The NSW BUDGET 2020 2021
HALF-YEARLY REVIEW

NSW GOVERNMENT

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NSW Budget

2020-21 Half-Yearly Review

Released by The Hon. Dominic Perrottet MP, Treasurer

The 2020-21 Half-Yearly Review

The *Public Finance and Audit Act 1983* requires the Treasurer to release a Half-Yearly Review by 31 December each year. Following the deferral of the 2020-21 Budget, the *COVID-19 Legislation Amendment (Emergency Measures—Treasurer) Act 2020* was passed by Parliament. It allows for the 2020-21 Half-Yearly Review to be released by 28 February 2021.

Best available information

The Estimated Financial Statements have been prepared to reflect best estimates of economic and financial data, including Government decisions taken between 17 November 2020 (which was basis of the 2020-21 Budget) up to 17 February 2021.

Any estimates or assumptions made in calculating revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time.

The Estimated Financial Statements have been prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions (Appendix A).

Notes when reading this report

The Budget year refers to 2020-21, while the forward estimates period refers to 2021-22, 2022-23 and 2023-24.

Figures in tables, charts and text have been rounded and any discrepancies between totals and sums of components reflect rounding. Percentage changes are based on unrounded estimates.

Acknowledgement of country

NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and recognises their continued custodianship of Country – land, seas and skies. We acknowledge the diversity of First Nations cultures, histories and peoples, recognise their enduring connection to our State, and we pay our deepest respects to Elders past, present and emerging.

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1. OVERVIEW

2020-21 Half-Yearly Review Highlights

- In the 2020-21 Budget, the NSW Government set out its economic strategy to recover from the devastating effects of COVID-19 – focusing on job creation while laying the foundations for an even stronger economy in the long term.
- This update is characterised by continued volatility and uncertainty as a result of the global COVID-19 pandemic. Nonetheless, there are early signs the State's economic recovery is underway.
- New South Wales unemployment has already peaked, at a lower level than previously expected. The unemployment rate is forecast to ease to 5 per cent by end 2023-24, which is a ¼ percentage point lower than forecast at Budget.
- The State's economic growth is forecast to improve to 2¾ per cent by 2021-22, with the economy expected to be ½ per cent larger by 2023-24 compared to Budget forecasts.
- The better economic outlook has contributed to an improvement in the State's fiscal position.
  - The average deficit over the budget and forward estimates is projected to be $5.2 billion, which represents a $1.2 billion improvement since the 2020-21 Budget.
  - Net debt is projected to be $96.7 billion in June 2024, an improvement of $7.7 billion compared to the 2020-21 Budget.

Early signs of economic recovery, but volatility remains

Following the most significant economic shock in living memory due to the global pandemic, the initial recovery experienced in New South Wales has exceeded expectations. Economic activity in the September quarter 2020 (as measured by State Final Demand) rebounded 6.8 per cent, following the 8.8 per cent contraction in the previous quarter. While this means the economy is not back to where it was before the pandemic, the gap has closed faster than anticipated at the time of the Budget.

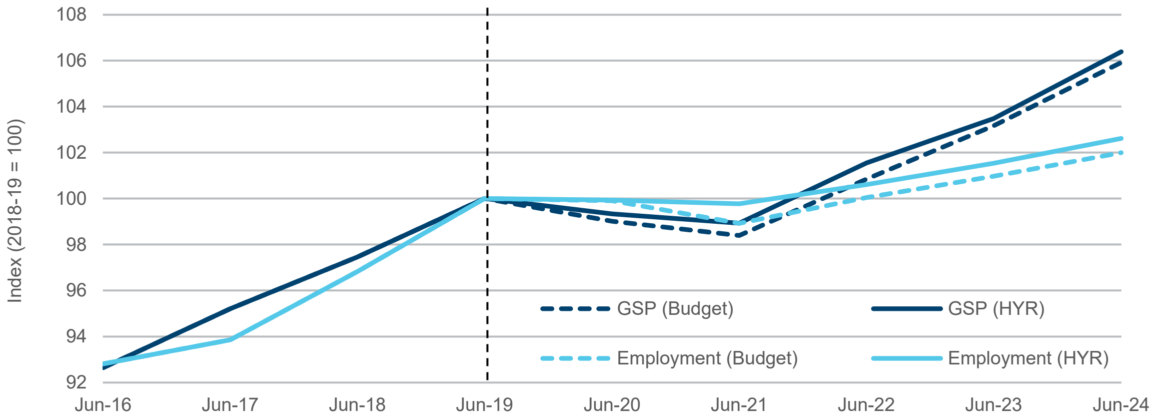
This outcome is largely due to the Government's success in containing the spread of the virus, which has allowed the economy to reopen much sooner than first thought. Additionally, a suite of temporary and targeted stimulus and support measures meant the economy was in a much better position to spring back once COVID-19 restrictions were eased.

The benefit to the people of New South Wales has been significant. The successful reopening of the economy has meant that more than 80 per cent of the employment lost during the worst of the crisis has been regained. The unemployment rate appears to have peaked at 7.2 per cent in July, around ¼ percentage points lower than previously expected, and had eased to 6.0 per cent by January 2021.

This momentum appears to be continuing, despite some disruption from the Northern Beaches outbreak late last year, with business and consumer confidence holding up in recent months.

The economy is on track to recover to pre-COVID levels next financial year (2021-22), more than six months sooner than expected. The forecast for economic growth has been revised up in 2020-21 and 2021-22 (see Chart 1.1). Upgrades over the forecast horizon have the NSW economy ½ per cent larger by 2023-24 than was forecast at Budget.

Chart 1.1: Upgrades to the outlook for economic activity and employment



Source: ABS and NSW Treasury

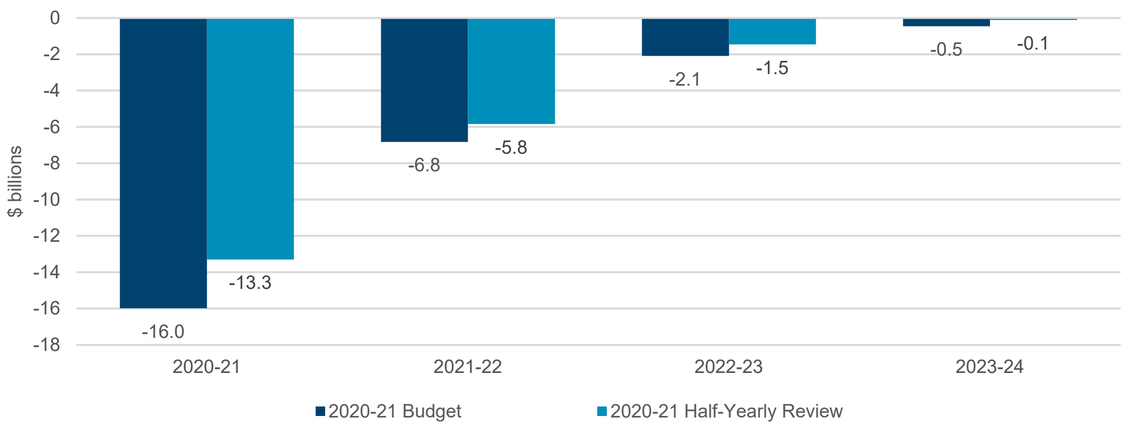
While the outlook has improved, there continues to be significant risks. New strains of the virus and potential issues around vaccine rollouts suggest a possibility of further disruption. The economic forecasts in the Half-Yearly Review assume no further domestic outbreaks, international borders reopen by late 2021 and the vaccine rollout for the general population commences around mid-2021. Variations from these assumptions may have a material impact on the economic and fiscal outlook.

See Chapter 2 for more information on the economic outlook.

The Government's fiscal strategy remains on track

There has been significant volatility in the fiscal projections since the start of the COVID-19 pandemic and uncertainty remains in the fiscal outlook. While the Half-Yearly Review shows an improving fiscal position (see Chart 1.2), the Government is taking a cautious approach to its financial management, reflecting the passage of only three months since the Budget.

Chart 1.2: Budget Result – 2020-21 Budget vs. 2020-21 Half-Yearly Review



On the back of a better than expected revenue recovery, the Government is also projecting reduced borrowing requirements, with net debt to Gross State Product (GSP) projected to be 13.5 per cent at June 2024, down from 14.7 per cent at Budget.

Supported by the NSW Generations Fund and the Government's successful asset recycling program, the Government is on track for a balanced operating position and net debt levels to stabilise by the end of the forward estimates. As a result, the fiscal outlook will progressively return to a position more consistent with a triple-A credit rating.

New South Wales has been able to continue to borrow at record low interest rates, driven by underlying demand from international and domestic investors and supported by expansionary monetary policy from the Reserve Bank of Australia. The Half-Yearly Review projects interest as a portion of revenue to average 3.1 per cent over the budget and forward estimates, which is lower than the 3.2 per cent projected at Budget.

See Chapter 3 for further analysis on the fiscal outlook.

The Government is delivering its plan for economic recovery and reform

At the Budget, the Government announced its COVID-19 economic recovery and reform strategy, including committing $29.0 billion in stimulus and support measures to respond to the initial health crisis and then set up the economy for a strong recovery.

The Government is delivering on its plan. Much needed stimulus has been injected into the economy to create jobs in the short term (see Box 1.1), while reform initiatives have been accelerated to lay the foundations for an even stronger economy in the long term.

This support has contributed directly to economic activity at a time when it is needed most. The public sector was one of the few sources of economic growth for New South Wales in 2019-20, with underlying public demand contributing more than 1½ percentage points to GSP growth in 2019-20. This was almost three times its historical average. State and local public investment is expected to again make a substantial contribution to GSP growth across two years to 2021-22 – around ¾ of a percentage point.

The $107.2 billion infrastructure pipeline has also supported the economy through the pandemic, stimulating economic activity while generating ongoing productivity benefits. Further investment is provided in the Half-Yearly Review, including for a new metro station at Pyrmont.

Box 1.1: Supporting businesses and the community through the pandemic

The Government's COVID-19 support package continues to deliver for businesses and the community, including:

- over 52,000 small businesses accessed a $10,000 grant for immediate relief during the NSW lockdown, while over 36,000 accessed a $3,000 grant to help them reopen safely
- over 10,000 businesses have been supported through the Business Connect program, which provides advice to business owners to help adapt their small business
- over 42,600 energy relief vouchers have been applied to customer accounts providing energy relief to customers experiencing short-term financial distress
- over 7,200 new and redeployed cleaners have been employed to undertake additional cleaning of public infrastructure
- over 6,800 victims and survivors of domestic and family violence have been supported through expanded non-government organisation services from July to December 2020
- applications for the Jobs Plus Program opened in December 2020, offering support to companies who are looking to start or expand business operations in New South Wales.

These measures are also having an immediate stimulatory impact. For example:

- Dine and Discover has started in the Northern Beaches, Broken Hill, the Rocks and Sydney CBD, and Bega Valley, with the State-wide rollout commencing in March 2021
- CBD Revitalisation Fund initiatives have brought people back into the city, with:
  - over 7,900 visitors to the Garden Social at the Botanic Gardens
  - over 9,200 visitors to cultural institutions
  - over 2,000 subsidised tickets sold at Sydney Opera House
  - over 70 businesses are participating in Alfresco Dining across the City of Sydney.

Reforms that will improve our State for generations to come

Since the Budget, the Government has made substantial progress on its economic reform agenda. This includes progressing consultation on property tax reform, with further detail provided in Box 1.2.

The Government is also committed to delivering a more streamlined and timely planning system. This includes:

- continuing to roll out the NSW Planning Reform Action Plan, to reduce assessment times, simplify the planning system, and invest in ePlanning to improve customer experience
- progressing reforms to increase certainty and simplicity across infrastructure contributions. The NSW Productivity Commission's review of the State's infrastructure contribution system was handed down on 3 December 2020. The Government is currently reviewing the recommendations to develop an implementation road map by early 2021
- establishing the NSW Planning Concierge to assist potential investors in the State to navigate the planning system – helping potential investors overcome barriers and complexities without compromising sound planning decisions.

Reforms are also underway to reduce regulation and make it easier to do business, including:

- **Revitalising Sydney's nightlife** – on 9 February 2021, the Government removed the lockout laws in the Kings Cross entertainment precinct. This brings Kings Cross in line with the Sydney CBD precinct, where restrictions were lifted 12 months ago. This move will help grow Sydney's night-time economy, boosting jobs while maintaining a focus on community safety.
- **Automatic mutual recognition of occupational licenses** – on 11 December 2020, all jurisdictions except the ACT signed an Intergovernmental Agreement committing to establish a widespread uniform scheme for automatic mutual recognition by 1 July 2021. The scheme will enable occupational licensees to work in other jurisdictions without having to apply, or pay fees, promoting freer flow of labour between jurisdictions.
- **Improving regulatory flexibility for business and the community** – the Treasurer has commenced a whole-of-government evaluation of the regulatory relaxations that were implemented at the height of the COVID-19 pandemic. The evaluation will be completed by the end of 2021, with the best reforms retained to continue to support the economy.

Box 1.2: Update on Property Tax Reform

As part of the 2020-21 Budget, the Government unveiled a proposal to reform the NSW property tax system.

The proposed reforms would give property buyers the choice to pay stamp duty at the time of purchase or pay an annual property tax instead.

These changes aim to reduce barriers to home ownership, deliver greater mobility, and create additional employment opportunities. They are forecast to inject $11.0 billion into the NSW economy over the next four years, boosting GSP by 0.3 per cent. In the long run, the reforms are estimated to lift GSP by 1.7 per cent and create an additional 75,000 jobs.

Update on Public Consultation

Since the public consultation started on 17 November 2020, more than 16,500 people have engaged through the Government's Have Your Say website. The Government is considering all views presented, to refine the proposal in order to offer improved flexibility and benefits for the greatest possible number of households and businesses.

Consultations close on Monday 15 March 2021. To have your say, visit: www.haveyoursay.nsw.gov.au/nsw-property-tax-proposal.

2. ECONOMIC OUTLOOK

Key points

- Expected economic growth in New South Wales is being upgraded for the current fiscal year, with faster employment growth and a lower peak in the unemployment rate. To some extent, policy support has dragged forward growth from subsequent periods.
- Despite an upgrade to the economic outlook, there remains a high degree of uncertainty around the forecasts given the unpredictable nature of the challenges facing the economy. There are, for example, material risks around the rollout of the various COVID-19 vaccines.
- The State has experienced a much faster than expected rebound in economic activity from the significant COVID-related disruptions of 2020. After starting the fiscal year on the back foot, the size of the economy in 2020-21 is now expected to be broadly unchanged from the prior year. The economy is then forecast to grow by 2¾ per cent in 2021-22.
- Temporary government support measures and successful management of COVID-19 risks have been instrumental in accelerating the rebound in the economy. This partly reflects a bring forward of some activity from later years.
- The labour market has realised the benefits of this rebound in activity, with the unemployment rate peaking lower than previously expected in 2020-21. The unemployment rate is forecast to ease to 5 per cent by end 2023-24, which is a ¼ percentage point lower than forecast at Budget.
- While the outlook has improved, spare capacity in the labour market over coming years is expected to keep wages growth and inflation subdued, with the latter below the RBA inflation target of 2-3 per cent.
- There may be some challenges as key temporary Commonwealth Government support measures put in place during the worst of the crisis in 2020 are wound back. Attention now needs to shift towards reform to ensure the achievement of the dual objectives of long-term economic prosperity and fiscal sustainability.

2.1 Faster reopening has triggered upgrades to the economic outlook

NSW economy returning to pre-COVID levels sooner than expected

The impact of COVID-19 and measures to suppress the spread of the virus have had a significant impact on the NSW economy. Gross state product contracted by 0.7 per cent in 2019-20, the weakest outcome since official statistics were first published in the early 1990s. Meanwhile, in the early months of the crisis, employment fell by more than 270,000, over 6 per cent of the entire State's workforce.

Successful management of the virus, however, has allowed containment measures to be eased much more quickly than had been expected at the time of Budget. Consequently, local economic activity (measured by state final demand) rebounded by a solid 6.8 per cent in the September quarter.

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

	2019-20 Outcomes	2020-21 Revised Forecast	2021-22 Revised Forecast	2022-23 Revised Forecast	2023-24 Revised Forecast
Real state final demand	-2	½ (-1½)	2 (2½)	2 (2¼)	3¼
Real gross state product	-0.7	-½ (-¾)	2¾ (2½)	2 (2¼)	2¾
Employment	-0.1	-¼ (-1)	¾ (1¼)	1	1
Unemployment rate [(b)]	6.5	6½	6	5¾	5 (5¼)
Sydney consumer price index	1	1¼ (1)	1½ (1¼)	1½	1¾ (1½)
Wage price index	2	1¼	1½ (1¼)	1½	1¾
Nominal gross state product	0	1¾ (1¼)	4	3¼ (3¾)	4¼
Population [(c)]	0.9	0	0.2	0.7	1.1

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

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

Temporary government support measures have helped minimise the damage inflicted on the economy, leaving it in a much stronger position to recover. Support has come from all levels of government, including $29 billion in health, economic stimulus and social support measures committed by the NSW Government.

The labour market, as a result, has also improved more quickly than expected. Solid employment growth in the later months of 2020 supports a revised expectation that the unemployment rate has peaked at a lower level than previously forecast. The unemployment rate eased back to 6.0 per cent in January 2021. This remains elevated relative to pre-COVID, but a material improvement from the recent peak of 7.2 per cent recorded in July.

Although risks remain, the economy appears well placed to withstand a shift away from an emergency fiscal setting and continue to recover. While the Northern Beaches outbreak was a risk to the rebound, a targeted lockdown and gold-standard track and tracing strategy successfully contained the spread of the virus and minimised disruption to the broader economy.

As a result, economic activity (state final demand) remains on track to recover to pre-COVID levels in 2021-22, more than six months sooner than had previously been expected. The forecast for growth in economic activity has been revised up significantly in 2020-21, from a material decline to a modest gain. This partly reflects a bring forward of activity. Once this initial rebound has run its course, the pace of growth is projected to ease but remain at an above-trend pace through the end of the Budget horizon.

The employment forecast has seen a comparable upgrade since Budget. The unemployment rate is expected to be modestly lower by the end of the horizon, easing to 5 per cent by end 2023-24, despite more people now expected to remain active in the labour force.

While the outlook has improved, there continues to be significant downside risks due to the unpredictable nature of the pandemic. New strains of the virus, elevated rates of infection in some countries and potential holdups around vaccine rollout all suggest a possibility of further disruption.

2.2 The outlook for the global economy has improved

Vaccines and stimulus hopes underpin an upgrade to the outlook

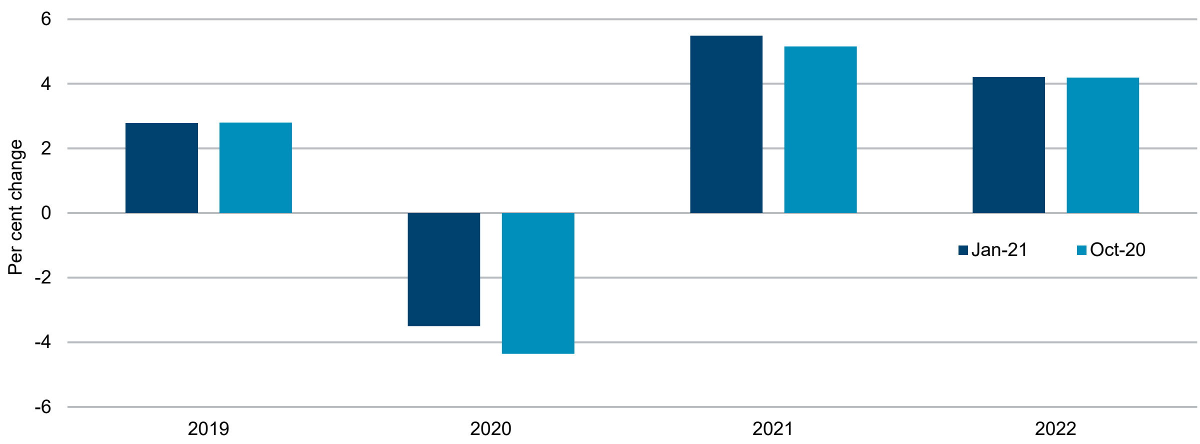
The World Bank and the International Monetary Fund recently upgraded their outlook for the global economy. This reflects evidence that the impact of COVID-19 was less than initially thought, along with expectations of a vaccine-powered strengthening of activity later in the year. The prospect of additional fiscal stimulus in a few large economies was another positive factor. The IMF revised up its estimated GDP decline in 2020 by almost 1 percentage point to -3.5 per cent (Chart 2.1). The forecast rebound for 2021 was revised up by 0.3 percentage points to 5.5 per cent. The IMF expects global growth to stabilise at 4.2 per cent in 2022.

NSW's major trading partners are favourably placed, and are forecast by the IMF to experience faster growth than the global average. This partly reflects the importance of China, which is expected to accelerate back above 8 per cent growth for the first time since 2011. This should improve demand for goods and non-travel related service exports. By contrast, the outlook for travel related service exports such as tourism and education will remain constrained by ongoing border restrictions and quarantine requirements. The contribution to growth from trade will be tapered by stronger imports as local demand strengthens by more than expected at Budget.

COVID-19 risks and uncertainty could still derail the recovery

While the global economic outlook has improved, significant risks remain. Worldwide infection and mortality rates remain higher than throughout most of 2020. Along with the emergence of more virulent strains of COVID-19, this has led some countries to reimpose strict lockdown measures that have again curtailed economic activity. In the last quarter of 2020, the Eurozone contracted by 0.6 per cent and the United Kingdom is expected to see negative growth for the first quarter of 2021. There is a risk that these sorts of disruptions will continue throughout this year, particularly if assumptions around vaccine rollouts and effectiveness prove overly optimistic. The IMF also highlights the risk to the global recovery if stimulus is removed too early.

Chart 2.1: IMF upgraded expected global GDP growth



Source: IMF and NSW Treasury

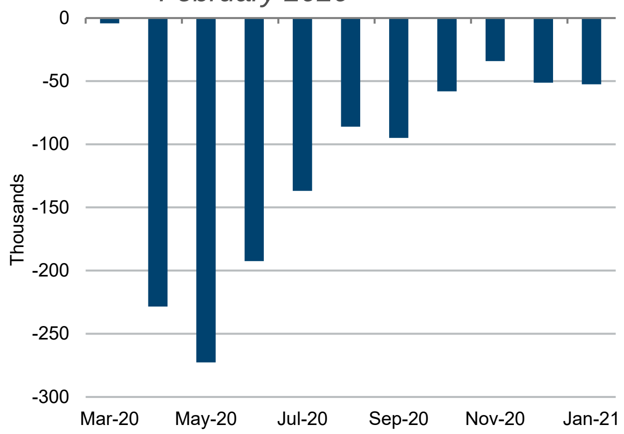
2.3 A swifter rebound has cushioned the impact on the labour market

Labour market conditions have exceeded most expectations

Successful management of public health risks has permitted a faster reopening of the NSW economy. Meanwhile, effective government support measures helped to keep more businesses open during the worst of the crisis. Combined, these factors have allowed the labour market to recover more quickly than previously expected. More than 220,000 additional people have gained employment in New South Wales since the peak of the crisis in May 2020 (see Chart 2.2). Still, employment remains 1.3 per cent lower compared to January 2020. Despite the decrease in the size of JobKeeper payments from the end of September, and then again in December, employment has continued to improve albeit softening more recently. While the conclusion of JobKeeper in March 2021 will present a challenge, current conditions point to an ongoing recovery that is likely to limit the magnitude of associated job losses.

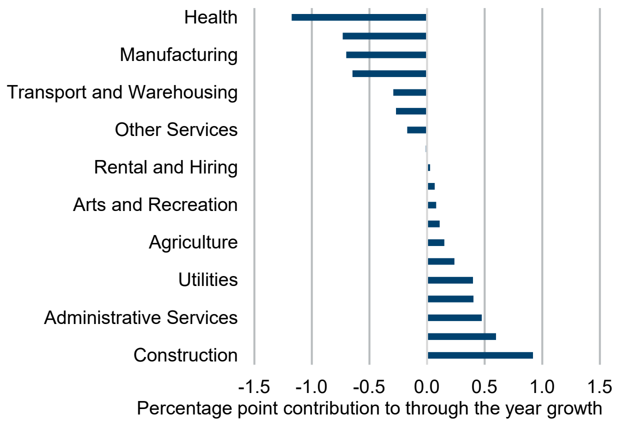
The robust recovery in employment over the second half of 2020 and a participation rate already around pre-COVID levels suggest that the unemployment rate peaked at 7.2 per cent in July 2020, rather than the 7½ per cent forecast at Budget for the end of 2020. The unemployment rate subsequently has eased back to 6.0 per cent by January 2021, a positive result compared to expectations at Budget for the unemployment rate to remain above 6.5 per cent until late 2021.

Chart 2.2: Cumulative employment loss since February 2020



Source: ABS 6202.0 and NSW Treasury

Chart 2.3: Contribution to employment growth by industry (November 2020)



Source: ABS 6291.0 and NSW Treasury

The initial recovery in employment since the peak of the pandemic has varied across industries. Health Care and Social Assistance, the biggest employer, has contributed the largest drag to overall employment due to restrictions on elective surgeries, as well as falls in aged care services and social assistance (see Chart 2.3). This was followed by the hospitality industry, which was heavily affected by social distancing measures and restrictions. In contrast, the construction industry has seen a significant increase in employment over the year, likely due to a bring-forward of building projects and Commonwealth support measures such as JobKeeper and HomeBuilder, alongside more investment in public infrastructure.

Box 2.1: Health assumptions underpinning the outlook

The vaccine rollout to quarantine and essential workers is commencing slightly sooner than had been expected at Budget. The rollout to the broader public is still likely to commence from around mid-year, but is now forecast to reach 50 per cent of the population by the end of the September quarter (previously assumed to be 20 per cent). Vaccination rates will build from there.

Social distancing restrictions have been unwound more quickly than had been expected at Budget – namely a return to the 2 square metre rule in more commercial venues, although some patron caps have remained. This lower degree of social distancing restriction is currently assumed to remain until a vaccine becomes widely available. Further outbreaks or issues around the vaccine rollout would suggest downside risks to this assumption.

The assumptions around international border restrictions are largely unchanged since Budget. They continue to broadly align with those of the Commonwealth, which sets the policy on international borders and is taking the lead on the vaccine rollout.

Australia's international borders are assumed to reopen in the December quarter 2021, in line with the effective timing of a widely available vaccine. A gradual return of international students and permanent migrants is assumed from the latter part of 2021.

Inbound and outbound international travel will remain low through the latter part of 2021, after which a gradual recovery in international tourism is assumed to occur. The recovery will be even more gradual if quarantine requirements become more stringent or remain in place longer than expected, even as borders reopen.

Some inbound travel of New Zealand tourists to New South Wales without quarantine restrictions has resumed. It is assumed that NSW tourists will be permitted to travel to New Zealand by March 2021.

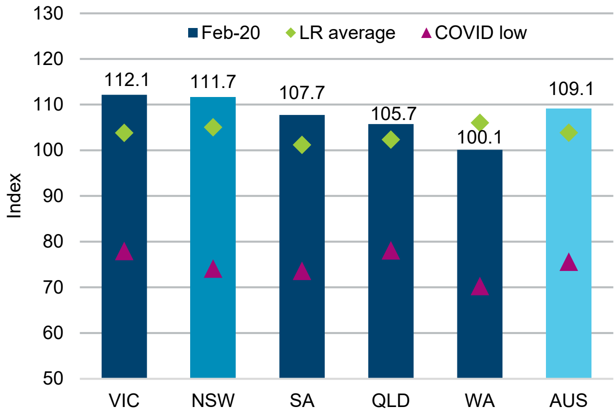
Confidence has returned to the household sector

An improvement in labour market conditions, more positive consumer sentiment and policy measures to support household finances all have helped consumption to recover over the second half of 2020. With social distancing restrictions eased, household consumption rose 10.8 per cent in the September quarter. This followed a record contraction in the prior quarter, with the level of household consumption still 6.1 per cent below the December quarter 2019.

Isolated COVID-19 outbreaks in recent months have threatened to disrupt the recovery in consumer spending, but the Government's swift response has meant clusters such as the one in the Northern Beaches of Sydney have been controlled quickly. While there is some evidence that this event weighed on retail spending in December, the overall impact is likely to be modest and short-lived.

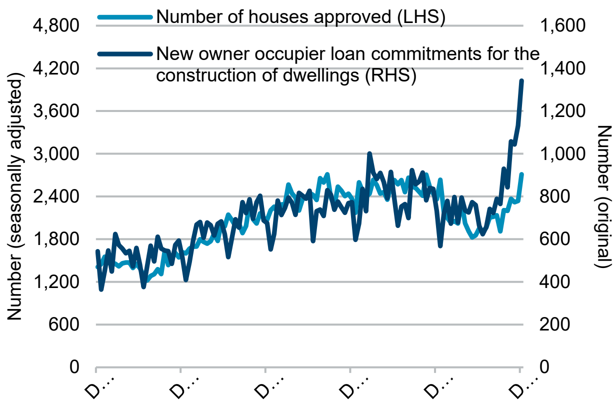
Household consumption is likely to remain stronger than expected at Budget and is forecast to recover to pre-COVID levels towards the end of 2021. In the near term, consumer spending is being supported by a sharp rebound in consumer confidence (Chart 2.4), buoyed by the easing in restrictions, with confidence briefly rising to a 7-year high. Beyond the near term, the uplift in consumption will be underpinned by the recovery in the labour market, higher household wealth (supported by rising house prices and a recent lift in savings) and a gradual decline in uncertainty related to health and economic outcomes. There are, however, offsetting factors weighing on consumption, such as the scheduled increase in compulsory superannuation contributions and an unwinding of some Commonwealth support measures. The possibility of future outbreaks is also a risk to consumption.

Chart 2.4: *Consumer sentiment has rebounded*



Source: Westpac-Melbourne Institute and NSW Treasury

Chart 2.5: *Housing sector activity has recovered*



Source: ABS 8731.0, ABS 5601.0 and NSW Treasury

Prospects have improved for the housing market and construction

A more resilient labour market and record-low interest rates have fuelled a strong rebound in property prices, particularly for detached houses. After falling moderately early in the pandemic, Sydney house prices have rebounded to be 7.6 per cent higher through the year to January 2021. The apartment market has been hit harder by the closure of the international border and the resulting decline in migrants and international students. Unit prices are weak, with a decline of 0.2 per cent through the year to January 2021.

Closed international borders saw net overseas migration turn negative in mid-2020, which has weighed on the demand for housing in New South Wales. However, rising prices, low interest rates and government stimulus measures, such as first home buyer support and the Commonwealth's HomeBuilder grant, will provide offsetting support for dwelling investment in the near term. Changes since Budget to the HomeBuilder grant mean that considerably more households in New South Wales will be able to qualify. Detached house approvals have increased in recent months and a sharp increase in new lending commitments and new home sales suggest further increases in the months ahead (Chart 2.5). Nonetheless, much of this represents a pull-forward of demand. Dwelling investment is forecast to see further declines over coming years, given the permanent loss of migration/population growth.

Capital investment to lift as the economic recovery progresses

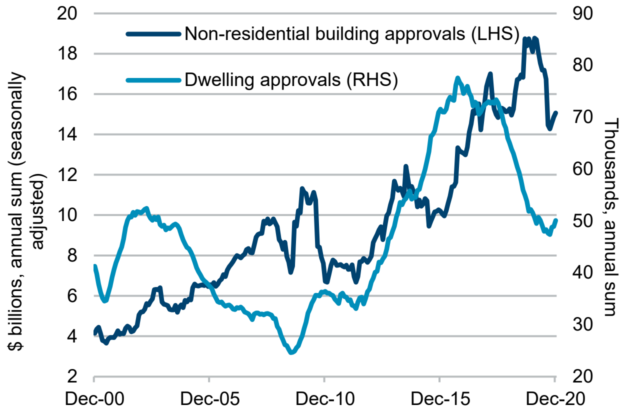
Despite the magnitude of the shock to the economy, the number of business failures have been relatively limited. There were 4,900 insolvencies across the nation in 2020, significantly below the 9,300 insolvencies seen in the average year over the preceding decade. This is partly due to the Commonwealth's insolvency moratorium during 2020. Moving forward, insolvencies are likely to rise with the end of the moratorium at the close of 2020.

In the very near term business investment is being weighed down by the residual impact to confidence from COVID-19 and last year's lockdowns. Assisted by several government programs, business investment is forecast to see an uplift. Business confidence has returned, while capacity utilisation has rebounded to a level consistent with rising investment.

Positive sentiment will work its way into the various components of business investment at different speeds. Orders for machinery and equipment can be made quickly. By contrast, the mobilisation of construction can take time and weakness may linger in 2021. The NSW Government's record infrastructure program will be critical to bridging this transitionary period before private sector activity fully recovers.

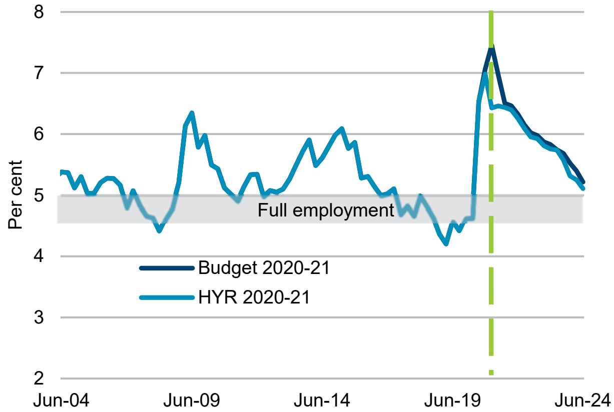
As business investment recovers, not only will it support the economy and jobs in the near term, it will also enhance the economy's longer run growth potential.

Chart 2.6: The construction pipeline has dwindled



Source: ABS 8731.0 and NSW Treasury

Chart 2.7: The peak in the unemployment rate is likely behind us



Source: ABS 6202.0 and NSW Treasury

An accelerated recovery, but a long road ahead

The accelerated recovery seen in the economy to date will help minimise any permanent impacts on the economy. Much of the acceleration also represents a 'bring-forward' of private sector economic activity previously anticipated for later years. This means the expected pace of recovery becomes slightly more muted following the initial rebound in activity. State final demand now is expected to reach its pre-COVID levels by mid-2022, six months earlier than previously anticipated.

The employment forecast has been upgraded to reflect the accelerated recovery. However, structural changes in the labour market will limit the improvement in the unemployment rate (see Box 2.2). The unemployment rate is still expected to remain above estimates of full employment throughout the forecast horizon (see Chart 2.7). This points to significant spare capacity remaining in the labour market, which will keep wages growth and inflation subdued.

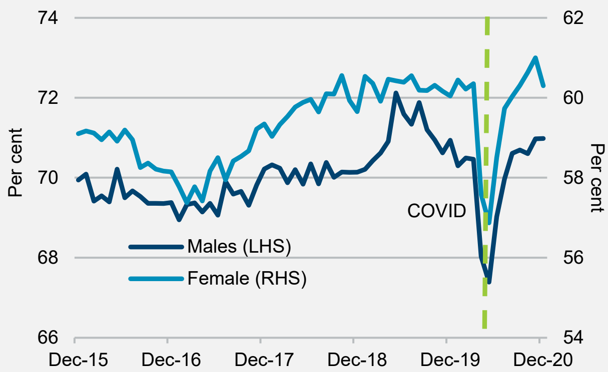
The economic outlook has improved, but uncertainty remains as high as at the time of the Budget. Major event risks are still skewed to the downside, including the risk of further outbreaks.

Box 2.2: The medium-term implications of COVID-19 on the labour market

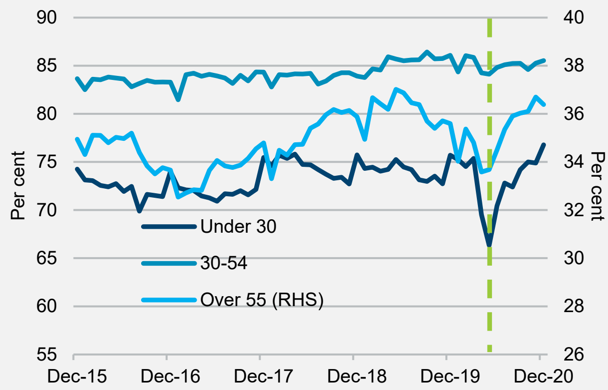
By January 2021 New South Wales had recovered around 81 per cent (220,000) of aggregate jobs lost during the peak of the pandemic.

As a result, the expected unemployment rate has been revised down over the forecast horizon. However, the downward revision to unemployment is modest compared to the much stronger outlook for employment. This partly reflects a revised expectation for higher labour force participation. The labour force participation rate rebounded quickly after a sharp decline during the peak of the pandemic and is currently at its pre-COVID rate of 65.3 per cent.

Chart 2.8: Participation rate by gender and by age



Source: ABS 6202.0 and NSW Treasury



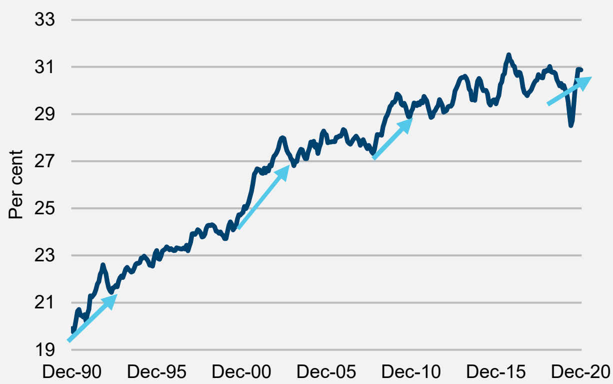
Source: ABS 6291.0 and NSW Treasury

Increased participation by females and older workers has contributed to the rebound in the participation rate (Chart 2.8). While female and older worker participation rates have experienced a long-term upward trend, the recovery in their participation over the last few months of 2020 has been particularly strong. These trends are crucial to the potential output of the economy.

More older workers have been encouraged to remain in the workforce, which ensures their skills and experience continue to benefit the economy. Similarly, more women have entered the labour force, which allows more diversity of thinking and skills in workplaces. These factors lift the stock of human capital and maintain a robust skills base, thus improving productivity.

There also has been a shift to a greater part-time share of employment which was especially pronounced in the last two quarters of 2020 (Chart 2.9). This upward trend typically is seen in the period just after a crisis. Flexibility in the labour market has been key to the recovery in jobs, and the share of part-time work is likely to remain elevated over the forecast horizon.

Chart 2.9: Uplift in part-time share of employment to continue



Source: ABS 6202.0 and NSW Treasury

2.4 The role of government support continues to evolve

An effective COVID-19 response and strong public demand are contributing to the recovery

The successful management of the virus has suppressed community transmission, allowing the economy to re-open sooner. Recent targeted lockdowns have managed to control outbreaks, while keeping the economy as open as possible. A survey by the NSW Small Business Commission has shown that the number of businesses that are closed due to COVID-19 has steadily decreased as restrictions have eased.

With restrictions easing, governments continue to play a key part in the economic recovery. Public demand made the only meaningful positive contribution to domestic growth during 2019-20. Public consumption was particularly strong, reflecting increased spending on emergency and health services in response to bushfires and the COVID-19 pandemic. Meanwhile public investment continues to be supported by the NSW Government's record infrastructure pipeline.

Looking forward, public demand will remain a significant contributor to growth, partly driven by the record $107.2 billion public infrastructure pipeline. State and local public investment alone is expected to contribute ¾ percentage points to economic growth over the two years to 2021-22.

Unwinding temporary support measures and the future role of policy

Overall, the economy appears to be recovering well enough to warrant the unwinding of some emergency support measures, such as the Commonwealth's JobKeeper scheme, designed to support households and businesses through the worst of the crisis. The impact on the economy from the end of this scheme needs to be monitored. Going forward, stimulus measures will remain an important driver of the near-term economic recovery. Meanwhile, attention needs to focus on delivering structural policies that will deliver better economic outcomes and prosperity in the long-term.

A major priority for the Government is productivity reform, which is crucial in delivering sustainable economic growth. Higher productivity will lift production, create jobs, and boost real wage growth. The relaxation of a range of regulations in response to the pandemic, such as increasing supermarket trading hours, has enabled businesses to adapt quickly to the challenges of the pandemic.

The pandemic is likely to lead to structural changes in the economy. Some industries will bounce back faster than others, there will be changes to business and consumer preferences, and the way we work will evolve. Productivity reforms can help businesses and workers adapt to these changes more quickly, strengthening the State's rebound. For example, better training systems can make it easier and quicker for businesses and workers to move into the industries where they will be most needed after the pandemic.

Productivity reforms also will boost business investment, such as through smart, flexible regulation and streamlined administrative processes that can make it easier to start a new business or enter a new market. More efficient taxes can reduce transaction costs and encourage mobility and new investment. More accessible government services can connect businesses with the information and resources they need.

2.5 Risks to the economic outlook

Despite the improved outlook, most risks are still to the downside

Uncertainty remains higher than usual despite an accelerated recovery. There are risks both to the upside and downside, although the unpredictable nature of the pandemic generally leaves the risks more weighted to the downside.

Risks around the health-related outcomes are the most notable. This includes expectations around the vaccine rollout and effectiveness. The implications of any deviation in vaccine assumptions are potentially significant as it could increase the chances of a large scale outbreak and/or require social distancing measures to remain in place for longer.

Forecasts do not anticipate an outbreak event requiring a Greater Sydney lockdown.

The virus situation overseas remains precarious. Any lack of progress towards containing (and reducing) infections globally could result in governments keeping international borders closed for longer – this would be a major drag on economic activity. It may also have longer-term implications for the economy through a faster ageing of our population, an increased skills mismatch, and may impact the long-term potential of industries like education.

A further escalation of geopolitical tensions with China is another significant risk that could have a sizeable impact on NSW exports. In many cases, goods subject to trade restrictions should find new export destinations, albeit probably at a lower price. That is unlikely to be the case for services exports, however. Therefore, if trade tensions persist beyond the reopening of international borders and incorporates travel warnings and further such restrictions, this would be a cause for greater concern.

More near-term risks revolve around the unwinding of temporary Commonwealth Government policy support. For example, around 165,000 firms in New South Wales were receiving JobKeeper late last year, albeit down from more than 350,000 in September. Current recipients represent more than 500,000 workers.

The dominant upside risk relates to households. There is potential for a faster recovery in household spending, the largest share of the state economy. Households may draw on their accumulated savings more quickly than has been forecast, now that the worst of the pandemic seems to have passed. Moreover, consumer confidence has recovered strongly and robust home construction activity often stimulates higher consumer demand. Finally, the falling jobless rate means more households will have the means to lift their spending. Each of these positive impacts could be more pronounced than currently is forecast.

3. FISCAL POSITION AND OUTLOOK

3.1 Fiscal and budget overview

The COVID-19 pandemic continues to place significant pressure on the Government's fiscal outlook. A better-than-expected economic recovery since the November 2020 Budget has flowed through to both the State's revenues and operating position. However, volatility and uncertainty remain both in Australia and overseas. These risks are further outlined in *Section 3.6 Fiscal Risks.*

The 2020-21 Half-Yearly Review projects a $2.7 billion improvement in the Budget Result in 2020-21 compared with the Budget. The projected average deficit across the four years to 2023-24 has also improved by $1.2 billion to $5.2 billion, largely driven by an improvement to State revenues since the Budget (see *Section 3.2 Revenue outlook*). While this reverses some of the forecast losses from COVID-19, revenue still remains $9.4 billion lower over five years to 2023-24 than pre-COVID levels.

Table 3.1: General government sector operating position and outlook

	2019-20	2020-21	2020-21	2021-22	2022-23	2023-24
	Actual	Budget	Revised	Forward Estimates		
Revenue ($m)	81,367	82,149	84,654	89,845	92,568	94,496
Revenue growth (%)	(0.4)	1.0	4.0	6.1	3.0	2.1
Expenses ($m)	88,283	98,133	97,951	95,684	94,029	94,617
Expense growth (%)	9.7	11.2	11.0	(2.3)	(1.7)	0.6
Budget Result ($m)	(6,916)	(15,984)	(13,297)	(5,840)	(1,461)	(121)
Per cent of GSP	(1.1)	(2.5)	(2.1)	(0.9)	(0.2)	(0.0)

The economic impact and policy response to COVID-19 continues to put pressure on the State's finances

The 2020-21 Budget allocated temporary and targeted stimulus to support businesses, families, and the community through this pandemic. This support has cushioned the impact of the pandemic but resulted in short-term operating deficits and a significant increase in borrowings.

Despite this, debt serviceability remains manageable with low interest costs as a proportion of revenue. This is partly due to the extraordinary support provided by the Reserve Bank of Australia to support the economy (see more details in *Section 3.5 Managing the State's assets and liabilities*).

The 2020-21 Half-Yearly Review is projecting reduced borrowing requirements following improved State revenue forecasts, with net debt projected to improve by $7.7 billion to $96.7 billion at June 2024. Additionally, the Government is projecting an improved operating position over the forward estimates. This is supported by expense growth being kept below revenue growth over the forward estimates (see Table 3.1).

Following the release of the 2020-21 Budget, Moody's reaffirmed a triple-A credit rating for New South Wales, noting the State's proven history of strong fiscal management. S&P Global also noted the State's excellent financial management, in addition to its wealthy, diversified economy and exceptional liquidity. However, S&P Global lowered the State's credit rating by one notch from triple-A to double-A plus, reflecting higher levels of debt due to the COVID-19 pandemic.

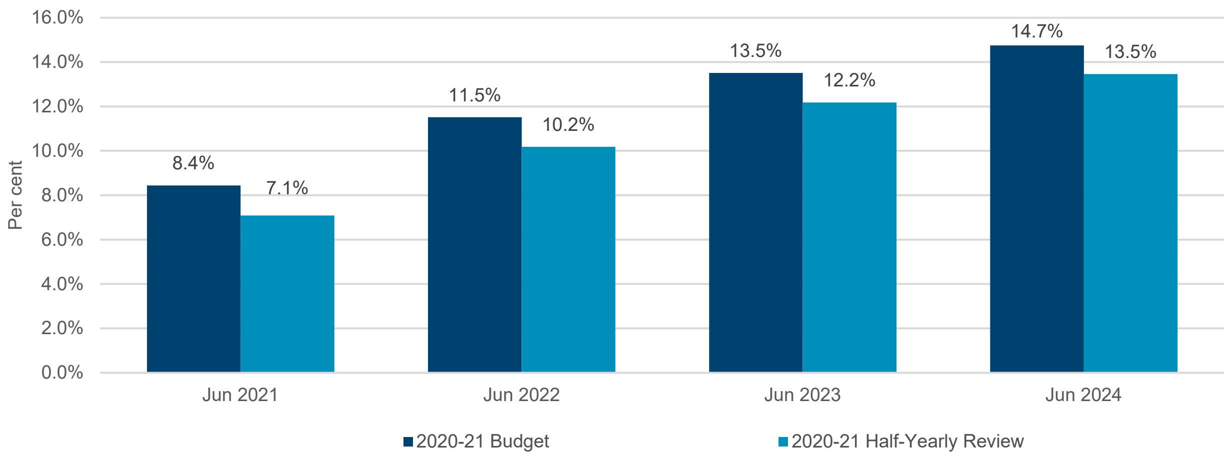
Effective balance sheet management to support the Government's stimulatory fiscal policy

The NSW Government came into the pandemic with a strong balance sheet. At June 2020, New South Wales' Net Debt to Gross State Product (GSP) ratio was 3.1 per cent.

By June 2024, the Net Debt to GSP ratio is projected to be 13.5 per cent, below the 14.7 per cent projected at the time of the 2020-21 Budget (see Chart 3.1 below). This improvement reflects the revenue revisions from the improved economic outlook.

While the outlook for net debt has improved since the Budget, net debt is still forecast to increase over the forward estimates, due to COVID-19 revenue downgrades, stimulus expenditure and infrastructure investment.

Chart 3.1: Net Debt – 2020-21 Budget vs. 2020-21 Half-Yearly Review



The State's infrastructure program is projected to be $107.2 billion over the four years to 2023-24. This is a small increase of $115.0 million since the 2020-21 Budget.

To deliver the record infrastructure program, the State is committed to ongoing fiscal discipline and maintaining sustainable levels of debt. A key component of debt sustainability is the NSW Generations Fund (NGF), the State's sovereign wealth fund dedicated to debt retirement. The NGF's balance at June 2021 is projected to be $14.6 billion, up $606.4 million since the 2020-21 Budget. This reflects better-than-expected investment returns from the fund's allocation to higher growth assets, such as equities.

Table 3.2: The State's capital program and fiscal outlook

	2019-20	2020-21	2020-21	2021-22	2022-23	2023-24	4 Years Total (2020-21 to 2023-24)
	Actual	Budget	Revised	Forward Estimates			
GGS Capital Expenditure ($m)	20,985	22,644	21,045	23,421	20,306	18,943	83,714
Per cent of GSP	3.4	3.6	3.3	3.5	3.0	2.6	
NFPS Capital Expenditure ($m)	25,264	29,146	27,206	30,613	25,972	23,411	107,203
Per cent of GSP	4.1	4.6	4.2	4.6	3.8	3.3	
GG Net Debt ($m)	19,261	53,187	45,395	67,813	83,801	96,675	
Per cent of GSP	3.1	8.4	7.1	10.2	12.2	13.5	

3.2 Revenue outlook

Revenue forecasts will have a heightened degree of uncertainty and volatility while the pandemic impacts national and international economies.

General government sector revenue is currently forecast to be $84.7 billion in 2020-21, which is $2.5 billion (3.0 per cent) higher than forecast in the 2020-21 Budget. Over the four years to 2023-24, revenue is expected to be $8.2 billion (2.3 per cent) higher than forecast in the 2020-21 Budget.

The upwards revision – including for GST, transfer duty and payroll tax – largely reflects improved expectations for household consumption, the housing market and employment. The forecast for non-tax revenue remains broadly in line with the 2020-21 Budget, except for other dividends and distributions, which have increased due to stronger than expected fund performance and increased inflation expectations. Despite the improvement in the forecast since the Budget, revenue for the five years to 2023-24 is still forecast to be $9.4 billion (2.1 per cent) lower than forecast prior to the emergence of COVID-19.

Future revisions could be materially influenced by risks such as:

- the frequency and extent of, and policy response to, further COVID-19 outbreaks both domestically and globally
- the distribution, effectiveness and uptake of vaccines against COVID-19
- the outlook for net overseas migration (which is heavily dependent on Commonwealth Government policy)
- changes in economic output, productivity and demand, again both domestically and globally in response to these factors.

Stage three of the More Trains, More Services program to connect Sydney Metro City and Southwest into the existing rail network will increase fee for service revenue from the Transport Asset Holding Entity by $889.6 million over the four years to 2023-24.[1]

Table 3.3: General government sector revenue

	2019-20 Actual $m	2020-21 Budget $m	2020-21 Revised $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24	% Share of Revenue over 4 years to 2023-24
Revenue from transactions								
Taxation	29,941	31,711	32,855	33,453	36,068	37,491	5.8	38.7
Grant revenue (including GST)	34,306	33,325	34,610	37,658	37,929	38,828	3.1	41.2
Sales of goods and services	8,713	9,560	9,000	11,054	10,311	9,219	1.4	10.9
Interest income	364	302	354	329	368	354	(0.7)	0.4
Dividends and income tax equivalents from other sectors	1,354	1,070	1,067	688	951	1,049	(6.2)	1.0
Other dividends and distributions	2,426	1,779	2,331	2,034	2,454	2,910	4.7	2.7
Royalties	1,683	1,417	1,439	1,557	1,575	1,593	(1.4)	1.7
Fines, regulatory fees and other revenues	2,578	2,985	2,998	3,073	2,911	3,052	4.3	3.3
Total revenue	**81,367**	**82,149**	**84,654**	**89,845**	**92,568**	**94,496**	**3.8**	
Annual change	*-0.4%*	*1.0%*	*4.0%*	*6.1%*	*3.0%*	*2.1%*		

[1] Note: offset by equivalent expense

Chart 3.2: Composition of total revenue, 2020-21

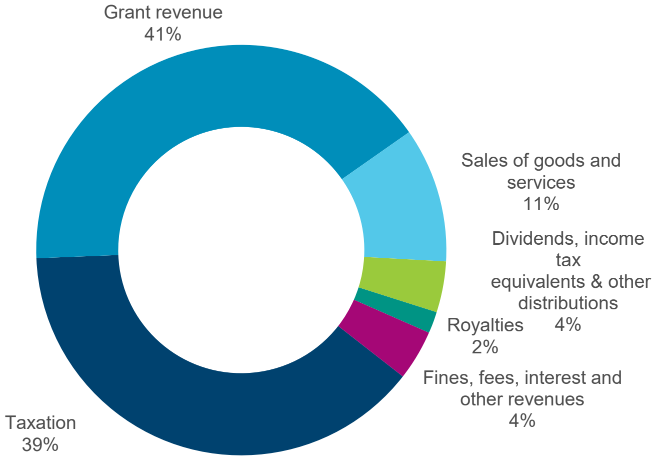


Table 3.4: Revenue reconciliation – 2020-21 Budget to Half-Yearly Review

	2020-21	2021-22	2022-23	2023-24	Four years
			Forward Estimates		to 2023-24
	$m	$m	$m	$m	$m
Revenue - 2020-21 Budget	**82,149**	**87,689**	**90,601**	**92,930**	**353,370**
Policy changes since Budget					
More Trains, More Services Stage 3[2]	4	203	411	271	**890**
Total policy changes	**4**	**203**	**411**	**271**	**890**
Parameter changes since Budget					
Taxation					
Transfer duty	446	582	443	225	**1,696**
Payroll tax	480	206	316	298	**1,300**
Land tax	23	6	(4)	(8)	**17**
Other taxes	195	107	103	91	**495**
Grant revenue					
GST	1,106	761	346	242	**2,455**
Other general purpose grants (including no worse off payments)	...	4	191	257	**452**
National Agreement payments	65	121	...	...	**186**
National Partnership payments	72	...	...	...	**72**
Other grant revenue	42	(17)	(7)	6	**25**
Sale of goods and services	(565)	48	(19)	(41)	**(576)**
Interest income	52	6	31	4	**94**
Dividends and income tax equivalents from other sectors	(3)	(35)	18	5	**(15)**
Other dividends and distributions	553	138	94	190	**975**
Royalties	21	60	60	6	**148**
Fines, regulatory fees and other revenues	13	(35)	(16)	18	**(21)**
Total parameter changes	**2,500**	**1,952**	**1,556**	**1,294**	**7,303**
Total variations	**2,505**	**2,155**	**1,966**	**1,566**	**8,192**
Revenue 2020-21 Half-Yearly Review	**84,654**	**89,845**	**92,568**	**94,496**	**361,562**

[2] Offset by equivalent expense

Table 3.5: Taxation revenue

	2019-20 Actual $m	2020-21 Budget $m	2020-21 Revised $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24
Stamp duties							
Transfer duty	6,955	7,926	8,372	9,224	10,102	10,767	11.5
Insurance	1,091	1,127	1,136	1,206	1,261	1,320	4.9
Motor vehicles	768	852	913	857	885	919	4.6
Other	1	0	3	0	0	0	
	8,815	**9,905**	**10,424**	**11,287**	**12,248**	**13,006**	**10.2**
Payroll tax	8,508	8,526	9,006	8,785	10,106	10,410	5.2
Land tax	4,477	4,639	4,662	4,553	4,569	4,638	0.9
Taxes on motor vehicle ownership and operation							
Weight tax	2,256	2,288	2,325	2,366	2,440	2,527	2.9
Vehicle transfer fees [(a)]	53	57	60	61	64	68	6.4
Other motor vehicle taxes	35	36	36	37	38	39	2.5
	2,344	**2,381**	**2,421**	**2,464**	**2,542**	**2,634**	**3.0**
Gambling and betting taxes							
Racing	174	212	214	177	188	201	3.7
Club gaming devices	625	846	849	801	815	829	7.3
Hotel gaming devices	756	1,056	1,067	1,102	1,158	1,227	12.9
Lotteries and lotto	473	481	496	511	528	546	3.6
Casino	169	158	160	227	281	293	14.9
Other gambling & betting	10	17	17	16	17	17	14.5
	2,207	**2,770**	**2,803**	**2,834**	**2,987**	**3,114**	**9.0**
Other taxes and levies							
Health insurance levy	214	221	222	227	231	237	2.5
Parking space levy	109	111	111	111	114	115	1.3
Emergency services levy contributions	907	1,090	1,090	1,040	1,062	1,029	3.2
Emergency services council contributions	175	162	167	169	163	165	(1.4)
Waste and environment levy	749	751	751	761	783	832	2.6
Government guarantee fee	322	317	306	364	390	421	6.9
Private transport operators levy	4	7	7	8	8	8	15.4
Pollution control licences	18	26	26	26	27	18	(0.3)
Other taxes	1,090	804	859	823	837	864	(5.6)
	3,590	**3,490**	**3,540**	**3,530**	**3,615**	**3,690**	**0.7**
Total taxation revenue	**29,941**	**31,711**	**32,855**	**33,453**	**36,068**	**37,491**	**5.8**
Annual change	*-3.5%*	*5.9%*	*9.7%*	*1.8%*	*7.8%*	*3.9%*	

(a) Vehicle registration fees are no longer recorded as taxation revenue as they have been reclassified to fines, regulatory fees and other revenue to comply with accounting standards AASB 15.

3.3 Expenses outlook

General government sector expenses are forecast to total $98.0 billion in 2020-21, which is $182 million lower than forecast in the 2020-21 Budget. Over the four years to 2023-24, expenses have been revised up by $3.5 billion.

Annual expense growth for 2020-21 is projected to be 11.0 per cent, a reduction from 11.2 per cent at the Budget. Expenses are projected to grow at an average rate of 1.7 per cent per annum from 2019-20 to 2023-24. This is 0.3 per cent higher than forecast at the time of the 2020-21 Budget.

The revised projections take into account the impact of:

- new policy measures
- parameter and other budget variations.

Table 3.6: General government sector expenses by category and year

	2019-20 Actual	2020-21 Budget	2020-21 Revised	2021-22	2022-23 Forward Estimates	2023-24	% Average growth p.a. 2019-20 to 2023-24
	$m	$m	$m	$m	$m	$m	
Total employee-related expenses	39,725	40,975	41,246	41,803	42,933	44,243	2.7
Employee expenses	*35,555*	*37,087*	*37,312*	*37,905*	*39,029*	*40,270*	*3.2*
Superannuation	*4,170*	*3,888*	*3,934*	*3,898*	*3,904*	*3,972*	*(1.2)*
Other operating	23,156	24,824	24,592	24,325	22,750	22,153	(1.1)
Depreciation and amortisation	5,948	7,042	7,095	7,549	7,888	8,092	8.0
Grants and subsidies	17,369	22,743	22,515	19,324	17,517	16,924	(0.6)
Interest	2,084	2,549	2,503	2,683	2,940	3,205	11.4
Total expenses	**88,283**	**98,133**	**97,951**	**95,684**	**94,029**	**94,617**	**1.7**
Annual change	*9.7*	*11.2*	*11.0*	*(2.3)*	*(1.7)*	*0.6*	

Table 3.7: Expense reconciliation – 2020-21 Budget to Half-Yearly Review

	2020-21 Revised	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m
Expenses – 2020-21 Budget	**98,133**	**94,519**	**92,692**	**93,390**
Policy measures	135	208	427	334
Total parameter and other budget variations	-317	958	910	893
Expenses – 2020-21 Half-Yearly Review	**97,951**	**95,684**	**94,029**	**94,617**

New policy measures announced since the 2020-21 Budget have increased expenses in total by $134.8 million in 2020-21 and $1.1 billion over the four years to 2023-24. This includes:

- $45.0 million in 2020-21 for a Northern Beaches Small Business Hardship Grant Program to assist small businesses that experienced financial hardship as a result of the COVID-19 lockdown
- $954.6 million ($65 million budget result impact) over four years for Stage 3 of the More Trains More Services Program to connect Sydney Metro City and Southwest into the existing rail network[3]
- $89.0 million increase to the Pre-Managed Fund Reserve (PMF) and Treasury Managed Fund (TMF), for additional costs associated with the amendment to Part 2A of the *Civil Liability Act 2002* to remove restrictions on awards of damages in child abuse claims.

[3] Offset by equivalent revenue

- New investments allocated from the Digital Restart Fund:[4]
  - $187.3 million over four years to create a whole-of-government Enterprise Resource Planning system for six Clusters – Regional NSW, Stronger Communities, Premier and Cabinet, Treasury, Customer Service and Planning, Industry and Environment
  - $122.0 million over three years to further modernise the Licencing and Compliance Program, with an initial release of $20.1 million to deliver eight final digital licence scheme products relating to asbestos, demolition, conveyancing and paintball by June 2021
  - $32.5 million over three years to support the Department of Communities and Justice Cyber Security project, which is one component of the Protect Highly Sensitive Data and Increase Productivity Program
  - $23.5 million over three years to deliver the Police Cyber Security Transformation Program, which will enhance cyber security capability within the NSW Police Force and help mitigate the risk of cyber attacks.

In addition to new policies, parameter and other budget variations since the 2020-21 Budget have decreased expenses by $317.0 million in 2020-21 with an increase of $2.4 billion over the four years to 2023-24. The key drivers of the decrease in 2020-21 are reduced costs associated with long service leave and a reprofiling of expenditure for existing programs. The increase over the forward estimates is largely driven by additional funding to maintain service provision on a no policy change basis.

3.4 Capital expenditure outlook

Capital expenditure in the general government sector

Capital expenditure across the general government sector is forecast to be $21.0 billion in 2020-21, which is $1.6 billion lower than at the Budget. Expenditure across the four years to 2023-24 is forecast to be $83.7 billion, a downward revision of $514.2 million.

The downward revision for 2020-21 and across the four years to 2023-24 is primarily driven by timing adjustments in the existing capital program, offset against additional investment in new capital initiatives. Table 3.8 provides a reconciliation of capital expenditure between the 2020-21 Budget and the Half-Yearly Review.

Table 3.8: General government capital reconciliation – 2020-21 Budget to Half-Yearly Review

	2020-21	2021-22	2022-23	2023-24
	Revised	Forward Estimates		
	$m	$m	$m	$m
Capital – 2020-21 Budget	**22,644**	**22,930**	**20,131**	**18,523**
Policy measures	(6)	74	64	59
Parameter and other variations[(a)]	(1,594)	417	110	361
Capital – 2020-21 HYR	**21,045**	**23,421**	**20,306**	**18,943**

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

Since the 2020-21 Budget, new investments in capital projects include the new Pyrmont Metro Station and the Special Activations Precinct Program (a further $130.0 million over four years).

[4] These investments are allocated from the Digital Restart Fund and have no budget result impacts. The total incorporates both capital and recurrent expenses (net of depreciation expenses).

The Government continues to utilise the Restart NSW Fund to deliver new infrastructure, particularly in regional New South Wales. See *Budget Paper No.3 Infrastructure Statement 2020-21* for further information on the Government's Restart NSW commitments as at 31 October 2020.

Box 3.1: The record $107.2 billion infrastructure program is stimulating the economy

Across the general government and the public non-financial corporation sectors, the Government is delivering a record $107.2 billion capital expenditure program over four years to 2023-24. This is an increase of $115.0 million when compared to the 2020-21 Budget.

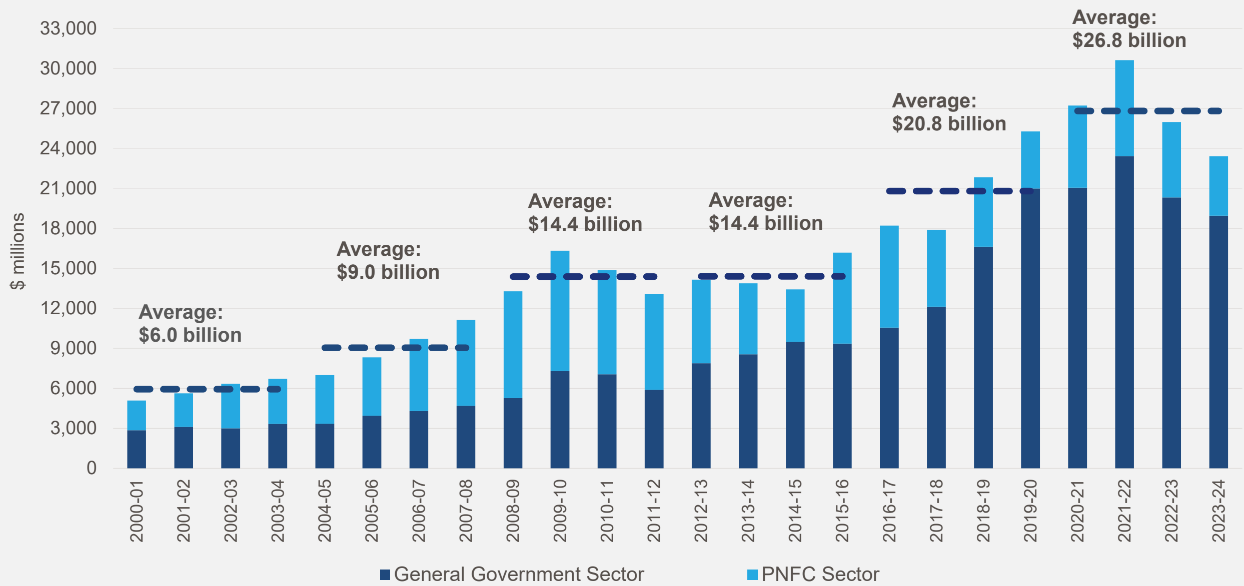
This investment pipeline includes:

- $72.6 billion for public transport and roads
- $10.7 billion[5] for hospitals and health facilities
- $7.6 billion for schools and skills infrastructure
- $2.7 billion for justice, emergency services and community infrastructure.

The Government's capital program underpins a lift in state and local public investment, which is expected to contribute ¾ of a percentage point to economic growth over the two years to 2021-22.

This targeted infrastructure program will not only enhance services for years to come, it will boost economic growth across all corners of the state.

Chart 3.3: Infrastructure program from 2000-01 to 2023-24



[5] Includes capital expensing amounts totalling $522.7 million over the four years relating to certain expenditure associated with the construction of Health capital projects, which fall below the capitalisation threshold and are not classified as capital expenditure under the accounting standards. Additionally, assets leased by Health from other government agencies are included in the above total.

3.5 Managing the State's assets and liabilities

The Government is using its strong balance sheet to stimulate economic recovery and deliver its record $107.2 billion infrastructure program.

The State's balance sheet has strengthened since the 2020-21 Budget. Net debt and borrowing projections have improved due to a better-than-expected recovery in revenues (offset somewhat by an increase in expenses related to COVID-19 pressures) and the State's investment funds performing strongly.

COVID-19 still weighs heavily on the State's balance sheet with elevated levels of borrowings. However, historically low interest rates are providing strong support for debt serviceability (see Box 3.2). Additionally, heightened volatility and uncertainty remain in both the economic and fiscal outlook.

Table 3.9: NSW general government balance sheet aggregates

	June 2020	June 2021	June 2021	June 2022	June 2023	June 2024
	Actual	Budget	Revised	Forward Estimates		
Total Assets ($m)	425,651	459,731	457,957	480,586	501,285	531,654
Financial Assets ($m)	175,326	173,081	172,424	176,606	181,881	196,985
Non-Financial Assets ($m)	250,325	286,649	285,533	303,981	319,404	334,668
Total Liabilities ($m)	186,964	230,731	221,676	244,455	261,166	264,908
Net Worth ($m)	238,688	228,999	236,281	236,132	240,120	266,745
Per cent of GSP	37.9	36.3	36.9	35.4	34.9	37.1
Net Debt ($m)	19,261	53,187	45,395	67,813	83,801	96,675
Per cent of GSP	3.1	8.4	7.1	10.2	12.2	13.5

Balance sheet projections have improved since the Budget, but uncertainty remains

Projections for net debt and net worth have improved since the 2020-21 Budget.

In the short term, the balance sheet is benefitting from better-than-expected performance of the State's investment funds (e.g. NGF, NIFF, TMF) and lower borrowing requirements off the back of improved revenues, with net debt projected to be $45.4 billion at June 2021, $7.8 billion lower than the 2020-21 Budget forecasts (see Table 3.9).

The stronger economic outlook has flowed through to a small increase in interest rate forecasts over the forward estimates relative to the 2020-21 Budget. This has resulted in lower superannuation provisions on the State's balance sheet under AASB 119 *Employee Benefits*. This is improving net worth, which is projected to be $236.3 billion at June 2021, an improvement of $7.3 billion since the 2020-21 Budget. This improvement is also supported by a partial recovery in State revenues and a stronger performing State investment portfolio.

These factors are also flowing through to net debt and net worth over the four years to June 2024, with:

- net debt projected to be $96.7 billion at June 2024, or 13.5 per cent of GSP, a reduction of $7.7 billion since the 2020-21 Budget forecasts
- net worth projected to reach $266.7 billion by June 2024, an increase of $8.0 billion since the 2020-21 Budget forecasts.

Box 3.2: Historically low interest rates help support borrowings

To help support economic recovery, the Government will capitalise on historically low interest rates to borrow for temporary and targeted stimulus and support a record infrastructure program.

The Government's cost of new borrowings (indicated by the TCorp 10-year bond yield) reached its lowest historical level in November 2020, falling below 1.0 per cent and remaining within the 1.0 per cent to 1.5 per cent range since (see Chart 3.1). While borrowing costs remain relatively low, TCorp will endeavour to refinance the State's maturing debt at these lower rates to help maintain overall borrowing costs at sustainable levels.

Lower interest rates reflect the continuation of supportive monetary policy by the RBA, including its bond-purchasing program. On 2 February 2021, RBA Governor Philip Lowe announced that the RBA would extend its bond-purchasing program past mid-April 2021 and purchase an additional $100 billion in Commonwealth, State and Territory bonds.

Strong demand for bonds from domestic and offshore investors has also provided a supportive funding environment. This includes demand for longer dated bonds as well as bonds that meet tailored criteria – such as sustainability bonds.

Bonds issued under the State's Sustainability Bond Program, established with the dual aim of enabling investors to allocate capital to projects that have a positive environmental or social outcome, and to diversify the investor base, now total over $5 billion. Offshore investors comprised around 40 per cent of the recent $1.3 billion Green Bond, which was issued in October 2020.

New South Wales is the only state in Australia to establish a formal Sustainability Bond Program under which green, social or sustainability bonds may be issued.

Chart 3.4: TCorp 10-year bond yields from January 2011 to January 2021

3.6 Fiscal risks

The Half-Yearly Review is prepared, in part, using forecasts and assumptions. Some of these can be subject to risks and variation. These are outlined below.

The Coronavirus Pandemic

COVID-19 has triggered the most severe recession since the Great Depression. Around 10 per cent of the national labour force lost their jobs or had working hours reduced to zero during the peak of the April lockdown. Unprecedented forms of monetary and fiscal policy have been implemented to support the economy.

The most significant fiscal risk for New South Wales is a further outbreak. As seen in Victoria, this would have a direct impact on key economic drivers such as employment and business and consumer confidence.

COVID-19 has increased the complexity and uncertainty in forecasting Government revenue, expenses, infrastructure program and balance sheet. With only three months of data since the Budget, the Half-Yearly Review outlook is characterised by this volatility.

Economic risks

The effective COVID-19 response within the State, together with strong public demand, are contributing to better than expected economic metrics, including employment numbers and consumer spending. As indicated in *Chapter 2 – Economic Outlook*, the NSW economy is returning to pre-COVID levels sooner than expected. With the economy coming out of restrictions, and the rollout of COVID-19 vaccines underway, governments continue to play a key part in the recovery.

Any risks with the rollout and effectiveness of COVID-19 vaccines, or the emergence of more virulent strains in New South Wales, could increase community transmissions. The severity of potential outbreaks would determine the stringency and duration of social distancing measures, directly impacting employment and domestic consumption. However, current forecasts do not include an outbreak event that would require a lockdown of Greater Sydney.

A number of Commonwealth stimulus measures were put in place during the height of the crisis and these are scheduled to be wound back in the months ahead. Notwithstanding the improved economic fundamentals, there remains uncertainty in how different segments of the economy respond to the winding back of temporary support.

Revenue risks

Any future COVID-19 lockdowns can put downward pressure on demand for goods and services and also dampen investment and hiring decisions. At the same time border closures can impact population growth and skilled migration. Any changes to employment and wage levels resulting from such decisions would flow through to payroll tax revenues.

Government response measures could also impact household consumption and dwelling investment, which would flow directly into GST receipts.

Mining royalties are sensitive primarily to volatile global coal prices and foreign exchange rates. Since the 2020-21 Budget, global coal prices have increased sharply from close-to-decade lows in response to inclement weather events across major producing nations. Downside risks to price include lower demand from key coal importers such as Japan and China, further moves towards renewable energy generation, and the supply response of high-cost producers to changes in coal prices.

Transfer duty revenue is sensitive to both the number of property transactions and property prices. Weaker than expected population growth generally lowers the demand for housing. However, the record low Overnight Cash Rate at 0.1 per cent makes it cheaper to access to mortgages, which could support transaction volumes. A re-introduction of macroprudential measures, comparable to regulatory changes introduced in 2017, could detract from growth in transfer duty revenue.

Expense risks

An increased demand for government services, particularly due to COVID-19 (such as costs of cleaning, costs to enforce restrictions, and health costs including mental health), may place further pressure on service delivery costs over the long term.

Continued expansionary monetary policy may prolong the period of low interest rates. This would lower expense risks on the cost of the State's borrowings and superannuation interest expenses.

However, there are significant refinancing risks as the Government is forecast to borrow significantly over the forward estimates to support the State's economic recovery. These borrowings will eventually need to be refinanced as they mature, at potentially higher rates.

Infrastructure investment risks

The risk of lower competition in the infrastructure industry exacerbated by COVID-19 could impact the efficiency and affordability of construction projects. Prior to COVID-19, the construction industry was nearing capacity, due to a limited number of Tier 1 contractors capable of delivering large scale infrastructure projects. Given the significant increase in stimulus spending by all State Governments and the Commonwealth Government, the capacity in the construction market for large projects has further tightened, which could pose a risk in the form of higher costs and more frequent delays in infrastructure delivery.

Balance Sheet risks

Financial market and economic volatility are key risks to the State's balance sheet stability.

The uncertainty around further COVID-19 outbreaks, the effectiveness of vaccines, development timelines, the extent of government support, and future employment growth, among other risks, can each impact business and investor confidence and therefore asset values.

The State's growing pool of financial assets increases the impacts of financial market volatility on the State's balance sheet. This is particularly relevant with the NSW Generations Fund, which is projected to grow to over $70 billion over the next 10 years. While market risk can be mitigated through portfolio diversification and ensuring only appropriate levels of risk are taken, significant unexpected shifts in market performance, such as during the months of February and March 2020, can impact the State's financial assets and net debt.

The State's superannuation and long service leave liabilities can be significantly affected by changes in the Commonwealth long term bond rate, which is used as these liabilities' discount rate. Investment returns can also affect the superannuation liability to an extent, as financial assets are netted off against the defined benefit superannuation liability.

3.7 Commercial performance in the broader public sector

Dividends and tax equivalent payments

Dividends received by the general government sector from public non-financial corporations (PNFC) and public financial corporations (PFC) are based on the operating performance and credit worthiness of those businesses. To ensure competitive neutrality with private sector counterparts, some of these corporations make tax equivalent payments and, with respect to the cost of debt, pay debt neutrality charges (government guarantee fees).

In 2020-21, the dividend and tax equivalent payments are forecast at $1.1 billion which is broadly in line with the forecast in the Budget.

Government guarantee fees are forecast to be $305.6 million in 2020-21, which is $11.3 million below the forecast in the Budget.

Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $3.8 billion, which is broadly in line with the Budget. Table 3.1 below shows the dividend and tax equivalent payments of the PNFC and PFC sectors from 2019-20 to 2023-24.

Table 3.10: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations

	2019-20 Actual	2020-21 Budget	2020-21 Revised	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m	$m
Electricity	29	24	26	69	81	113
Water	1,159	866	856	438	412	454
Property and Resources	48	33	30	4	229	237
Ports	20	13	20	27	52	47
Public Financial Corporations	98	135	134	150	177	197
Total Dividends and Tax Equivalent Payments	**1,354**	**1,070**	**1,067**	**688**	**951**	**1,049**

Capital expenditure

In 2020-21, capital expenditure within the PNFC sector is forecast to be $6.2 billion, $340.6 million below the forecast in the Budget. This variance to Budget in 2020-21 is primarily attributable to the Transport Asset Holding Entity of NSW (TAHE) and changes in delivery schedules for the Fixing Country Rail, Commuter Car Park and More Trains, More Services programs.

Capital expenditure within the sector over the budget and forward estimates is forecast to be $23.5 billion, $629.2 million higher than forecast in the Budget. This is primarily driven by increased expenditure from 2021-22 to 2023-24 by TAHE in relation to further investment in the More Trains, More Services program.

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A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

Scope of the Estimated Financial Statements for the General Government Sector

This Statement of Significant Accounting Policies and Forecast Assumptions applies to the Half-Yearly Review of the estimated financial statements for the general government sector (GGS).

The scope of the GGS is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* (cat. No. 5514) (ABS-GFS Manual).

The GGS comprises government agencies controlled by the State that:

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

The Estimated Financial Statements of the GGS (GGS Estimated Financial Statements) presented in *Appendix B: Uniform Financial Reporting* include the:

- GGS operating statement (Table B.1)
- GGS balance sheet (Table B.2)
- GGS cash flow statement (Table B.3).

The 2020-21 Budget information included in the GGS Estimated Financial Statements reflects the original budget tabled in Parliament on 17 November 2020. The revised budget estimates relate to the current year ending 30 June 2021, and estimates for the three forward years ending 30 June 2022, 2023 and 2024.

Basis of preparation

The GGS Estimated Financial Statements are prepared and presented consistent with the principles adopted in the 2020-21 Budget and based on the assumptions outlined below.

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

The GGS Estimated Financial Statements have been prepared to reflect existing operations, the impact of new policy decisions taken by the NSW Government, as well as known Commonwealth Government funding revisions and known circumstances that may have a material effect on the Half-Yearly Review.

The revised GGS estimates for the 2020-21 financial year are based on actual results for the six-month period ending 31 December 2020, and updated year-end projections provided by agencies. They have also been prepared to take into account other economic and financial data currently available to Treasury up to 17 February 2021.

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 GGS Estimated Financial Statements (for example, due to uncertainties regarding the timing and amount of future cash flows).

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

In the GGS Estimated Financial Statements, 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
- 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, such as that included in the GGS Estimated Financial Statements. However, recognition and measurement principles within AAS have been applied in the presentation of the GGS Estimated Financial Statements to the maximum extent possible.

The GGS Estimated Financial Statements follow the presentation and principles in the 2020-21 Budget. Except for the matters set out below under Changes in accounting policies, the accounting policies applied in preparing the GGS Estimated Financial Statements are not materially different from those applied in the audited 2019-20 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors as presented to Parliament.

Note 1 *Statement of Significant Accounting Policies* of the *2019-20 Consolidated Financial Statements of the New South Wales General Government and Total State Sector*s 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

Changes in Australian Accounting Standards (AAS) are considered when preparing the GGS Estimated Financial Statements. From 2020-21 changes include:

- application of the new accounting standard *AASB 1059 Service Concession Arrangements: Grantors* (AASB 1059) for the 2020-21 estimates and beyond
- repeal of the accounting policy *TPP 06-8 Privately Financed Projects* (TPP 06-8), effective for the 2020-21 estimates and beyond.

The nature and effect of the changes are outlined in detail below. The effects of these changes are based on the State’s current best estimates. It is likely that the actual impacts will differ as they are assessed further.

There are no other significant changes to AAS or accounting policies adopted in 2020-21 that materially impact the GGS Estimated Financial Statements.

AASB 1059 Service Concession Arrangements: Grantors

The accounting standard AASB 1059 applies to service concession arrangements. These are arrangements where an operator uses a service concession asset to provide a public service on behalf of the State.

Where an arrangement is within the scope of the standard, AASB 1059 requires service concession assets to be recognised from the start of the arrangement or over the construction period, with a corresponding liability to reflect any payments due to the operator, and/or where the State has granted to the operator a right to charge users of the asset.

Previously, under TPP 06-8, most service concession arrangements in New South Wales were generally treated as leases or as assets gradually recognised over the concession period. Following adoption of AASB 1059, *TPP 06-8 Privately Financed Projects* (TPP 06-8) was withdrawn. Arrangements previously accounted for under TPP 06-08 will be accounted for under AASB 1059 or other applicable accounting standards.

AASB 1059 has a different scope than TPP 06-8, possibly resulting in more arrangements being recognised in the State's balance sheet, such as those arrangements previously classified as emerging rights to receive. The adoption of AASB 1059 from 2020-21 onwards is expected to increase assets and liabilities on the GGS balance sheet. It is also expected to impact depreciation and amortisation expenses and income from the amortisation of grant of right liabilities in the GGS operating statement.

Withdrawal of TPP 06-8 Privately Financed Projects

TPP 06-8 *Privately Financed Projects* (TPP 06-8) has been withdrawn alongside the introduction of AASB 1059. Some arrangements previously accounted for under TPP 06-08 do not fall within the scope of AASB 1059.

New accounting standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 2020-21.There are no other standards and interpretations that are issued and not yet effective, or that have been adopted early, that are expected to have a material impact on the GGS Estimated Financial Statements.

Definitions

Key technical terms and key fiscal aggregates used in this report are defined in Note 38 of the *2019-20 Consolidated Financial Statements of the New South Wales General Government and Total State Sectors* and in the Glossary to the 2020-21 *How to Read the Budget Papers*.

Presentation of the GGS Estimated Financial Statements

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

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

The net operating balance (that is, the budget result) presented in accordance with AASB 1049 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*. Transactions are the result of mutually agreed interactions between parties. It excludes *other economic flows*, which represents 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* includes the *net operating balance* and certain *other economic flows.* It is the same under both the harmonised GFS-GAAP and pure GAAP presentations.

The GGS financial statements adopt the recognition, measurement and disclosure requirements of GAAP consistent with the following principles in AASB 1049:

- 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 GGS Estimated Financial Statements, detailed notes to the GGS Estimated Financial Statements are not required to be included. This is consistent with Section 4.2 (4) of the *Government Sector Finance Act 2018*.

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

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

Tables may not add in all instances due to rounding.

Presentation changes

There have been no significant presentation changes since the release of the 2020-21 Budget Papers. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

Material economic and other assumptions

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

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

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Outcomes	Outcomes	Forecasts	Forecasts	Projections	Projections
New South Wales population (persons)[(b)]	8,087,000	8,164,000	8,166,000	8,179,000	8,236,000	8,330,000
Nominal gross state product ($million)	629,100	629,300	640,800	666,100	688,200	718,100
Real gross state product (per cent)	2.6	- 3/4	- 1/2	2 3/4	2	2 3/4
Real state final demand (per cent)	2.0	-2	1/2	2	2	3 1/4
Employment (per cent)	3.3	-0.1	- 1/4	3/4	1	1
Unemployment rate (per cent)[(c)]	4.6	6.5	6 1/2	6	5 3/4	5
Sydney consumer price index (per cent)[(d)]	1.7	1.04	1 1/4	1 1/2	1 1/2	1 3/4
Sydney consumer price index excluding tobacco excise effect (per cent)	1.48	0.83	1	1 1/2	1 1/2	1 3/4
Wage price index (per cent)[(e)]	2.4	2.0	1 1/4	1 1/2	1 1/2	1 3/4
Nominal gross state product	4.5	0	1 3/4	4	3 1/4	4 1/4

(a) Per cent change, year average, unless otherwise indicated.
(b) As at 30 June each year.
(c) June quarter, per cent.
(d) 2018-19 to 2020-21 excludes a ¼ percentage point from tobacco excise increases.
(e) 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 GGS Estimated Financial Statements. The summary takes into account materiality in relation to the GGS's overall financial position and sensitivity to changes in key economic assumptions.

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

Revenue from transactions

Taxation revenue

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

Grants and subsidies revenue

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

Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by NSW Treasury. For 2020-21, the GST forecast is based on the assessed relativity for New South Wales in 2020-21 and the Commonwealth Government's population projections. The assessed relativity is based on the three-year average of actual data (2016-17, 2017-18 and 2018-19) as published by the Commonwealth Grants Commission.

Beyond 2020-21, the State's share of GST is based on NSW Treasury's forecast relativities, national GST pool estimates and the Commonwealth's state populations projections. The forecast per capita annual relativities are based on the projected fiscal capacity of New South Wales compared with other states and territories.

Sale of goods and services

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

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

Dividend and income tax equivalents from other sectors

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

Other dividends and distributions

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

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

Fines, regulatory fees and other revenues

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

Expenses from transactions

To improve the accuracy of budget estimates, consistent with longstanding practice and reflecting historic trends, the GGS Estimated Financial Statements includes adjustments:

- to account for parameter and technical adjustments[6] expected to be required to maintain service provision on a no policy change basis, reflecting the historic conservative bias in aggregate spending estimates
- to account for expenses expected to be carried forward into future years reflecting changes in timing of delivery of government activity, consistent with the policy set out in NSW Treasury Circular *TC 15-08 Agency Carry Forwards*, and
- to reflect Government decisions 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. For the 2020-21 year, employee benefits are adjusted for:

- approved wage agreements
- the decision by the Industrial Relations Commission to award a 0.3 per cent pay increase for certain awards
- determinations made by the Remuneration Tribunal to award a 12-month pause for Senior Executives, Members of Parliament and Other Public Office Holders.

Beyond the period of agreements and 2020-21 determinations, allowance is made for further adjustments consistent with the State's wages policy at a net cost of 1.5 per cent per annum. The forecasts for employee expenses also reflect the impact of new initiatives and required efficiency savings.

[6] Parameter and technical adjustments are submitted by agencies for material, non-discretionary changes in the net cost (or timing) of expenditure on existing programs or capital projects. An example of a parameter and technical adjustment would be an increase in teacher salaries due to higher student enrolments.

Superannuation expense (and liabilities)

Superannuation expense comprises:

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

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

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

Forecasts of defined benefit superannuation liabilities are based on actuarial estimates of cash flows for the various defined benefit superannuation schemes, discounted using a nominal long-term CGS yield as at 30 June. Gross liability estimates are based on a number of demographic and financial assumptions.

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

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

	2020-21 Forecast %	2021-22 Forecast %	2022-23 Forecast %	2023-24 Forecast %
Liability discount rate (a)	1.00	1.00	1.00	2.00
Expected return on investments (b)	10.50/9.90	7.00/6.00	7.00/6.00	7.00/6.00
Expected salary increases (c)	1.7	2.4	2.2	2.2
Expected rate of CPI (d)	1.25	1.50	1.50	1.75

(a) The liability discount rate is at 30 June for each financial year.
(b) The expected return on investments is 7 per cent on assets backing pension liabilities and 6 per cent on assets backing non-pension liabilities. For the EISS, the expected long-term investment return is 4.7 per cent (after fees and charges). For the 2020-21 year, the return is a combination of the year-to-date actual return and the forecast for the remainder of the year (as advised by the actuary).
(c) The expected salary increases incorporate changes to the Government's wages policy as announced at the 2020-21 Budget. This includes 0.3 per cent wages growth in 2020-21 for certain awards, as decided by the Industrial Relations Commission, and 1.5 per cent wages growth for all public servants from 2021-22 to 2023-24.
(d) 2021-22 includes ¼ percentage point from tobacco excise increases.

Depreciation and amortisation

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

Depreciation is forecast on:

- the basis of known asset valuations
- the expected economic life of assets
- assumed new asset investment
- asset sale programs.

The depreciation expense is based on the assumption that there will be no change in depreciation rates over the forecast period but includes the estimated impact of the current and future revaluation of assets over the forecast period. The depreciation expense may also be impacted by future changes in useful lives, residual value, or valuation methodology.

Certain heritage assets, including original artworks, 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 tested for impairment annually.

Interest expense

The forecasts for the interest expense are based on:

- payments required on outstanding borrowings (e.g. debt facilities with NSW TCorp and lease liabilities), other long-term financial liabilities and provisions
- 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 the normal operations of agencies and include the cost of supplies and services. They are forecast by applying appropriate economic parameters and known activity changes. This includes planned changes in the method of service delivery and the application of government policies.

Other operating expenses also reflect the impact of government efficiency strategies, such as efficiency dividends.

Grants, subsidies and other transfers expenses

Grants, subsidies and other transfers expenses generally comprise cash contributions to local government authorities and non-government organisations and the PFC and PNFC sectors.

The forecast grant payments are determined by taking into account current and past policy decisions, the forecast payment schedules and escalation factors relevant to each type of grant.

Other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions (and which are often outside the control of government).

Revaluations

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

Superannuation actuarial gains / losses

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

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

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

Net acquisition of non-financial assets

This is purchases (or acquisitions) less sales (or disposals) of non-financial assets less depreciation, plus changes in inventory and other movements in non-financial assets. Purchases and sales of non-financial assets generally include accrued expenses and payables for capital items. Other movements in non-financial assets include non-cash capital grant revenue/expense such as assets contributed by developers.

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.

Right-of-use assets are based on the State's best estimate of the timing of renewals of lease arrangements and the impact of depreciation.

The adoption of AASB 1059 from 1 July 2020 results in the recognition of service concession assets, which includes newly recognised assets and reclassification of existing assets previously classified as emerging assets or leased assets. Refer to the section: Changes in accounting policies above for further details on the impacts of adopting AASB 1059.

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

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

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

Liabilities

Borrowings

Estimates for borrowings are based on current debt levels (including lease liabilities), 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 estimated future cash outflows to settle employees' entitlements, such as unused long service leave and annual leave.

Superannuation provisions

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

Other provisions

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

B. UNIFORM FINANCIAL REPORTING

B.1 Uniform Presentation Tables

The NSW Government's 2020-21 Half-Yearly Review presents revised fiscal estimates for the current Budget year and the three following years for the NSW general government sector (GGS), public non-financial corporation (PNFC) sector and non-financial public sector (NFPS).

These revised estimates take into account fiscal and economic developments since the Budget. They also include the impact from the adoption of the new accounting standard from 1 July 2020 in accordance with:

- AASB 1059 Service Concession Arrangements: Grantors

The UPF tables have been prepared consistent with the 2020-21 Budget, in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This standard adopts a harmonised GFS-GAAP reporting basis. The main differences in reporting on an AASB 1049 basis compared with a GFS basis are outlined on pages A1-1 to A1-5 of 2020-21 Budget Paper No.1 *Budget Statement*.

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

The UPF financial aggregates:

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

Table B.1: General government sector operating statement

	2020-21 Budget $m	2020-21 Revised $m	2021-22 Forward Estimates $m	2022-23 $m	2023-24 $m
Revenue from Transactions					
Taxation	31,711	32,855	33,453	36,068	37,491
Grants and Subsidies					
- Commonwealth General Purpose	16,308	17,414	20,377	20,450	20,556
- Commonwealth Specific Purpose Payments	11,740	11,804	11,842	12,385	13,053
- Commonwealth National Partnership Payments	3,996	4,067	4,166	3,955	3,984
- Other Commonwealth Payments	644	648	687	535	572
- Other Grants and Subsidies	638	677	587	605	663
Sale of Goods and Services	9,560	9,000	11,054	10,311	9,219
Interest	302	354	329	368	354
Dividend and Income Tax Equivalents from Other Sectors	1,070	1,067	688	951	1,049
Other Dividends and Distributions	1,779	2,331	2,034	2,454	2,910
Fines, Regulatory Fees and Other	4,402	4,437	4,630	4,486	4,645
Total Revenue from Transactions	**82,149**	**84,654**	**89,845**	**92,568**	**94,496**
Expenses from Transactions					
Employee	37,087	37,312	37,905	39,029	40,270
Superannuation					
- Superannuation Interest Cost	585	585	624	607	584
- Other Superannuation	3,303	3,349	3,273	3,297	3,388
Depreciation and Amortisation	7,042	7,095	7,549	7,888	8,092
Interest	2,549	2,503	2,683	2,940	3,205
Other Operating Expense	24,824	24,592	24,325	22,750	22,153
Grants, Subsidies and Other Transfers	22,743	22,515	19,324	17,517	16,924
Total Expenses from Transactions	**98,133**	**97,951**	**95,684**	**94,029**	**94,617**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(15,984)**	**(13,297)**	**(5,840)**	**(1,461)**	**(121)**

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(11)	389	(0)	(0)	1,133
Other Net Gains/(Losses)	113	1,196	172	150	1,013
Share of Earnings/Losses from Equity Investments (excluding Dividends)	127	127	216	69	(22)
Dividends from Asset Sale Proceeds	(0)	...	...	...	...
Allowance for Impairment of Receivables	(39)	(23)	(15)	(15)	(15)
Deferred Income Tax from Other Sectors	10	17	22	21	9
Other	...	...	...	...	...
Other Economic Flows - included in Operating Result	**201**	**1,705**	**395**	**225**	**2,118**
Operating Result	**(15,782)**	**(11,592)**	**(5,445)**	**(1,236)**	**1,997**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**3,886**	**7,284**	**5,337**	**5,259**	**24,643**
Revaluations	3,882	3,855	4,009	4,197	4,414
Actuarial Gain/(Loss) from Superannuation	1,934	5,695	1,852	1,761	11,801
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(1,844)	(2,181)	(546)	(729)	8,420
Deferred Tax Direct to Equity	(86)	(86)	22	30	6
Items that may be Reclassified Subsequently to Operating Result	**2,208**	**1,902**	**(42)**	**(35)**	**(14)**
Other	2,208	1,902	(42)	(35)	(14)
Other Economic Flows - Other Comprehensive Income	**6,094**	**9,186**	**5,295**	**5,224**	**24,628**
Comprehensive Result - Total Change in Net Worth	**(9,688)**	**(2,407)**	**(149)**	**3,988**	**26,626**
Key Fiscal Aggregates					
Comprehensive Result - Total Change in Net Worth	**(9,688)**	**(2,407)**	**(149)**	**3,988**	**26,626**
Less: Net Other Economic Flows	(6,295)	(10,890)	(5,691)	(5,449)	(26,746)
Equals: Budget Result - Net Operating Balance	**(15,984)**	**(13,297)**	**(5,840)**	**(1,461)**	**(121)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	21,209	19,570	22,119	19,678	18,119
Sales of Non-Financial Assets	(617)	(561)	(1,001)	(479)	(1,300)
Less: Depreciation	(7,042)	(7,095)	(7,549)	(7,888)	(8,092)
Plus: Change in Inventories	(119)	(52)	(303)	(78)	(85)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	864	904	1,089	433	648
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	572	572	213	195	176
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	696	1,454	1,701	1,833	1,836
- Other	(727)	(608)	(613)	(772)	(471)
Equals: Total Net Acquisition of Non-Financial Assets	**14,835**	**14,183**	**15,655**	**12,923**	**10,830**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(30,819)**	**(27,480)**	**(21,495)**	**(14,383)**	**(10,951)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	22,644	21,045	23,421	20,306	18,943

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired using leases and assets acquired using Service Concession Arrangements under the Financial Liability Model.

Table B.2: General government sector balance sheet

	June 2021 Budget	June 2021 Revised	June 2022	June 2023 Forward Estimates	June 2024
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,063	1,001	1,028	964	882
Receivables	10,716	8,297	8,932	9,232	10,111
Investments, Loans and Placements					
Financial Assets at Fair Value	41,870	43,872	45,225	48,142	52,501
Other Financial Assets	1,793	1,871	1,287	1,283	1,250
Advances Paid	1,303	1,454	1,839	2,162	2,552
Tax Equivalents Receivable	35	24	38	46	45
Deferred Tax Equivalents	2,171	2,165	2,230	2,322	2,420
Equity					
Investments in Other Public Sector Entities	101,962	101,646	104,711	106,422	116,075
Investments in Associates	12,163	12,088	11,309	11,302	11,143
Other	7	7	7	7	7
Total Financial Assets	**173,081**	**172,424**	**176,606**	**181,881**	**196,985**
Non-Financial Assets					
Contract Assets	24	25	24	24	24
Inventories	1,150	1,138	903	899	904
Forestry Stock and Other Biological Assets	14	14	14	14	14
Assets Classified as Held for Sale	131	145	143	141	139
Property, Plant and Equipment					
Land and Buildings	100,827	100,188	103,785	105,644	106,425
Plant and Equipment	13,099	13,124	13,559	13,497	13,326
Infrastructure Systems	158,563	158,273	172,534	186,436	200,395
Right of Use Assets	6,853	6,730	6,939	6,456	6,259
Intangibles	4,496	4,501	4,572	4,678	4,471
Other	1,492	1,395	1,507	1,616	2,712
Total Non-Financial Assets	**286,649**	**285,533**	**303,981**	**319,404**	**334,668**
Total Assets	**459,731**	**457,957**	**480,586**	**501,285**	**531,654**
Liabilities					
Deposits Held	69	69	69	69	69
Payables	7,428	7,389	7,732	7,605	7,569
Contract Liabilities	1,149	1,117	1,114	1,114	1,112
Borrowings and Derivatives at Fair Value	387	289	288	286	285
Borrowings at Amortised Cost	98,174	92,498	116,124	135,340	152,903
Advances Received	585	737	712	657	604
Employee Provisions	23,315	23,020	23,580	24,109	23,504
Superannuation Provision[(a)]	66,776	62,781	61,671	59,387	46,969
Tax Equivalents Payable	40	45	6	5	1
Deferred Tax Equivalent Provision	95	78	62	72	114
Other Provisions	13,457	13,545	13,090	12,766	12,555
Other	19,255	20,109	20,008	19,756	19,224
Total Liabilities	**230,731**	**221,676**	**244,455**	**261,166**	**264,908**
NET ASSETS	**228,999**	**236,281**	**236,132**	**240,120**	**266,745**

Table B2: General government sector balance sheet (cont)

	June 2021 Budget $m	June 2021 Revised $m	June 2022 $m	June 2023 Forward Estimates $m	June 2024 $m
NET WORTH					
Accumulated Funds	54,818	62,538	58,909	59,407	73,177
Reserves	174,181	173,744	177,222	180,713	193,569
TOTAL NET WORTH	**228,999**	**236,281**	**236,132**	**240,120**	**266,745**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**53,187**	**45,395**	**67,813**	**83,801**	**96,675**
Net Financial Liabilities[(c)]	**159,612**	**150,898**	**172,560**	**185,707**	**183,998**
Net Financial Worth[(d)]	**(57,650)**	**(49,252)**	**(67,849)**	**(79,285)**	**(67,923)**

(a) The Superannuation Provision is 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

	2020-21 Budget	2020-21 Revised	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities					
Taxation	31,900	35,510	33,957	36,247	37,644
Sales of Goods and Services	9,893	9,432	11,472	10,676	9,489
Grant and Subsidies Received	33,289	34,494	36,944	37,694	37,960
Interest	192	255	234	282	274
Dividends and Income Tax Equivalents from Other Sectors	1,659	1,670	595	658	907
Other	8,499	8,843	7,350	7,929	7,944
Total Cash Receipts from Operating Activities	**85,432**	**90,205**	**90,552**	**93,486**	**94,218**
Cash Payments from Operating Activities					
Employee Related	(36,321)	(36,426)	(37,360)	(38,514)	(39,779)
Superannuation	(3,054)	(3,126)	(3,156)	(4,427)	(4,600)
Payments for Goods and Services	(25,776)	(25,056)	(23,869)	(22,451)	(22,751)
Grants and Subsidies	(21,407)	(21,385)	(18,459)	(16,501)	(16,193)
Interest	(2,543)	(2,525)	(2,811)	(3,193)	(3,517)
Other	(4,013)	(3,928)	(2,982)	(2,867)	(2,454)
Total Cash Payments from Operating Activities	**(93,114)**	**(92,446)**	**(88,637)**	**(87,953)**	**(89,293)**
Net Cash Flows from Operating Activities	**(7,683)**	**(2,241)**	**1,914**	**5,533**	**4,926**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	617	561	1,001	479	1,300
Purchases of Non-Financial Assets	(21,473)	(19,891)	(21,845)	(19,283)	(16,304)
Net Cash Flows from Investments in Non-Financial Assets	**(20,855)**	**(19,331)**	**(20,844)**	**(18,805)**	**(15,004)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	253	383	2,424	481	318
Payments	(3,952)	(4,039)	(5,213)	(3,046)	(1,815)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(3,700)**	**(3,656)**	**(2,790)**	**(2,565)**	**(1,497)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	6,699	7,372	5,073	2,481	692
Purchase of Investments	(7,570)	(9,280)	(5,655)	(5,113)	(4,638)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(871)**	**(1,909)**	**(582)**	**(2,632)**	**(3,946)**
Net Cash Flows from Investing Activities	**(25,426)**	**(24,895)**	**(24,216)**	**(24,002)**	**(20,447)**
Cash Flows from Financing Activities					
Advances (Net)	25	25	(67)	(76)	(30)
Proceeds from Borrowings	29,891	23,785	24,154	20,494	17,152
Repayment of Borrowings	(1,805)	(1,718)	(1,779)	(2,044)	(1,689)
Deposits Received (Net)	0	0	...	...	...
Other (Net)	(86)	(89)	22	30	6
Net Cash Flows from Financing Activities	**28,026**	**22,003**	**22,329**	**18,404**	**15,440**
Net Increase/(Decrease) in Cash Held	**(5,083)**	**(5,133)**	**28**	**(64)**	**(82)**
Derivation of Cash Result					
Net Cash Flows From Operating Activities	(7,683)	(2,241)	1,914	5,533	4,926
Net Cash Flows from Investments in Non-Financial Assets	(20,855)	(19,331)	(20,844)	(18,805)	(15,004)
Cash Surplus/(Deficit)	**(28,538)**	**(21,572)**	**(18,930)**	**(13,271)**	**(10,078)**

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m
Revenue from Transactions					
Grants and Subsidies					
- Other Commonwealth Payments	3	3	3	3	3
- Other Grants and Subsidies	3,811	4,242	3,460	3,137	3,135
Sale of Goods and Services	7,159	7,086	7,583	8,136	8,603
Interest	51	36	35	36	38
Other Dividends and Distributions	6	6	6	6	6
Fines, Regulatory Fees and Other	637	593	499	515	522
Total Revenue from Transactions	**11,667**	**11,967**	**11,586**	**11,833**	**12,307**
Expenses from Transactions					
Employee	2,439	2,417	2,556	2,571	2,601
Personnel Services Expense	666	646	678	691	709
Superannuation					
- Superannuation Interest Cost	25	25	25	24	22
- Other Superannuation	221	217	217	223	233
Depreciation and Amortisation	3,377	3,370	3,521	3,626	3,739
Interest	914	903	905	881	897
Income Tax Expense	197	193	192	233	275
Other Operating Expense	5,224	5,591	5,121	5,278	5,490
Grants, Subsidies and Other Transfers	119	119	61	62	63
Total Expenses from Transactions	**13,184**	**13,480**	**13,275**	**13,589**	**14,030**
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	**(1,517)**	**(1,513)**	**(1,689)**	**(1,756)**	**(1,723)**

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m
Other Economic Flows - Included in the Operating Result					
Other Net Gains/(Losses)	(141)	(150)	(114)	(178)	(249)
Allowance for Impairment of Receivables	(3)	(4)	(3)	(3)	(3)
Deferred Income Tax	(10)	(17)	(22)	(21)	(9)
Other Economic Flows - included in Operating Result	**(155)**	**(171)**	**(139)**	**(202)**	**(261)**
Operating Result	**(1,671)**	**(1,684)**	**(1,829)**	**(1,958)**	**(1,984)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**(252)**	**437**	**2,081**	**1,884**	**2,686**
Revaluations	(137)	(94)	1,946	1,760	2,108
Actuarial Gain/(Loss) from Superannuation	(200)	445	157	154	585
Deferred Tax Direct to Equity	86	86	(22)	(30)	(6)
Items that may be Reclassified Subsequently to Operating Result	**(125)**	**(43)**	**0**	**(0)**	**(0)**
Net Gain/(Loss) on Financial Instruments at Fair Value	...	...	...	...	...
Other	(125)	(43)	0	(0)	(0)
Other Economic Flows - Other Comprehensive Income	**(377)**	**394**	**2,082**	**1,884**	**2,686**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**(2,048)**	**(1,291)**	**253**	**(74)**	**702**
Dividends Distributed	(738)	(740)	(346)	(541)	(577)
Net Equity Injections	3,555	3,577	3,611	2,441	1,232
Total Change in Net Worth	**768**	**1,547**	**3,518**	**1,825**	**1,357**
Key Fiscal Aggregates					
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**(2,048)**	**(1,291)**	**253**	**(74)**	**702**
Less: Net Other Economic Flows	531	(222)	(1,943)	(1,682)	(2,425)
Equals: Budget Result - Net Operating Balance	**(1,517)**	**(1,513)**	**(1,689)**	**(1,756)**	**(1,723)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	6,417	6,076	7,110	5,579	4,148
Sales of Non-Financial Assets	(155)	(167)	(350)	(584)	(298)
Less: Depreciation	(3,377)	(3,370)	(3,521)	(3,626)	(3,739)
Plus: Change in Inventories	139	129	232	30	(96)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	79	80	83	87	315
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	...	...	...	...	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	...	...	...
- Other	297	305	315	322	328
Equals: Total Net Acquisition of Non-Financial Assets	**3,401**	**3,053**	**3,869**	**1,808**	**658**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(4,918)**	**(4,567)**	**(5,559)**	**(3,564)**	**(2,381)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	6,497	6,156	7,192	5,666	4,462
Dividends Accrued[(b)]	348	360	346	541	577

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

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

	June 2021 Budget	June 2021 Revised	June 2022	June 2023 Forward Estimates	June 2024
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	1,050	1,338	1,034	913	791
Receivables	1,297	1,257	1,139	1,126	1,157
Investments, Loans and Placements					
Financial Assets at Fair Value	243	243	243	243	243
Other Financial Assets	1,092	455	451	444	426
Advances Paid	0	0	0	0	0
Tax Equivalents Receivable	40	45	21	7	1
Deferred Tax Equivalent Assets	95	78	62	72	114
Equity					
Other	181	181	181	181	181
Total Financial Assets	**3,999**	**3,595**	**3,131**	**2,986**	**2,913**
Non-Financial Assets					
Contract Assets	...	...	...	...	...
Inventories	705	695	927	957	861
Forestry Stock and Other Biological Assets	828	825	825	825	825
Assets Classified as Held for Sale	48	48	49	49	50
Investment Properties	676	646	584	584	584
Property, Plant and Equipment					
Land and Buildings	75,013	74,885	76,369	76,969	78,383
Plant and Equipment	4,504	4,512	5,484	6,315	6,640
Infrastructure Systems	58,337	58,170	61,232	63,214	64,298
Right of Use Assets	2,882	2,881	2,814	2,756	2,680
Intangibles	1,153	1,153	1,140	1,087	1,040
Other	526	527	527	524	406
Total Non-Financial Assets	**144,672**	**144,342**	**149,952**	**153,281**	**155,766**
Total Assets	**148,671**	**147,938**	**153,083**	**156,267**	**158,679**
Liabilities					
Deposits Held	21	24	24	24	24
Payables	2,098	2,035	2,249	2,665	3,126
Contract Liabilities	140	132	125	78	77
Borrowings and Derivatives at Fair Value	7	7	7	7	7
Borrowings at Amortised Cost	29,804	29,330	30,859	31,873	32,967
Advanced Received	448	448	432	297	282
Employee Provisions	1,256	1,260	1,258	1,254	1,255
Superannuation Provision(a)	3,269	2,627	2,466	2,300	1,697
Tax Equivalents Payable	24	13	41	34	30
Deferred Tax Equivalent Provision	2,171	2,165	2,230	2,321	2,419
Other Provisions	915	930	910	1,081	1,112
Other	556	226	224	249	242
Total Liabilities	**40,709**	**39,198**	**40,825**	**42,183**	**43,239**
NET ASSETS	**107,962**	**108,740**	**112,258**	**114,083**	**115,440**
NET WORTH					
Accumulated Funds	31,467	32,337	30,490	28,410	26,574
Reserves	76,495	76,403	81,768	85,674	88,866
TOTAL NET WORTH	**107,962**	**108,740**	**112,258**	**114,083**	**115,440**
OTHER FISCAL AGGREGATES					
Net Debt(b)	**27,895**	**27,774**	**29,594**	**30,600**	**31,820**
Net Financial Liabilities(c)	**36,710**	**35,602**	**37,694**	**39,198**	**40,326**
Net Financial Worth(d)	**(36,710)**	**(35,602)**	**(37,694)**	**(39,198)**	**(40,326)**

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

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m
Cash Receipts from Operating Activities					
Sales of Goods and Services	7,153	7,117	7,686	8,127	8,617
Grant and Subsidies	3,811	4,243	3,460	3,137	3,135
Interest	30	15	14	14	15
Other	855	834	794	830	797
Total Cash Receipts from Operating Activities	**11,848**	**12,209**	**11,955**	**12,108**	**12,564**
Cash Payments from Operating Activities					
Employee Related	(2,569)	(2,528)	(2,700)	(2,732)	(2,761)
Personnel Services	(666)	(646)	(678)	(691)	(709)
Superannuation	(234)	(227)	(246)	(258)	(272)
Payments for Goods and Services	(5,283)	(5,655)	(5,214)	(5,196)	(5,269)
Grants and Subsidies	(108)	(116)	(60)	(62)	(63)
Interest	(853)	(855)	(774)	(819)	(819)
Distributions Paid	(304)	(327)	(97)	(156)	(184)
Other	(652)	(700)	(298)	(67)	(279)
Total Cash Payments from Operating Activities	**(10,669)**	**(11,052)**	**(10,066)**	**(9,980)**	**(10,356)**
Net Cash Flows from Operating Activities	**1,180**	**1,157**	**1,889**	**2,127**	**2,208**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	154	166	350	584	298
Purchases of Non-Financial Assets	(6,266)	(5,931)	(7,155)	(5,617)	(4,164)
Net Cash Flows from Investments in Non-Financial Assets	**(6,112)**	**(5,765)**	**(6,805)**	**(5,033)**	**(3,866)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	0	...	...	...	...
Payments	0	...	(0)	...	...
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**0**	**0**	**(0)**	**0**	**0**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	8	7	86	29	41
Purchase of Investments	...	(31)	...	...	...
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**8**	**(24)**	**86**	**29**	**41**
Net Cash Flows from Investing Activities	**(6,104)**	**(5,789)**	**(6,719)**	**(5,005)**	**(3,825)**
Cash Flows from Financing Activities					
Advances (Net)	3,524	3,546	3,580	2,290	1,201
Proceeds from Borrowings	2,384	2,302	1,766	1,372	1,365
Repayment of Borrowings	(398)	(375)	(454)	(519)	(482)
Dividends Paid	(1,437)	(1,426)	(360)	(346)	(541)
Deposits Received (Net)	0	3	...	...	...
Other (Net)	75	92	(5)	(40)	(48)
Net Cash Flows from Financing Activities	**4,148**	**4,143**	**4,527**	**2,756**	**1,495**
Net Increase/(Decrease) in Cash Held	**(777)**	**(489)**	**(303)**	**(121)**	**(123)**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	1,180	1,157	1,889	2,127	2,208
Net Cash Flows from Investments in Non-Financial Assets	(6,112)	(5,765)	(6,805)	(5,033)	(3,866)
Dividends Paid	(1,437)	(1,426)	(360)	(346)	(541)
Cash Surplus/(Deficit)	**(6,370)**	**(6,035)**	**(5,276)**	**(3,252)**	**(2,199)**

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Revenue from Transactions					
Taxation	31,199	32,367	32,891	35,462	36,846
Grants and Subsidies					
- Commonwealth General Purpose	16,308	17,414	20,377	20,450	20,556
- Commonwealth Specific Purpose Payments	11,740	11,804	11,842	12,385	13,053
- Commonwealth National Partnership Payments	3,996	4,067	4,166	3,955	3,984
- Other Commonwealth Payments	647	650	689	538	574
- Other Grants and Subsidies	548	609	536	552	610
Sale of Goods and Services	12,982	12,549	13,836	14,532	15,189
Interest	307	344	314	341	311
Dividend and Income Tax Equivalents from Other Sectors	135	134	150	177	197
Other Dividends and Distributions	1,785	2,337	2,040	2,461	2,916
Fines, Regulatory Fees and Other	4,915	4,863	5,065	4,946	5,110
Total Revenue from Transactions	**84,559**	**87,141**	**91,905**	**95,798**	**99,347**
Expenses from Transactions					
Employee	39,512	39,718	40,450	41,590	42,860
Superannuation					
- Superannuation Interest Cost	611	611	649	631	607
- Other Superannuation	3,523	3,565	3,490	3,519	3,620
Depreciation and Amortisation	10,401	10,446	11,052	11,496	11,815
Interest	3,417	3,360	3,537	3,759	4,022
Other Operating Expense	26,391	26,739	24,790	24,215	25,089
Grants, Subsidies and Other Transfers	18,937	18,194	15,834	14,333	13,743
Total Expenses from Transactions	**102,793**	**102,632**	**99,803**	**99,542**	**101,754**
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(18,233)**	**(15,491)**	**(7,898)**	**(3,745)**	**(2,407)**

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m
Other Economic Flows - Included in the Operating Result					
Gain/(Loss) from Other Liabilities	(11)	389	(0)	(0)	1,133
Other Net Gains/(Losses)	(28)	1,046	58	(28)	764
Share of Earnings/Losses from Equity Investments (excluding Dividends)	127	127	216	69	(22)
Allowance for Impairment of Receivables	(42)	(28)	(18)	(18)	(18)
Others	...	...	...	...	...
Other Economic Flows - included in Operating Result	**47**	**1,534**	**256**	**23**	**1,857**
Operating Result	**(18,187)**	**(13,958)**	**(7,642)**	**(3,722)**	**(550)**
Other Economic Flows - Other Comprehensive Income					
Items that will not be Reclassified to Operating Result	**6,399**	**9,667**	**7,530**	**7,741**	**27,186**
Revaluations	3,745	3,761	5,955	5,956	6,522
Actuarial Gain/(Loss) from Superannuation	1,734	6,140	2,009	1,916	12,386
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	921	(235)	(434)	(131)	8,278
Deferred Tax Direct to Equity	0	(0)	(0)	(0)	(0)
Items that may be Reclassified Subsequently to Operating Result	**2,099**	**1,884**	**(37)**	**(31)**	**(10)**
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	...	...	...	...	...
Other	2,099	1,884	(37)	(31)	(10)
Other Economic Flows - Other Comprehensive Income	**8,498**	**11,551**	**7,492**	**7,710**	**27,176**
Total Change in Net Worth	**(9,689)**	**(2,407)**	**(149)**	**3,988**	**26,626**
Key Fiscal Aggregates					
Total Change in Net Worth	**(9,689)**	**(2,407)**	**(149)**	**3,988**	**26,626**
Less: Net Other Economic Flows	(8,545)	(13,085)	(7,749)	(7,733)	(29,033)
Equals: Budget Result - Net Operating Balance	**(18,233)**	**(15,491)**	**(7,898)**	**(3,745)**	**(2,407)**
Less: Net Acquisition of Non-Financials Assets					
Purchases of Non-Financials Assets[(a)]	27,626	25,646	29,228	25,257	22,266
Sales of Non-Financial Assets	(772)	(727)	(1,351)	(1,063)	(1,598)
Less: Depreciation	(10,401)	(10,446)	(11,052)	(11,496)	(11,815)
Plus: Change in Inventories	20	78	(71)	(48)	(182)
Plus: Other Movements in Non-Financials Assets					
- Assets Acquired Using Leases[(a)]	949	989	1,171	520	969
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	572	572	213	195	176
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	696	1,454	1,701	1,833	1,836
- Other	(426)	(315)	(301)	(453)	(146)
Equals: Total Net Acquisition of Non-Financial Assets	**18,263**	**17,249**	**19,540**	**14,746**	**11,508**
Equals: Net Lending/(Borrowing) [Fiscal Balance][(b)]	**(36,497)**	**(32,741)**	**(27,438)**	**(18,491)**	**(13,916)**
OTHER FISCAL AGGREGATES					
Capital Expenditure[(a)]	29,146	27,206	30,613	25,972	23,411

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired using leases and assets acquired using Service Concession Arrangements under the Financial Liability Model.
(b) Net borrowing for the NFPS sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

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

	June 2021 Budget	June 2021 Revised	June 2022	June 2023 Forward Estimates	June 2024
	$m	$m	$m	$m	$m
Assets					
Financial Assets					
Cash and Cash Equivalents	2,114	2,385	2,074	1,889	1,684
Receivables	10,753	8,300	8,780	8,865	9,715
Investments, Loans and Placements					
Financial Assets at Fair Value	42,113	44,115	45,467	48,384	52,744
Other Financial Assets	2,814	2,256	1,677	1,675	1,624
Advances Paid	855	1,006	1,229	1,274	1,256
Tax Equivalents Receivable	10	11	11	13	15
Deferred Tax Equivalents	(0)	0	0	0	0
Equity					
Investments in Other Public Sector Entities	(5,827)	(6,982)	(7,416)	(7,547)	731
Investments in Associates	12,163	12,088	11,309	11,302	11,143
Other	187	187	187	187	187
Total Financial Assets	**65,183**	**63,366**	**63,318**	**66,044**	**79,099**
Non-Financial Assets					
Contract Assets	24	25	24	24	24
Inventories	1,855	1,833	1,830	1,856	1,765
Forestry Stock and Other Biological Assets	842	839	839	839	839
Assets Classified as Held for Sale	179	193	192	190	189
Investment Properties	676	646	584	584	584
Property, Plant and Equipment					
Land and Buildings	175,840	175,073	180,154	182,613	184,807
Plant and Equipment	17,603	17,636	19,043	19,812	19,967
Infrastructure Systems	216,900	216,442	233,767	249,649	264,692
Right of Use Assets	9,567	9,443	9,603	9,079	8,832
Intangibles	5,649	5,654	5,712	5,765	5,512
Other	2,014	1,919	2,030	2,135	3,112
Total Non-Financial Assets	**431,149**	**429,703**	**453,777**	**472,547**	**490,323**
Total Assets	**496,332**	**493,070**	**517,096**	**538,591**	**569,423**
Liabilities					
Deposits Held	90	93	93	93	93
Payables	8,921	8,824	9,147	9,015	8,990
Contract Liabilities	1,289	1,250	1,239	1,192	1,189
Borrowings and Derivatives at Fair Value	395	297	295	294	292
Borrowings at Amortised Cost	127,905	121,755	146,919	167,158	185,825
Advanced Received	585	737	712	657	604
Employee Provisions	24,552	24,261	24,819	25,344	24,740
Superannuation Provision[(a)]	70,045	65,407	64,137	61,687	48,666
Deferred Tax Equivalent Provision	(0)	...	(0)	(0)	(0)
Other Provisions	13,740	13,832	13,372	13,026	12,812
Other	19,811	20,335	20,232	20,006	19,467
Total Liabilities	**267,333**	**256,788**	**280,964**	**298,471**	**302,677**
NET ASSETS	**228,999**	**236,281**	**236,132**	**240,120**	**266,745**

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

	June 2021 Budget	June 2021 Revised	June 2022	June 2023 Forward Estimates	June 2024
	$m	$m	$m	$m	$m
NET WORTH					
Accumulated Funds	79,008	87,628	78,523	74,516	85,237
Reserves	149,991	148,654	157,609	165,603	181,508
TOTAL NET WORTH	**228,999**	**236,281**	**236,132**	**240,120**	**266,745**
OTHER FISCAL AGGREGATES					
Net Debt[(b)]	**81,079**	**73,119**	**97,571**	**114,980**	**129,506**
Net Financial Liabilities[(c)]	**196,323**	**186,440**	**210,230**	**224,881**	**224,309**
Net Financial Worth[(d)]	**(202,150)**	**(193,422)**	**(217,646)**	**(232,428)**	**(223,578)**

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

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

	2020-21 Budget $m	2020-21 Revised $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m
Cash Receipts from Operating Activities					
Taxation	31,408	35,040	33,445	35,670	37,033
Sales of Goods and Services	13,297	12,979	14,375	14,875	15,469
Grant and Subsidies	33,197	34,418	36,892	37,641	37,907
Interest	191	240	213	249	223
Dividends and Income Tax Equivalents	118	117	138	156	182
Other	9,270	9,560	8,122	8,747	8,729
Total Cash Receipts from Operating Activities	**87,481**	**92,355**	**93,186**	**97,338**	**99,543**
Cash Payments from Operating Activities					
Employee Related	(38,738)	(38,817)	(39,908)	(41,078)	(42,368)
Superannuation	(3,288)	(3,353)	(3,401)	(4,685)	(4,872)
Payments for Goods and Services	(27,586)	(27,438)	(24,582)	(24,005)	(25,641)
Grants and Subsidies	(17,628)	(17,091)	(14,996)	(13,345)	(13,040)
Interest	(3,366)	(3,349)	(3,550)	(3,965)	(4,271)
Other	(4,824)	(4,763)	(3,494)	(3,386)	(3,227)
Total Cash Payments from Operating Activities	**(95,430)**	**(94,813)**	**(89,932)**	**(90,464)**	**(93,418)**
Net Cash Flows from Operating Activities	**(7,950)**	**(2,458)**	**3,255**	**6,874**	**6,126**
Cash Flows from Investments in Non-Financial Assets					
Proceeds from Sale of Non-Financial Assets	771	726	1,351	1,063	1,598
Purchases of Non-Financial Assets	(27,746)	(25,827)	(29,009)	(24,884)	(20,454)
Net Cash Flows from Investments in Non-Financial Assets	**(26,974)**	**(25,101)**	**(27,659)**	**(23,821)**	**(18,856)**
Cash Flows from Investments in Financial Assets for Policy Purposes					
Receipts	222	352	2,393	330	278
Payments	(388)	(462)	(1,330)	(184)	(162)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(166)**	**(110)**	**1,063**	**146**	**116**
Cash Flows from Investments in Financial Assets for Liquidity Purposes					
Proceeds from Sale of Investments	6,689	7,375	5,150	2,499	705
Purchase of Investments	(7,567)	(9,312)	(5,656)	(5,112)	(4,632)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(878)**	**(1,937)**	**(505)**	**(2,613)**	**(3,927)**
Net Cash Flows from Investing Activities	**(28,018)**	**(27,148)**	**(27,101)**	**(26,288)**	**(22,667)**
Cash Flows from Financing Activities					
Advances (Net)	25	25	(162)	(84)	(19)
Proceeds from Borrowings	32,275	26,087	25,920	21,866	18,517
Repayment of Borrowings	(2,192)	(2,083)	(2,223)	(2,554)	(2,162)
Deposits Received (Net)	0	3	...	...	...
Other (Net)	0	(4)	0	(0)	0
Net Cash Flows from Financing Activities	**30,109**	**24,030**	**23,535**	**19,229**	**16,336**
Net Increase/(Decrease) in Cash Held	**(5,859)**	**(5,576)**	**(311)**	**(185)**	**(205)**
Derivation of Cash Result					
Net Cash Flows from Operating Activities	(7,950)	(2,458)	3,255	6,874	6,126
Net Cash Flows from Investments in Non-Financial Assets	(26,974)	(25,101)	(27,659)	(23,821)	(18,856)
Dividends Paid	...	...	...	...	...
Cash Surplus/(Deficit)	**(34,924)**	**(27,559)**	**(24,404)**	**(16,947)**	**(12,730)**

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C. VARIATIONS ON REVISED 2020-21 BUDGET

C.1 Revised 2020-21 Budget

The revised budget result for 2020-21 is a deficit of $13.3 billion, an improvement of $2.7 billion compared to a forecast deficit of $15.9 billion at the time of the 2020-21 Budget.

Total revenue in 2020-21 is estimated to be $84.7 billion, which is $2.5 billion higher than the Budget estimate of $82.1 billion.

Total expenses in 2020-21 are estimated to be $97.9 billion, which is $182.3 million lower than the Budget estimate of $98.1 billion.

Tables may not add in all instances due to rounding.

C.2 Operating statement

Total revenue in 2020-21 is estimated to be $2.5 billion higher than the forecast in the 2020-21 Budget, primarily reflecting a stronger domestic economy that has led to upward revisions in expected GST, transfer duty and payroll tax revenue.

Key increases to estimated revenue include:

- taxation has been revised up by $1.1 billion in 2020-21 mainly due to a stronger outlook for residential and commercial property markets, resulting in a $446.5 million upward revision in transfer duty revenue. Payroll tax has been revised up by $479.8 million reflecting stronger expected employment and wages growth
- grants and subsidies have been revised up by $1.3 billion in 2020-21 primarily due to a $1.1 billion upward revision of GST revenue. The GST pool is expected to be considerably higher than expected in the 2020-21 Budget due to an improved outlook for both dwelling investment and household consumption
- other dividends and distributions forecasts have been revised up by $552.5 million, mainly reflecting $304.3 million in higher expected returns by NSW Self Insurance Corporation on its TCorp financial investments and an upward revision of distribution forecasts from NSW Infrastructure Future Fund Investments in Crown Finance Entity of $200.6 million.

These increases are partially offset by:

- Sale of goods and services has been revised down by $560.4 million primarily due to:
  - lower fee for service revenue in Transport for NSW of $157.1 million, primarily reflecting lower fees for services revenue for the delivery of rail projects
  - forecast lower facility charges, car park fees and veteran affairs revenues collected by the Ministry of Health of $146.1 million
  - significant reduction in fees for service revenue and overseas student revenue in Department of Education of $133.4 million.

Total expenses in 2020-21 are estimated to be $182.3 million lower than the Budget estimate. This is primarily due to:

- a decrease in operating expenses of $231.8 million, which includes lower expenditure on major rail projects produced on a fee for service basis ($128.0 million) and reprofiling of expenditures by Regional NSW ($138.9 million)
- a decrease in grants and transfer expenses of $228.4 million across a range of agencies.

These decreases have been partially offset by higher employee expenses of $224.8 million, which includes increased Treasury Managed Fund workers compensation scheme expenses based on the latest liability revaluation and a small increase by the Department of Communities and Justice towards child welfare services.

C.3 Balance sheet

Net debt is estimated to be $45.4 billion at June 2021, a $7.8 billion decrease compared to the Budget estimate. This is primarily due to the improved revenue estimates reflecting the earlier-than-expected economic recovery and the improved performance of the investment funds in the first half of 2020-21 HYR.

The state's net worth is estimated to increase to $236.3 billion at June 2021. This represents an increase of $7.3 billion since 2020-21 Budget and primarily reflects lower borrowings.

C.4 Cash flow statement

The state's forecast cash deficit is $21.6 billion, a decrease in the cash deficit of $7.0 billion since the time of the Budget. The decrease is mainly driven by the lower operating cash deficits primarily due to higher than forecast taxation revenues compared to the 2020-21 Budget.

Table C.1: General government sector operating statement

	2019-20 Actual	2020-21 Budget	2020-21 Revised	Variance	Variance	6 Months to 31/12/2020 Actual
	$m	$m	$m	$m	%	$m
Revenue from Transactions						
Taxation	29,941	31,711	32,855	1,144	3.6	14,115
Grants and Subsidies						
- Commonwealth General Purpose	18,073	16,308	17,414	1,106	6.8	8,028
- Commonwealth Specific Purpose Payments	11,278	11,740	11,804	65	0.6	6,429
- Commonwealth National Partnership Payments	3,886	3,996	4,067	72	1.8	1,395
- Other Commonwealth Payments	455	644	648	4	0.6	259
- Other Grants and Subsidies	613	638	677	39	6.0	542
Sale of Goods and Services	8,713	9,560	9,000	(560)	(5.9)	4,433
Interest	364	302	354	52	17.2	156
Dividend and Income Tax Equivalents from Other Sectors	1,354	1,070	1,067	(3)	(0.3)	535
Other Dividends and Distributions	2,426	1,779	2,331	553	31.1	651
Fines, Regulatory Fees and Other	4,262	4,402	4,437	35	0.8	1,717
Total Revenue from Transactions	**81,367**	**82,149**	**84,654**	**2,505**	**3.0**	**38,260**
Expenses from Transactions						
Employee	35,555	37,087	37,312	225	0.6	18,468
Superannuation						
- Superannuation Interest Cost	882	585	585	(0)	(0.0)	294
- Other Superannuation	3,288	3,303	3,349	46	1.4	1,706
Depreciation and Amortisation	5,948	7,042	7,095	52	0.7	3,387
Interest	2,084	2,549	2,503	(46)	(1.8)	1,037
Other Operating Expense	23,156	24,824	24,592	(232)	(0.9)	11,067
Grants, Subsidies and Other Transfer Expenses	17,369	22,743	22,515	(228)	(1.0)	8,742
Total Expenses from Transactions	**88,283**	**98,133**	**97,951**	**(182)**	**(0.2)**	**44,700**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**(6,916)**	**(15,984)**	**(13,297)**	**2,687**	**(16.8)**	**(6,441)**

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

	2019-20 Actual	2020-21 Budget	2020-21 Revised	Variance	Variance	6 Months to 31/12/2020 Actual
	$m	$m	$m	$m	%	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(201)	(11)	389	400	n.a.	(79)
Other Net Gains/(Losses)	(2,553)	113	1,196	1,083	957.6	2,106
Share of Earnings/Losses from Equity Investments (excluding Dividends)	46	127	127	...	...	(19)
Dividends from Asset Sale Proceeds	31	(0)	...	0	100.0	...
Allowance for Impairment of Receivables	(212)	(39)	(23)	15	(39.6)	(20)
Deferred Income Tax from Other Sectors	(123)	10	17	6	57.8	5
Other	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(3,013)**	**201**	**1,705**	**1,504**	**746.7**	**1,993**
Operating Result	**(9,929)**	**(15,782)**	**(11,592)**	**4,190**	**(26.6)**	**(4,448)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(1,374)**	**3,886**	**7,284**	**3,398**	**87.5**	**885**
Revaluations	4,263	3,882	3,855	(27)	(0.7)	(12)
Actuarial Gain/(Loss) from Superannuation	(673)	1,934	5,695	3,761	194.5	897
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(4,979)	(1,844)	(2,181)	(336)	18.2	...
Deferred Tax Direct to Equity	15	(86)	(86)	(0)	0.1	...
Items that may be Reclassified Subsequently to Operating Result	**920**	**2,208**	**1,902**	**(306)**	**(13.9)**	**2,019**
Net Gain/(Loss) on Equity Investments in Other Sectors	...	...	...	...	...	(109)
Net Gain/(Loss) on Financial Instruments at Fair Value	(8)	0	0	(0)	(0.0)	(0)
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	(243)	(0)	...	0	...	...
Other	1,171	2,208	1,902	(307)	(13.9)	2,128
Other Economic Flows - Other Comprehensive Income	**(454)**	**6,094**	**9,186**	**3,091**	**50.7**	**2,904**
Comprehensive Result - Total Change in Net Worth	**(10,382)**	**(9,688)**	**(2,407)**	**7,282**	**(75.2)**	**(1,543)**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**(10,382)**	**(9,688)**	**(2,407)**	**7,282**	**(75.2)**	**(1,543)**
Less: Net Other Economic Flows	3,466	(6,295)	(10,890)	(4,595)	73.0	(4,897)
Equals: Budget Result - Net Operating Balance	**(6,916)**	**(15,984)**	**(13,297)**	**2,687**	**(16.8)**	**(6,441)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(a)]	18,070	21,209	19,570	(1,639)	(7.7)	7,197
Sales of Non-Financial Assets	(639)	(617)	(561)	57	(9.2)	(116)
Less: Depreciation	(5,948)	(7,042)	(7,095)	(52)	0.7	(3,387)
Plus: Change in Inventories	839	(119)	(52)	67	(56.6)	692
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(a)]	2,915	864	904	40	4.6	502
- Assets Acquired Using Service Concession Arrangements[(a)] (Financial Liability model)	...	572	572	(0)	(0.1)	112
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	696	1,454	758	108.9	248
- Other	(92)	(727)	(608)	118	(16.3)	1
Equals: Total Net Acquisition of Non-Financial Assets	**15,145**	**14,835**	**14,183**	**(651)**	**(4.4)**	**5,249**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(22,061)**	**(30,819)**	**(27,480)**	**3,338**	**(10.8)**	**(11,690)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(a)]	**20,985**	**22,644**	**21,045**	**(1,599)**	**(7.1)**	**7,811**

(a) Capital expenditure comprises purchases of non-financial assets plus assets acquired using utilising leases and assets acquired using Service Concession Arrangements under the Financial Liability Model.

Table C.2: General government sector balance sheet

	2019-20 Actual	2020-21 Budget	2020-21 Revised	Variance	Variance	6 Months to 31/12/2020 Actual
	$m	$m	$m	$m	%	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	6,134	1,063	1,001	(63)	(5.9)	3,027
Receivables	11,281	10,716	8,297	(2,419)	(22.6)	10,088
Tax Equivalents Receivable	15	35	24	(11)	(31.0)	17
Investments, Loans and Placements						
Financial Assets at Fair Value	40,874	41,870	43,872	2,002	4.8	44,209
Other Financial Assets	1,533	1,793	1,871	79	4.4	1,619
Advances Paid	1,239	1,303	1,454	151	11.6	1,312
Deferred Tax Equivalents	2,127	2,171	2,165	(6)	(0.3)	2,132
Equity						
Investments in Other Public Sector Entities	100,249	101,962	101,646	(316)	(0.3)	101,892
Investments in Associates	11,866	12,163	12,088	(75)	(0.6)	11,880
Other	7	7	7	...	n.a.	7
Total Financial Assets	**175,326**	**173,081**	**172,424**	**(658)**	**(0.4)**	**176,182**
Non- Financial Assets						
Contract Assets	24	24	25	1	2.6	55
Inventories	1,188	1,150	1,138	(12)	(1.0)	1,897
Forestry Stock and Other Biological Assets	14	14	14	...	...	14
Assets Classified as Held for Sale	286	131	145	14	10.7	280
Property, Plant and Equipment						
Land and Buildings	94,822	100,827	100,188	(639)	(0.6)	95,698
Plant and Equipment	12,538	13,099	13,124	25	0.2	12,528
Infrastructure Systems	124,406	158,563	158,273	(290)	(0.2)	150,559
Right of Use Assets	6,503	6,853	6,730	(123)	(1.8)	6,966
Intangibles	3,686	4,496	4,501	5	0.1	4,232
Other	6,858	1,492	1,395	(97)	(6.5)	1,890
Total Non- Financial Assets	**250,325**	**286,649**	**285,533**	**(1,116)**	**(0.4)**	**274,118**
Total Assets	**425,651**	**459,731**	**457,957**	**(1,774)**	**(0.4)**	**450,301**
Liabilities						
Deposits Held	69	69	69	0	0.1	68
Payables	7,031	7,428	7,389	(38)	(0.5)	6,042
Contract Liabilities	1,156	1,149	1,117	(32)	(2.8)	1,073
Tax Equivalents Payable	80	40	45	5	11.9	106
Borrowings and Derivatives at Fair Value	392	387	289	(98)	(25.3)	305
Borrowings at Amortised Cost	67,885	98,174	92,498	(5,676)	(5.8)	80,749
Advances Received	696	585	737	152	25.9	694
Employee Provisions	22,566	23,315	23,020	(296)	(1.3)	23,026
Superannuation Provision[(a)]	67,890	66,776	62,781	(3,995)	(6.0)	67,168
Deferred Tax Equivalent Provision	82	95	78	(17)	(18.3)	82
Other Provisions	14,101	13,457	13,545	88	0.7	13,843
Other	5,015	19,255	20,109	853	4.4	20,001
Total Liabilities	**186,964**	**230,731**	**221,676**	**(9,056)**	**(3.9)**	**213,156**
NET ASSETS	**238,688**	**228,999**	**236,281**	**7,282**	**3.2**	**237,144**
NET WORTH						
Accumulated Funds	67,479	54,818	62,538	7,719	14.1	65,156
Reserves	171,209	174,181	173,744	(437)	(0.3)	171,988
TOTAL NET WORTH	**238,688**	**228,999**	**236,281**	**7,282**	**3.2**	**237,144**
OTHER FISCAL AGGREGATES						
Net Debt[(b)]	**19,261**	**53,187**	**45,395**	**(7,792)**	**(14.6)**	**31,648**
Net Financial Liabilities [(c)]	**111,887**	**159,612**	**150,898**	**(8,714)**	**(5.5)**	**138,866**
Net Financial Worth [(d)]	**(11,638)**	**(57,650)**	**(49,252)**	**8,398**	**(14.6)**	**(36,974)**

(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

	2019-20 Actual	2020-21 Budget	2020-21 Revised	Variance	Variance	6 Months to 31/12/2020 Actual
	$m	$m	$m	$m	%	$m
Cash Receipts from Operating Activities						
Taxation	28,346	31,900	35,510	3,610	11.3	15,348
Sales of Goods and Services	8,878	9,893	9,432	(461)	(4.7)	4,364
Grant and Subsidies Received	33,775	33,289	34,494	1,205	3.6	15,966
Interest	291	192	255	64	33.2	74
Dividends and Income Tax Equivalents from Other Sectors	1,139	1,659	1,670	12	0.7	1,266
Other	12,559	8,499	8,843	344	4.0	4,674
Total Cash Receipts from Operating Activities	**84,988**	**85,432**	**90,205**	**4,773**	**5.6**	**41,692**
Cash Payments from Operating Activities						
Employee Related	(34,083)	(36,321)	(36,426)	(105)	0.3	(17,900)
Superannuation	(4,649)	(3,054)	(3,126)	(72)	2.4	(1,616)
Payments for Goods and Services	(21,291)	(25,776)	(25,056)	720	(2.8)	(12,203)
Grants and Subsidies	(16,180)	(21,407)	(21,385)	22	(0.1)	(8,630)
Interest	(1,839)	(2,543)	(2,525)	18	(0.7)	(1,044)
Other	(7,231)	(4,013)	(3,928)	85	(2.1)	(4,367)
Total Cash Payments from Operating Activities	**(85,272)**	**(93,114)**	**(92,446)**	**668**	**(0.7)**	**(45,762)**
Net Cash Flows from Operating Activities	**(284)**	**(7,683)**	**(2,241)**	**5,441**	**(70.8)**	**(4,069)**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	223	617	561	(57)	(9.2)	141
Purchases of Non-Financial Assets	(17,252)	(21,473)	(19,891)	1,581	(7.4)	(7,676)
Net Cash Flows from Investments in Non-Financial Assets	**(17,029)**	**(20,855)**	**(19,331)**	**1,525**	**(7.3)**	**(7,535)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	2,768	253	383	130	51.6	135
Payments	(4,739)	(3,952)	(4,039)	(86)	2.2	(1,846)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(1,971)**	**(3,700)**	**(3,656)**	**44**	**(1.2)**	**(1,711)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	6,131	6,699	7,372	673	10.0	1,527
Purchase of Investments	(4,313)	(7,570)	(9,280)	(1,711)	22.6	(2,951)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**1,818**	**(871)**	**(1,909)**	**(1,038)**	**119.1**	**(1,424)**
Net Cash Flows from Investing Activities	**(17,181)**	**(25,426)**	**(24,895)**	**531**	**(2.1)**	**(10,670)**
Cash Flows from Financing Activities						
Advances (Net)	(77)	25	25	(0)	(0.0)	(8)
Proceeds from Borrowings	22,943	29,891	23,785	(6,106)	(20.4)	12,317
Repayment of Borrowings	(1,253)	(1,805)	(1,718)	87	(4.8)	(675)
Deposits Received (Net)	2	0	0	0	n.a.	(1)
Other (Net)	15	(86)	(89)	(4)	4.6	0
Net Cash Flows from Financing Activities	**21,630**	**28,026**	**22,003**	**(6,023)**	**(21.5)**	**11,633**
Net Increase/(Decrease) in Cash Held	**4,165**	**(5,083)**	**(5,133)**	**(51)**	**1.0**	**(3,107)**
Derivation of Cash Result						
Net Cash Flows From Operating Activities	(284)	(7,683)	(2,241)	5,441	(70.8)	(4,069)
Net Cash Flows from Investments in Non-Financial Assets	(17,029)	(20,855)	(19,331)	1,525	(7.3)	(7,535)
Cash Surplus/(Deficit)	**(17,312)**	**(28,538)**	**(21,572)**	**6,966**	**(24.4)**	**(11,604)**