21,578)	(22,519)	(21,993)	(21,830)
Grants and Subsidies Paid	(14,631)	(14,563)	(15,074)	(15,594)	(15,626)
Interest Paid	(1,465)	(1,476)	(1,643)	(1,958)	(2,100)
Other Payments	(3,934)	(4,003)	(4,773)	(3,721)	(2,834)
Total Cash Payments from Operating Activities	**(78,106)**	**(77,911)**	**(81,930)**	**(82,875)**	**(83,975)**
Net Cash Flows from Operating Activities	**6,008**	**5,668**	**6,192**	**6,602**	**6,969**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	803	667	866	1,800	1,514
Purchases of Non-Financial Assets	(16,904)	(16,550)	(17,831)	(16,640)	(13,821)
Net Cash Flows from Investments in Non-Financial Assets	**(16,101)**	**(15,883)**	**(16,965)**	**(14,841)**	**(12,307)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	228	193	219	271	173
Payments	(2,421)	(2,433)	(2,643)	(2,504)	(2,313)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(2,193)**	**(2,240)**	**(2,424)**	**(2,233)**	**(2,140)**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	34,853	31,903	8,525	7,324	4,041
Payments for the Purchase of Investments	(24,168)	(22,302)	(2,545)	(2,010)	(1,596)
	10,686	**9,601**	**5,980**	**5,314**	**2,445**
Net Cash Flows from Investing Activities	**(7,608)**	**(8,523)**	**(13,410)**	**(11,760)**	**(12,002)**
Cash Flows from Financing Activities					
Advances Received (net)	(209)	(179)	80	116	8
Proceeds from Borrowings	1,167	2,186	4,735	6,169	6,123
Repayment of Borrowings	(498)	(495)	(711)	(975)	(1,490)
Deposits Received (net)	(47)	(48)	2	4	6
Other Financing Receipts/ (Payments)	6	8	57	94	125
Net Cash Flows from Financing Activities	**419**	**1,472**	**4,163**	**5,407**	**4,772**
Net Increase/(Decrease) in Cash Held	**(1,181)**	**(1,383)**	**(3,054)**	**249**	**(261)**

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

	2018-19 HYR	2018-19 PEBU	2019-20 Revised	2020-21 Forward	2021-22 Estimates
	$m	$m	$m	$m	$m
Derivation of Cash Result					
Net Cash Flows From Operating Activities	6,008	5,668	6,192	6,602	6,969
Net Cash Flows from Investments in Non-Financial Assets	(16,101)	(15,883)	(16,965)	(14,841)	(12,307)
Cash Surplus/(Deficit)	**(10,093)**	**(10,216)**	**(10,772)**	**(8,239)**	**(5,339)**

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C. VARIATIONS ON 2018-19 HALF-YEARLY REVIEW

C.1 2019 Pre-election Budget Update

The revised budget result for 2018-19 is a surplus of $0.8 billion compared to a forecast surplus of $1.1 billion at the time of the 2018-19 Half-Yearly Review.

Total revenue in 2018-19 is estimated to be $81.3 billion, which is $477.3 million lower than the Half-Yearly Review estimate of $81.7 billion.

Total expenses in 2018-19 are estimated to be $80.4 billion, which is $203.9 million lower than the Half-Yearly Review estimate of $80.6 billion.

C.2 Operating statement

Total revenue in 2018-19 is estimated to be $477.3 million lower than forecast at the Half-Yearly Review, primarily reflecting decreases in taxation and GST revenue.

Key decreases to estimated revenue in 2018-19 include:

- Transfer duty has been revised down by $393.0 million. While dwelling price declines have been closely in line with the Half-Yearly Review forecast, residential transaction volumes in recent months have been weaker than expected. Payroll tax has also been revised down by $102.3 million due to lower than anticipated collections
- GST revenue has been revised down by $183.6 million due to a lower than expected GST pool in 2018-19
- Land tax has been revised down by $21.8 million to reflect updated assessments based on landholdings as at 31 December.
- Motor Vehicle Taxes have been revised down by $21.0 million, reflecting lower than expected collections to date
- Dividends and income tax equivalents have been revised down by $10.9 million to reflect lower distributions from the Sydney Water Corporation, due to the restart of the Sydney Desalination Plant and further drought-related maintenance costs.

These decreases are partially offset by:

- Revenue from other dividends and distributions is expected to be $234.7 million higher, driven by improvements in equity market performance since the Half-Yearly Review
- Higher than expected Hepatitis C treatments, and the addition of new high cost drugs to the Pharmaceutical Benefits Scheme (PBS), resulting in an additional $38.0 million in revenue
- Gambling and betting taxes which have been revised up by $30.0 million, primarily due to higher forecast revenue from lotteries duty.

Total expenses in 2018-19 are estimated to be $80.4 billion, $203.9 million lower than the Half-Yearly Review estimate.

The reduction in expenses for 2018-19 has been driven primarily by minor parameter and other variations across a number of Agencies ($203.9 million in total), largely reflecting the reprofiling of expenses across and beyond the forward estimates, to better align with project and service delivery schedules.

New measures across a range of agencies have had no net impact on total expenses in 2018-19.

Total capital expenditure in 2018-19 has been revised down by $354 million compared to Half-Yearly Review, mainly due to reprofiled forecasts of transport entities.

C.3 Balance sheet

Net debt is now estimated to be negative $8.0 billion at June 2019, a $253.4 million improvement compared to the $7.7 billion Half-Yearly Review.

The value of Financial Assets at June 30 has increased by $1.1 billion, largely due to improved fund performance and ongoing investment optimisation associated with the NSW Infrastructure Future Fund. The increase in borrowings of $1.0 billion as at June 30 is also driven by this investment optimisation decision.

The State's Net Worth at June 2019 is now estimated to be $270.7 billion, $5.3 billion lower than at Half-Yearly Review. This is mainly driven by a $5.2 billion increase in the State's Superannuation Provision, due to a change in the discount rate used to value the liability due to the prevailing lower long-term bond yields compared to those at the time of the Half-Yearly Review. There has been no change to the fundamental position of the State's defined benefit liabilities on a cash basis.

C.4 Cash flow statement

The state's forecast cash deficit is now estimated to be $10.2 billion for 2018-19, an increase of $122 million compared to Half-Yearly Review. This reflects the marginal change in the Budget result and capital expenditure since Half-Yearly Review.

Table C.1: General government sector operating statement

	2017-18 Actual	2018-19 HYR	PEBU	Variance	Variance
	$m	$m	$m	$m	%
Revenue from Transactions					
Taxation	31,326	31,709	31,179	(529)	(1.7)
Grants and Subsidies					
- Commonwealth General Purpose	17,955	18,379	18,195	(184)	(1.0)
- Commonwealth Specific Purpose Payments	9,844	10,043	10,046	3	0.0
- Commonwealth National Partnership Payments	3,129	3,073	3,067	(5)	(0.2)
- Other Commonwealth Payments	444	436	429	(7)	(1.6)
- Other Grants and Subsidies	487	525	567	41	7.9
Sale of Goods and Services	8,508	9,072	9,028	(44)	(0.5)
Interest	558	452	464	13	2.8
Dividend and Income Tax Equivalents from Other Sectors	1,578	1,971	1,960	(11)	(0.6)
Other Dividends and Distributions	2,114	923	1,157	235	25.4
Fines, Regulatory Fees and Other	4,730	5,163	5,174	12	0.2
Total Revenue from Transactions	**80,672**	**81,743**	**81,266**	**(477)**	**(0.6)**
Expenses from Transactions					
Employee	31,644	32,633	32,247	(386)	(1.2)
Superannuation					
- Superannuation Interest Cost	1,458	1,425	1,403	(22)	(1.5)
- Other Superannuation	3,009	3,099	3,147	49	1.6
Depreciation and Amortisation	4,873	5,081	5,100	19	0.4
Interest	1,994	1,855	1,851	(4)	(0.2)
Other Operating	19,652	21,299	21,423	124	0.6
Grants, Subsidies and Other Transfer Expenses	13,862	15,231	15,247	16	0.1
Total Expenses from Transactions	**76,491**	**80,623**	**80,419**	**(204)**	**(0.3)**
Transactions from Discontinuing Operations	...	...	...	...	...
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**4,181**	**1,120**	**846**	**(273)**	**(24.4)**

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

	2017-18 Actual $m	2018-19 HYR $m	PEBU $m	Variance $m	Variance %
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(231)	301	302	2	0.6
Other Net Gains/(Losses)	71	13,469	13,758	289	2.1
Share of Earnings from Associates (excluding Dividends)	160	...	...	...	...
Dividends from Asset Sale Proceeds	0	81	46	35	42.9
Allowance for Impairment of Receivables	(83)	(23)	(22)	1	(2.8)
Deferred Income Tax from Other Sectors	(17)	(3)	(6)	(3)	84.3
Others	83	84	84	...	...
Discontinuing Operations - Other Economic Flows	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(16)**	**13,909**	**14,163**	**254**	**1.8**
Operating Result	**4,165**	**15,028**	**15,009**	**(19)**	**(0.1)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**20,057**	**8,838**	**3,624**	**(5,214)**	**(59.0)**
Revaluations	17,588	3,160	3,195	34	1.1
Share of Earnings from Associates from Revaluations	(42)	...	...	...	...
Superannuation Actuarial Gain/(Loss)	2,416	5,654	403	(5,250)	(92.9)
Deferred Tax Adjustment through Equity	96	24	26	2	7.9
Items that may be Reclassified Subsequently to Operating Result	**6,312**	**(2,084)**	**(2,113)**	**(29)**	**1.4**
Net Gain/(Loss) on Equity Investments in Other Sectors	6,296	(2,005)	(1,996)	9	(0.5)
Net Gain/(Loss) on Financial Instruments at Fair Value	2	...	...	...	...
Other	15	(79)	(118)	(38)	48.5
Other Economic Flows - Other Comprehensive Income	**26,369**	**6,754**	**1,511**	**(5,243)**	**(77.6)**
Comprehensive Result - Total Change in Net Worth [(a)]	**30,534**	**21,782**	**16,520**	**(5,262)**	**(24.2)**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth [(a)]	**30,534**	**21,782**	**16,520**	**(5,262)**	**(24.2)**
Less: Net Other Economic Flows	(26,353)	(20,663)	(15,674)	4,989	(24.1)
Equals: Budget Result - Net Operating Balance	**4,181**	**1,120**	**846**	**(273)**	**(24.4)**
Less: Net Acquisition of Non-Financial Assets					
Purchases of Non-Financials Assets	11,969	16,681	16,327	(354)	(2.1)
Sales of Non-Financial Assets	(437)	(695)	(596)	99	(14.2)
Less: Depreciation	(4,873)	(5,081)	(5,100)	(19)	0.4
Plus: Change in Inventories	6	(32)	(23)	9	(27.2)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Finance Leases	152	1,855	1,855	...	...
- Other	126	(11)	(7)	4	(32.6)
Equals: Total Net Acquisition of Non-Financial Assets	**6,943**	**12,717**	**12,455**	**(262)**	**(2.1)**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(2,762)**	**(11,598)**	**(11,609)**	**(11)**	**0.1**
OTHER FISCAL AGGREGATES					
Capital Expenditure [(b)]	**12,121**	**18,536**	**18,182**	**(354)**	**(1.9)**

(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

	2017-18	2018-19			
	Actual	HYR	PEBU	Variance	Variance
	$m	$m	$m	$m	%
Assets					
Financial Assets					
Cash and Cash Equivalents	5,417	4,263	4,062	(201)	(4.7)
Receivables	6,721	6,506	6,549	43	0.7
Tax Equivalents Receivable	128	115	103	(12)	(10.8)
Investments, Loans and Placements					
Financial Assets at Fair Value	32,578	36,126	37,618	1,492	4.1
Other Financial Assets	5,556	1,751	1,751	(0)	(0.0)
Advances Paid	1,017	1,206	1,170	(36)	(2.9)
Deferred Tax Equivalent Assets	2,192	2,208	2,207	(1)	(0.0)
Equity					
Investments in Other Public Sector Entities	112,911	107,264	107,264	...	...
Investments in Associates	5,987	12,736	12,598	(139)	(1.1)
Other Equity Investments	722	732	690	(43)	(5.8)
Total Financial Assets	**173,228**	**172,908**	**174,011**	**1,104**	**0.6**
Non- Financial Assets					
Inventories	327	289	304	15	5.2
Forestry Stock and Other Biological Assets	9	9	9	...	...
Assets Classified as Held for Sale	320	131	130	(1)	(0.5)
Property, Plant and Equipment					
Land and Buildings	83,390	87,585	87,749	165	0.2
Plant and Equipment	10,941	11,778	11,831	53	0.5
Infrastructure Systems	104,232	119,088	118,562	(526)	(0.4)
Intangibles	3,691	3,600	3,594	(7)	(0.2)
Other Non-Financial Assets	7,426	5,976	6,136	159	2.7
Total Non- Financial Assets	**210,336**	**228,456**	**228,315**	**(141)**	**(0.1)**
Total Assets	**383,564**	**401,364**	**402,327**	**962**	**0.2**
Liabilities					
Deposits Held	130	83	83	...	...
Payables	7,251	6,826	6,858	32	0.5
Tax Equivalents Payable	3	...	...	...	...
Borrowings and Derivatives at Fair Value	5	4	4	...	...
Borrowings at Amortised Cost	32,441	34,868	35,870	1,002	2.9
Advances Received	797	679	679	...	...
Employee Provisions	18,015	18,185	18,154	(31)	(0.2)
Superannuation Provision [(a)]	54,200	48,708	53,927	5,219	10.7
Deferred Tax Equivalent Provision	112	74	74	0	0.1
Other Provisions	10,210	10,013	10,007	(7)	(0.1)
Other Liabilities	6,223	5,962	5,972	10	0.2
Total Liabilities	**129,385**	**125,402**	**131,627**	**6,225**	**5.0**
NET ASSETS	**254,179**	**275,962**	**270,700**	**(5,262)**	**(1.9)**
NET WORTH					
Accumulated Funds	78,327	98,116	92,847	(5,269)	(5.4)
Reserves	175,852	177,846	177,853	7	0.0
TOTAL NET WORTH	**254,179**	**275,962**	**270,700**	**(5,262)**	**(1.9)**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**(11,195)**	**(7,712)**	**(7,966)**	**(253)**	**3.3**
Net Financial Liabilities [(c)]	**69,068**	**59,758**	**64,880**	**5,121**	**8.6**
Net Financial Worth [(d)]	**43,843**	**47,506**	**42,385**	**(5,121)**	**(10.8)**

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

Table C.3: General government sector cash flow statement

	2017-18 Actual	2018-19 HYR	PEBU	Variance	Variance
	$m	$m	$m	$m	%
Cash Receipts from Operating Activities					
Taxes Received	31,218	31,803	31,273	(529)	(1.7)
Receipts from Sales of Goods and Services	9,334	9,358	9,285	(73)	(0.8)
Grant and Subsidies Received	31,852	32,448	32,295	(153)	(0.5)
Interest Receipts	457	516	529	13	2.6
Dividends and Income Tax Equivalents	1,031	1,955	1,953	(2)	(0.1)
Other Receipts	12,113	8,035	8,244	210	2.6
Total Cash Receipts from Operating Activities	**86,006**	**84,114**	**83,579**	**(535)**	**(0.6)**
Cash Payments from Operating Activities					
Payments for Employees	(30,693)	(32,225)	(31,869)	355	(1.1)
Payments for Superannuation	(4,262)	(4,363)	(4,422)	(58)	1.3
Payments for Goods and Services	(20,027)	(21,488)	(21,578)	(89)	0.4
Grants and Subsidies Paid	(13,221)	(14,631)	(14,563)	68	(0.5)
Interest Paid	(1,508)	(1,465)	(1,476)	(11)	0.8
Other Payments	(5,588)	(3,934)	(4,003)	(70)	1.8
Total Cash Payments from Operating Activities	**(75,300)**	**(78,106)**	**(77,911)**	**195**	**(0.2)**
Net Cash Flows from Operating Activities	**10,706**	**6,008**	**5,668**	**(340)**	**(5.7)**
Net Cash Flows from Investments in Non-Financial Assets					
Sales of Non-Financial Assets	521	803	667	(136)	(16.9)
Purchases of Non-Financial Assets	(13,323)	(16,904)	(16,550)	354	(2.1)
Net Cash Flows from Investments in Non-Financial Assets	**(12,802)**	**(16,101)**	**(15,883)**	**218**	**(1.4)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	808	228	193	(35)	(15.3)
Payments	(1,382)	(2,421)	(2,433)	(12)	0.5
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(574)**	**(2,193)**	**(2,240)**	**(47)**	**2.2**
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Receipts from Sale/Maturity of Investments	9,471	34,853	31,903	(2,950)	(8.5)
Payments for the Purchase of Investments	(8,988)	(24,168)	(22,302)	1,865	(7.7)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**482**	**10,686**	**9,601**	**(1,085)**	**(10.2)**
Net Cash Flows from Investing Activities	**(12,894)**	**(7,608)**	**(8,523)**	**(914)**	**12.0**
Cash Flows from Financing Activities					
Advances Received (net)	(40)	(209)	(179)	31	(14.6)
Proceeds from Borrowings	957	1,167	2,186	1,019	87.3
Repayment of Borrowings	(1,773)	(498)	(495)	2	(0.4)
Deposits Received - Net	24	(47)	(48)	(0)	0.7
Other Financing Receipts/ (Payments)	94	6	8	2	30.9
Net Cash Flows from Financing Activities	**(738)**	**419**	**1,472**	**1,053**	**251.1**
Net Increase/(Decrease) in Cash Held	**(2,925)**	**(1,181)**	**(1,383)**	**(202)**	**17.1**
Derivation of Cash Result					
Net Cash Flows From Operating Activities	10,706	6,008	5,668	(340)	(5.7)
Net Cash Flows from Investments in Non-Financial Assets	(12,802)	(16,101)	(15,883)	218	(1.4)
Cash Surplus/(Deficit)	**(2,096)**	**(10,093)**	**(10,216)**	**(122)**	**1.2**

D. REPORTING UNDER THE FISCAL RESPONSIBILITY ACT

The *Fiscal Responsibility Act 2012* (FRA) requires the State to report on performance against the FRA's object, targets and principles as part of the budget papers.

The FRA sets the policy objective of maintaining the State's triple-A credit rating. To this end, it commits the State to meet two fiscal targets and follow three principles of sound financial management (see Table D.1).

Table D.1: Fiscal Responsibility Act – object, targets and principles

Object	Fiscal targets	Fiscal principles
	Expense growth kept below long-term average revenue growth	Responsible and sustainable spending, taxation and infrastructure investment • aligning general government revenue and expense growth • stable and predictable taxation policies • investment in infrastructure that has the highest benefit for the community
Maintain the triple-A credit rating		Effective financial and asset management policies: • performance management and reporting • asset maintenance and enhancement • funding decisions • risk management practices
	Eliminate unfunded superannuation liabilities by 2030	Achieving intergenerational equity • policy to have regard for its effects on future generations • the current generation to fund the cost of its services

D.1 Performance

Performance against the object

New South Wales has maintained its triple-A credit rating, meeting the object of the FRA, as shown in Table D.2.

Table D.2: Performance against the Fiscal Responsibility Act object and targets

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

The New South Wales triple-A rating was reaffirmed by both Moody's Investors Service (Moody's) and Standard & Poor's – S&P Global Ratings (S&P) in September 2018. S&P also raised the State's rating outlook from negative to stable in September 2018 following similar action on Australia.

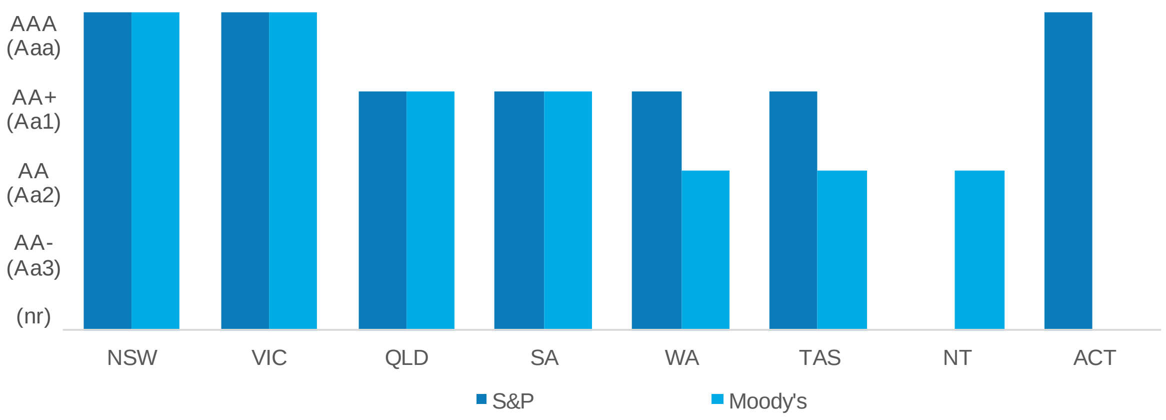
New South Wales is one of only five states or provinces outside the United States holding a triple-A credit rating from both Moody's and S&P (refer Table D.3).

Table D.3: New South Wales is one of five states rated triple-A by both Moody's and S&P

Moody's	S&P's
New South Wales	New South Wales
Victoria	Victoria
	Australian Capital Territory
British Columbia (CA)	British Columbia (CA)
Saskatchewan (CA)	
Baden-Wuerttemberg (DE)	Baden-Wuerttemberg (DE)
Bavaria (DE)	Bavaria (DE)
Brandenburg (DE)	Saxony (DE)
`	Basel (CH)
	Vaud (CH)
	Zurich (CH)

Note: table shows states and provinces
Abbreviations: CA (Canada), CH (Switzerland) and DE (Germany)

Chart D.1: New South Wales has the highest ratings possible in Australia



Performance against FRA targets and principles

The *Fiscal Responsibility Act 2012* sets out two fiscal targets and three principles of sound financial management to help support the object of the Act.

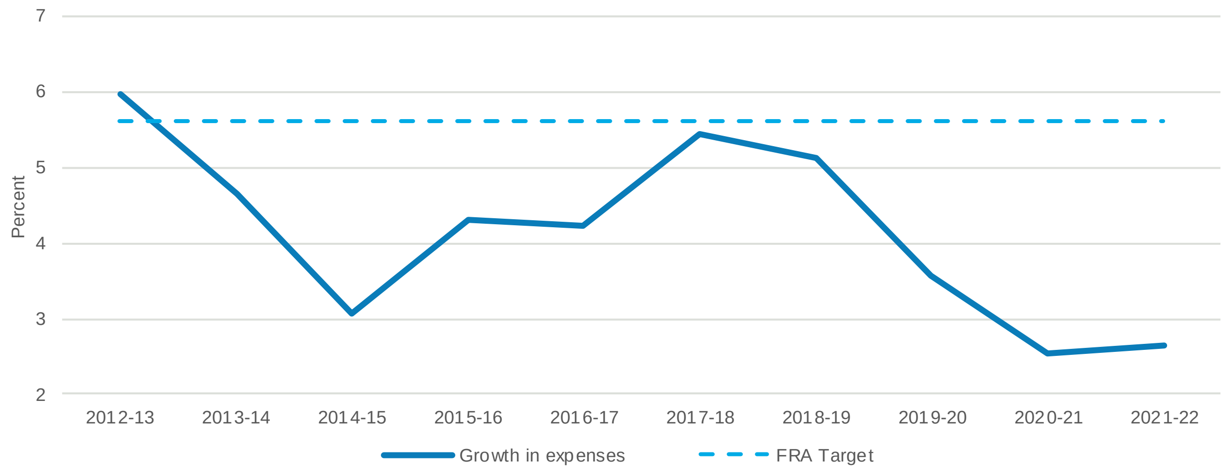
Target 1 – Expense growth to not exceed long-run revenue growth

The specific limit on annual expense growth (set by the *Fiscal Responsibility Regulation 2013*) is 5.6 per cent.

This limit has been enforced through tight control over new expense proposals, a legislated wage policy limiting employee cost growth to 2.5 per cent, and annual savings targets.

Tight spending controls have succeeded in holding expense growth below the target limit across the first five years of the FRA and are projected to continue so over the four years of the 2018-19 Budget (as shown in Chart D.2).

Chart D.2: Expense growth and target



Target 2 – Eliminating unfunded super liabilities by 2030

The FRA requires the State to fully fund all its superannuation liabilities by 2030. To achieve this, the funding plan requires appropriate new contributions, and timely response to fluctuations in the discount rate used to determine the present value of future payment obligations, and in the expected market performance of the offsetting financial assets. The State, assisted by actuarial advisors, closely monitors the funding program to ensure the progressive elimination of this liability before the 2030 deadline. New South Wales is on track to be fully funded by 2030 as outlined in the 2018 triennial review completed in October 2018.

Total state unfunded super liabilities have been reduced from $71.2 billion at June 2016 to $56.4 billion at June 2018. They are projected to decline to $40.6 billion at June 2022 – and zero at June 2030.

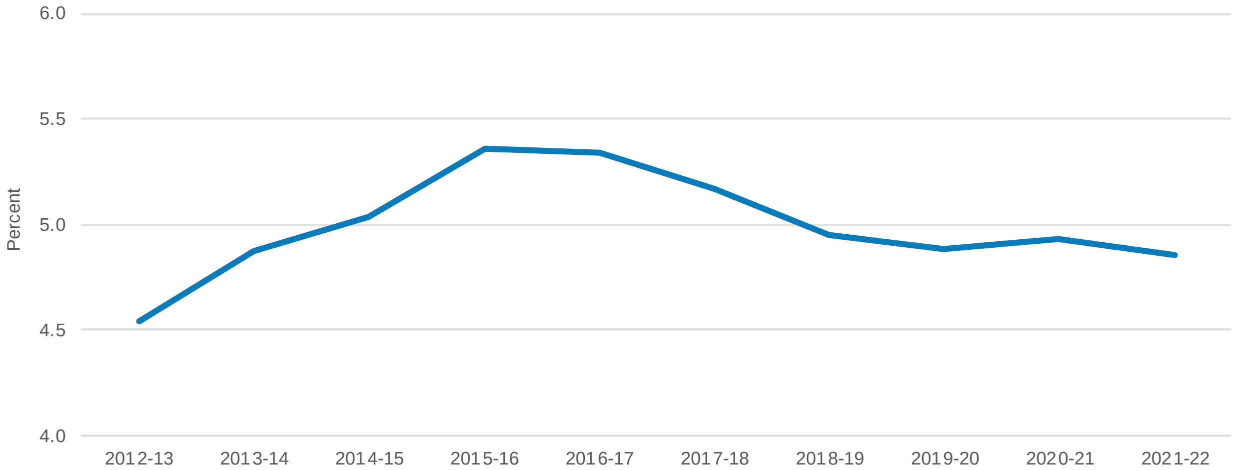
Principle 1 – Responsible and sustainable spending, taxation and infrastructure investment

This calls for a strong and sustainable fiscal position, shown by an operating position appropriate for current conditions, and debt that can be sustainably managed while providing recurrent services and infrastructure investment.

Responsible and sustainable spending will be reflected in the alignment of revenue and expense growth. This is supported by FRA Target 1 that requires the State to keep expense growth below the long-term revenue growth rate of 5.6 per cent.

State taxation has remained stable and low, with the ratio of tax receipts to Gross state product (GSP) declining from 5.4 per cent in 2015-16 to an estimated 4.9 per cent in 2018-19 and remaining around that ratio across the forward years (as shown in Chart D.3).

Chart D.3: Taxation revenue, ratio to GSP



New South Wales has maintained a strong program of public infrastructure investment. Total investment by the non-financial public sector (NFPS) as a share of GSP increased from 2.9 per cent in 2012-13 to 3.2 per cent in 2016-17 and is projected to rise to 3.7 per cent in 2019-20, with a moderation in the final forward years.

The sustainability of this investment has been maintained by financing it through current budget surpluses and proceeds from the asset recycling program to the extent possible, thereby moderating the need for additional debt.

Principle 2 – Effective financial and asset management policies

The policies targeted under this principle include performance management and reporting, asset maintenance and enhancement, funding decisions and risk management practices.

The State's balance sheet management, funding decisions and risk management continued to be strengthened by the interdepartmental Assets and Liabilities Committee (ALCO).

This included important work to improve cash management and the management of the State's asset and liability portfolios (see Chapter 7 of 2018-19 Budget Paper No.1 *Budget Statement*).

Financial management improvement took further steps forward in 2018-19 with:

- the passage of the *Government Sector Finance Act 2018* which modernises financial structures, principles, guidelines and controls across the entire public sector
- establishment of the NSW Generations Fund
- completion in August 2018 of the sale of 51 per cent of Sydney Motorway Corporation for $9.26 billion
- the sale to the Commonwealth of the NSW interest in the Snowy Hydro scheme for $4.2 billion
- strengthened reporting and management of contingent assets and liabilities
- the first issuance of Green Bonds (in November 2018) to fund projects delivering environmental and social benefits.

The State continued the transformation to an Outcome Budgeting framework, being phased in over the next four years. The 2018-19 Budget set out the 46 State Outcomes providing a “citizen perspective” of the Budget. Another major milestone was reached in December 2018 with the release of *Treasury’s Policy Paper on Outcome Budgeting* (TPP18-09). This provides guidance on developing and maintaining the Outcomes framework, and the financial and non-financial requirements for performance reporting, and the timetables for finalising outcome, performance and equity measures.

Principle 3 – Progress in achieving intergenerational equity

The FRA commits the State to ensure that policy decisions are made having regard to their financial effects on future generations; and that the current generation funds the cost of its services.

Each budget reports the impact of its measures on the long-term fiscal gap, which is a summary indicator of the budget’s financial effect on future generations[9]. The *2016-17 NSW Intergenerational Report* highlighted the impact on ageing on the demand for government services and infrastructure. If current trends continue, a widening fiscal gap will emerge between state government revenues and service and infrastructure requirements. At the time of the 2016-17 Budget, the gap was projected to be 3.4 per cent of GSP by 2055-56.

The impact of budget measures on the long-term fiscal gap was estimated to be 0.1 per cent in 2015-16, nil in 2016-17, 0.1 per cent in 2017-18 and no change for 2018-19 (the 2019-20 Budget will provide a further update). This shows that prudent budget management continues to be effective in limiting the financial burden shifted to future taxpayers.

[9] The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.

Photo credits (from top, clockwise): Wilton Public School, NSW Department of Education; NSW Health; NSW Transport; NSW Transport; Destination NSW.