

# NSW

BUDGET 2017-18



BUDGET PAPER NO. 1  
BUDGET  
STATEMENT

# **Budget Statement**

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**2017-18**



**Budget Paper No. 1**

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

# STATEMENT OF THE SECRETARY

The 2017-18 Budget Papers are prepared in accordance with the requirements of the *Public Finance and Audit Act 1983* (PFA Act) and the *Fiscal Responsibility Act 2012* (FRA).

The 2017-18 Budget is also the first NSW budget to be prepared using a new State-wide financial management system called 'Prime'. Further enhancements will be made over future years. The adoption of this system is part of the State's Financial Management Transformation program, a major reform to the way the State manages its finances. These reforms will deliver better outcomes for the people of NSW – more transparency and accountability for expenditure, and better value for money over the long term.

The new system improves the collection, aggregation and consolidation of agency financial data for the production of sector level financial information. The Treasury Chart of Account has been refined so it now has fewer accounts and much greater consistency. The improved processes this year means there are minor differences in how figures are calculated. In this year's Budget Papers, the new system has been used to prepare financial information for 2016-17 onwards.

## Best available information

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The Estimated Financial Statements have been prepared to reflect in all material respects best estimates of existing operations, the impact of new Government policy decisions, and year-end projections provided by agencies based on end-April data. They have also been prepared to take into account other economic and financial data available to Treasury up to 15 June 2017, including Commonwealth Government funding decisions announced in the 2017-18 Commonwealth Budget.

Any estimates or assumptions made in measuring revenues, expenses, other economic flows, assets or liabilities are based on the latest information available at the time. Assumptions are detailed in Appendix A2 of this budget paper, under the headings *Material Economic and Other Assumptions* and *Summary of Other Key Assumptions*.

## Professional judgement

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The prospective nature of the Estimated Financial Statements means it is necessary to apply professional judgement in their preparation. That judgement includes an informed assessment of the most likely economic and financial outcomes including spending and revenue profiles. Differences between underlying assumptions and eventual outcomes can reflect the reality of an uncertain operating environment and the impact of many variables over which the Government has little or no control.

In my opinion, the Estimated Financial Statements have been properly prepared in accordance with the Statement of Significant Accounting Policies and Forecast Assumptions and the methodologies used to determine those assumptions are reasonable.



Rob Whitfield  
Secretary, NSW Treasury  
16 June 2017

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# ABOUT THIS BUDGET PAPER

## Purpose and scope

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

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

The scope of the Budget is the general government sector. However, this budget paper also includes information on the Estimated Financial Statements for the public non-financial corporations and non-financial public sectors. The statements provide a comprehensive picture of the State's fiscal position and strategy.

In this Budget, the Government has identified a number of priority projects for which it has reserved Restart NSW funding. Funding has been reserved with a view to future Restart NSW commitments being made, at which time they will be included in the budget aggregates. Restart NSW commitments can only be made following completion of project development and assurance processes, including final business case approval.

## Changes in reporting of Budget data

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The Government is delivering a once-in-a-generation reform to transform financial management across the New South Wales public sector. The reform delivers greater transparency, efficiency and accountability of government expenditure.

The reform includes the delivery of the 2017-18 Budget using a new financial management system 'Prime', replacing 20 year old systems.

The new system has enhanced the preparation of this Budget by having a single source for all financial and non-financial information, including the geographical locations of capital projects for the first time.

The new system allows for a more refined approach for the collection, aggregation and consolidation of agency financial data for the production of sector level financial information. Previous years' data have been updated in the new financial management system for the 2015-16 year onwards to provide like-for-like comparison. For this reason there are immaterial differences between figures related to the 2016-17 Budget presented in these budget papers from those published in the 2016-17 budget papers.

The NSW Government is committed to improving budget reporting and readability. In this Budget, the Government has replaced the chapter formerly on the State's Budget Position and Outlook and appendix on Supplementary Revenue and Expense Analysis with separate chapters relating to the State's revenue (Chapter 5) and expenses (Chapter 6). This approach brings together information previously separated across a chapter and appendix into stand-alone revenue and expense chapters to enhance the presentation of this information.

## Notes

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- The budget year refers to 2017-18, while the forward estimates period refers to 2018-19, 2019-20 and 2020-21. Figures in tables, charts and text may have been rounded. Discrepancies between totals and the sum of components reflect rounding:
  - estimates under \$100,000 are rounded to the nearest thousand
  - estimates midway between rounding points are rounded up
  - percentages are based on the underlying unrounded values.
- For the budget result, parentheses indicate a deficit, while no sign indicates a surplus.
- One billion equals one thousand million.
- The following notations are used:
  - n.a. means data is not available
  - N/A means not applicable
  - no. means number
  - 0 means not zero, but rounded to zero
  - ... means zero
  - '000 means thousand
  - \$m means millions of dollars
  - \$b means billions of dollars.
- Differences between harmonised government finance statistics (GFS) generally accepted accounting principles (GAAP) information, as shown in the budget papers, and pure GFS information, as reported by the Australian Bureau of Statistics, are known as convergence differences. Such differences are not departures from Accounting Standards but merely variations in measurement or treatments between GAAP and GFS frameworks. Details of these main convergence differences between GAAP and GFS are explained in Appendix A.
- Unless otherwise indicated, the data source for tables and charts is NSW Treasury.

# 1. BUDGET HIGHLIGHTS

## 1.1 Introduction

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The 2017-18 Budget builds on the NSW Government's track record of strong financial management, investing the State's economic and financial success back into the communities of New South Wales and building for the future.

The Budget delivers strong surpluses with \$4.5 billion expected in 2016-17 and forecast average surpluses of \$2.0 billion from 2017-18 to 2020-21.

The State's economy remains the strongest in the nation, posting economic growth of 3.5 per cent in 2015-16 – the strongest of all states and territories in Australia. The economic outlook remains positive with above-trend economic growth forecast over the next three years, bolstered by the Government's responsible financial management and reform agenda.

This robust budget position means the Government can continue to drive its once-in-a-generation infrastructure program, with \$72.7 billion to be invested in infrastructure projects across the state over the next four years.

This includes the continuation of major projects like WestConnex and Sydney Metro, but also includes record new investments in local infrastructure, including new and upgraded schools, hospitals, roads, and sporting and other facilities for communities across the State.

The infrastructure pipeline will continue to create jobs, support favourable business conditions and drive consumer confidence.

As a result, the government can make record investments in the services that families, communities and businesses rely on, with funding to deliver more health workers in our hospitals and more teachers in our schools.

New initiatives like the Government's comprehensive housing affordability package, extended support for early childhood education and tax cuts will all ease cost of living pressures, and they are only made possible by the Government's strong fiscal and balance sheet management.

Looking further ahead, the 2017-18 Budget lays the groundwork for future prosperity with new initiatives to ensure the State's revenue is working for its citizens and Government expenditure is delivering real outcomes for the people of New South Wales.

## 1.2 Strong financial and economic management

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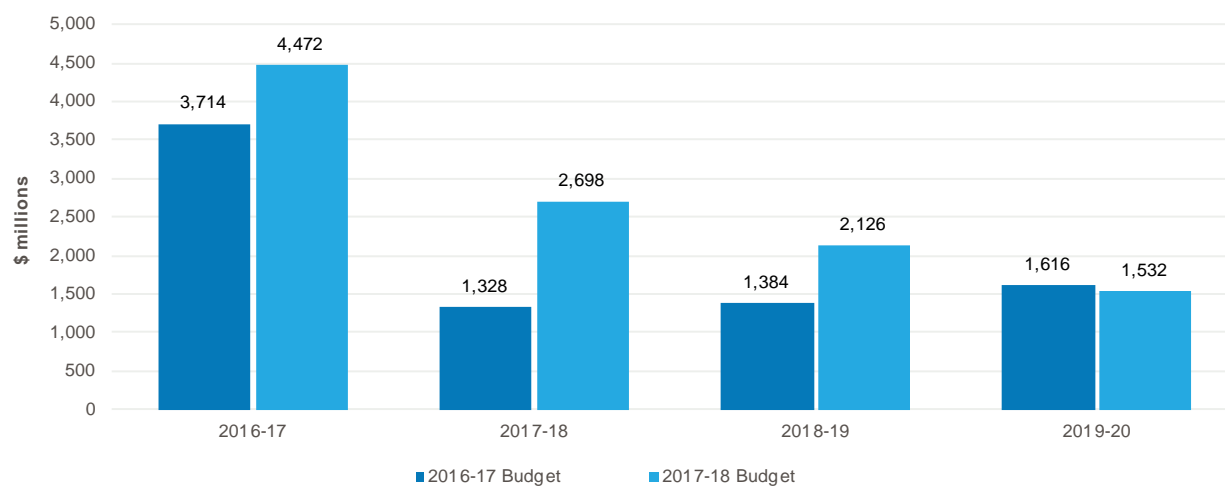
The State's strong budget and fiscal position is underpinned by responsible management of government expenditure. This Budget shows a continued focus on driving efficiency in service delivery as well as introducing a new approach to better target expenditure by tracking outcomes for citizens rather than just inputs.

The Government is forecasting healthy surpluses, with average surpluses of \$2.0 billion over the budget year and forward estimates (see Chart 1.1).

The 2016-17 Budget result is expected to be \$4.5 billion, \$0.8 billion higher than forecast at the 2016-17 Budget, with one-off revenues associated with asset recycling and higher than expected distributions from NSW Self Insurance Corporation driving the increase.

## Budget Highlights

Chart 1.1: Budget result: 2016-17 Budget compared to 2017-18 Budget



In 2017-18, general government revenues are estimated to be \$79.9 billion (see Table 1.1). Revenue is forecast to be higher over the forward estimates compared to the 2016-17 Budget, driven by higher transfer duty and dividends. Against this, GST revenue has been revised downwards and payroll tax has softened driven by softer labour market conditions.

Table 1.1: Key budget aggregates

	2016-17 Revised	2017-18 Budget	2018-19 Forward Estimates	2019-20 Forward Estimates	2020-21
Revenue (\$m)	78,008	79,885	80,224	82,471	83,770
Revenue growth (per cent pa)	4.7	2.4	0.4	2.8	1.6
Expenses (\$m)	73,537	77,186	78,098	80,939	82,270
Expense growth (per cent pa)	5.3	5.0	1.2	3.6	1.6
Budget Result (\$m)	4,472	2,698	2,126	1,532	1,500
Per cent of GSP	0.8	0.5	0.3	0.2	0.2

Expenses are forecast to be slightly higher across the forward estimates in comparison to the 2016-17 Budget, driven by additional measures to support housing affordability, as well as critical services such as education, health and out-of-home care. In 2017-18, expenses are expected to be \$77.2 billion (see Table 1.1), with the Government also investing to help all communities, including those in rural and regional New South Wales.

The Government has now successfully concluded the partial long-term lease of the NSW electricity network businesses, with the partial long-term lease of Endeavour Energy reflected for the first time in this Budget (see Box 1.1). This follows the inclusion of the Ausgrid lease in the 2016-17 Half-Yearly Review. The full \$2.2 billion in Asset Recycling Initiative payments from the Commonwealth Government are now included in the budget. The 2017-18 Budget also reflects the 35-year concession of Land and Property Information's titling and registry services.

Net debt is expected to be negative for the second consecutive year at 30 June 2017. As the proceeds of asset recycling are reinvested in infrastructure projects across the State, net debt will increase. Net debt is projected to reach 2.7 per cent of gross state product (GSP) by the end of the forward estimates.

**Box 1.1: Successful asset recycling fuels infrastructure investment and reduces net debt**

The successful long-term partial lease of Endeavour Energy and the granting of a concession of Land and Property Information’s titling and registry services will provide an additional \$5.4 billion for Restart NSW in 2016-17. Asset recycling has unlocked funding that will benefit communities across New South Wales.

On 11 May 2017, the Government entered into a binding agreement with an Australian-led consortium Advance Energy for the long-term lease of 50.4 per cent of Endeavour Energy.

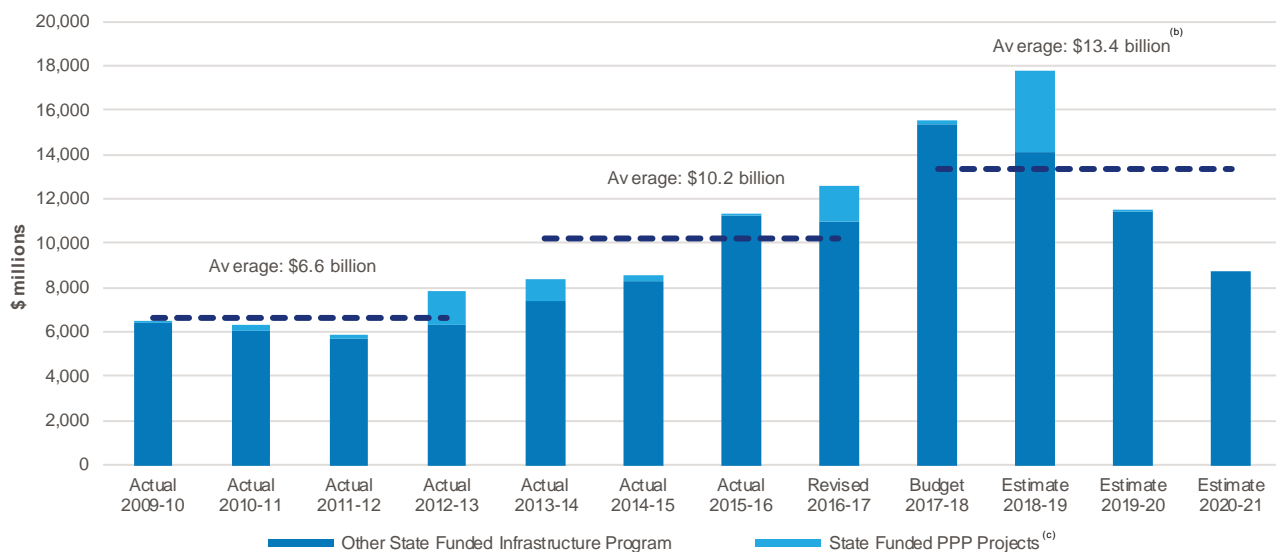
On 12 April 2017, the Government entered into a binding agreement with Australian Registry Investments Pty Ltd for the 35-year concession of Land and Property Information’s titling and registry services. The Government has placed rigorous contractual and legislative safeguards around the concession to ensure the continued security of property rights and data. It has also capped annual price rises at the Consumer Price Index for the full term of the concession.

The partial lease of Endeavour Energy and the concession of Land and Property Information’s titling and registry services have been reflected in this Budget for the first time boosting holdings of cash and financial assets and strengthening the net debt position (see Chart 1.3).

The 2017-18 Budget includes the final tranche of the Commonwealth Government Asset Recycling Initiative payments, in line with the expected completion of milestones. This will secure a total of \$2.2 billion from the Commonwealth Government to invest in infrastructure in New South Wales.

The Government’s successful asset recycling strategy has also boosted the position of the budget, contributing to strong surpluses in 2016-17 and 2017-18 through higher transfer duty receipts from asset recycling and Commonwealth Government Asset Recycling Initiative payments. This strong position is being reinvested through continuing record levels of infrastructure spending (see Chart 1.2), with a strong investment in local infrastructure – such as schools and hospitals – in communities across the State.

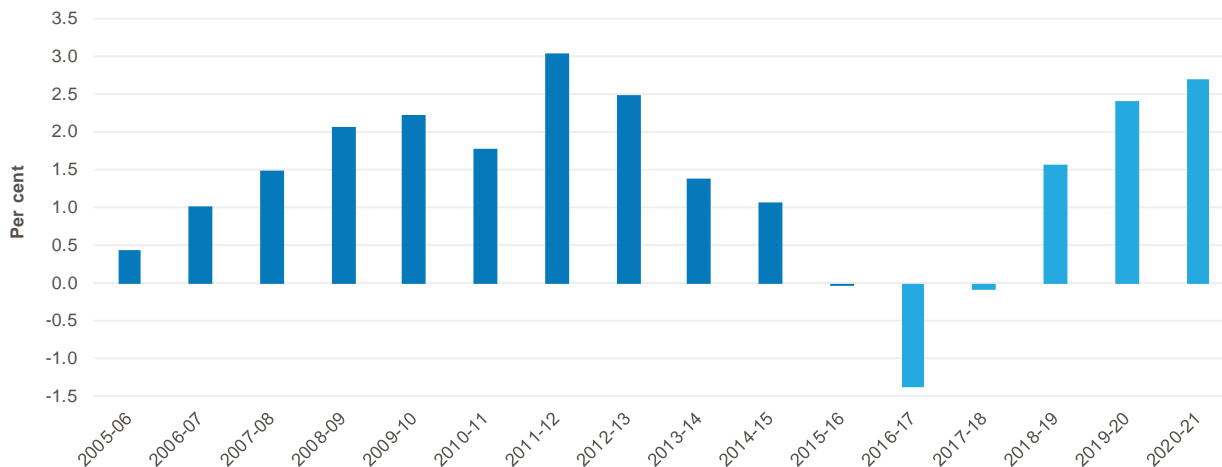
Chart 1.2: State-funded capital expenditure program<sup>(a)</sup>



(a) The State-funded capital program includes expenditure in the general government sector, public transport PNFCs, Darling Harbour Live, the Broken Hill Water Pipeline and the state-funded contribution to WestConnex.  
 (b) Does not include Restart NSW reservations being considered by Infrastructure NSW before commitments are made, which will result in significant increases in later years.  
 (c) PPP projects in 2018-19, including Sydney Metro Northwest, Northern Beaches Hospital and CBD and South East Light Rail.

The Government continues to invest in local infrastructure and major infrastructure projects such as WestConnex, with a \$72.7 billion program over the four years to 2020-21. The Government's infrastructure program will support the delivery of new and upgraded local schools and hospitals, roads and rail, and sporting and cultural institutions across New South Wales. These investments will create jobs, provide more efficient and reliable services and boost the economic prosperity of the State.

Chart 1.3: General government net debt at 30 June, as a percentage of GSP



The Government is committed to doing all that it can to maintain the State's triple-A credit rating, consistent with its fiscal strategy as outlined in the *Fiscal Responsibility Act 2012* (FRA).

The 2017-18 Budget looks ahead to future challenges to safeguard the State's fiscal position. The Government will continue to pursue innovation in the delivery of services and build systems and capability to measure the outcomes of expenditure and make better decisions about future investments.

The Government also welcomes the Productivity Commission *Inquiry into Horizontal Fiscal Equalisation*, and supports reform that moves towards a per capita distribution of GST. The current system for allocating GST penalises New South Wales for having the nation's strongest performing economy. In 2016-17, GST revenue is expected to be \$448.7 million lower than at the 2016-17 Budget, with a declining share of the national GST pool forecast over the four years to 2020-21. New South Wales' share of per capita GST will fall to 0.79 by the end of the forward estimates representing the State's lowest share of GST on record and leading to New South Wales' GST revenues declining in real terms.

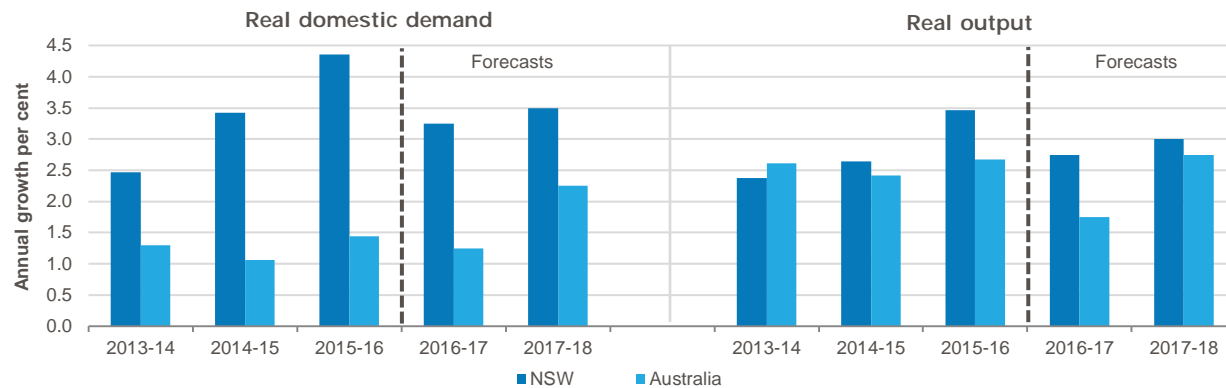
### 1.3 The NSW economy continues to outperform

The NSW economy continued to outperform the rest of Australia in 2016-17, with Gross State Product (GSP) estimated to have increased by an above-trend 2¾ per cent. This follows another exceptional result in 2015-16 when the NSW economy led the nation – growing by 3.5 per cent. The outlook has strengthened since the Half-Yearly Review (HYR) with above trend economic growth expected for each of the next three years.

Public and private investment has made a strong contribution to economic growth over the last year. Service exports are booming, with overseas visitors and international student enrolments expanding at double digit rates.

The outlook from 2017-18 has been upgraded by  $\frac{1}{4}$  of a percentage point in each year compared to the HYR, with GSP expected to grow by 3 per cent in 2017-18 and  $2\frac{3}{4}$  per cent for the following two years. This strong outlook reflects growing export demand, low interest rates, strong population growth and continued investment in public infrastructure.

Chart 1.4: NSW outperformance to continue in 2017-18



Source: ABS 5206.0, 5220.0 and Treasury

Dwelling investment is forecast to record its sixth consecutive year of growth in 2017-18, by far the longest period of expansion on record. With new Government initiatives to increase supply providing support, activity is expected to remain at high levels in 2018-19.

Ongoing growth in construction will be driven by business investment and public infrastructure. As the State's infrastructure and asset recycling program has ramped up, state-led infrastructure investment has become a key driver of economic growth. Public investment is expected to boost economic growth by an average of  $\frac{1}{2}$  a percentage point a year over the next two years – well above its historical contribution.

Employment is forecast to grow at an above-trend rate of  $1\frac{3}{4}$  per cent in 2017-18 and 2018-19, in line with strong growth in economic activity and forward indicators such as job advertisements and hiring intentions.

The NSW unemployment rate is forecast to remain a little under 5 per cent over the next two years, close to estimates of full employment. Wages growth will be moderated by excess labour capacity, largely in the rest of Australia, with above trend migration into New South Wales expected to slow any decline in the unemployment rate.

Inflation is expected to remain around  $2\frac{1}{4}$  per cent in 2017-18 and increase very gradually over the forward estimates. Higher global oil prices and a strengthening global economy are expected to contribute to some inflationary pressures, while competitive pressure in retail and modest wages growth will offset these to some degree.

## 1.4 Budget priorities

The strength of the 2017-18 Budget fiscal and economic position allows the Government to continue to invest in key frontline services and critical infrastructure to support local communities and help businesses to thrive.

### Strong investment in major infrastructure

The 2017-18 Budget delivers continuing record levels of investment in infrastructure across New South Wales, with \$72.7 billion committed over the next four years. This investment is enabled by the State's strong fiscal position, facilitated through delivery of surpluses and asset recycling.

The investment program includes hospital redevelopments to cater for increasing demand on the health system, the construction of new schools in response to expected growth in student enrolments (refer to Box 6.6), continued delivery of major transport projects, and significant funding for regional infrastructure to support growth and productivity in regional areas.

New infrastructure investments in this budget include:

- Record investment in education infrastructure, with \$4.6 billion allocated for capital works in schools and TAFE to 2020-21. This includes an additional \$2.2 billion for around 90 new and upgraded schools to be delivered over the next five years. This investment will be accompanied by the establishment of School Infrastructure NSW, a specialist unit responsible for the delivery and management of public school infrastructure across the State.
- Record investment in health infrastructure, with an additional \$2.8 billion invested over four years to 2020-21, bringing total health infrastructure investment to over \$7.7 billion. Major hospital redevelopments have been funded across the State including the Campbelltown Hospital Redevelopment, Randwick Hospital Campus reconfiguration and expansion, Tweed Hospital Redevelopment and Phase 1A and 1B of the Concord Hospital Upgrade.
- Substantial funding for regional projects including \$1 billion reserved in Restart for the Regional Growth: Economic Activation Fund to drive investment in regional New South Wales for the economic and social benefit of regional communities, as well as \$200 million for a Stronger Country Communities Fund and \$100 million for a Regional Cultural Fund.
- Targeted infrastructure to unlock housing supply including a \$1.6 billion contribution to priority projects, \$369 million allocated to councils for local infrastructure and an expansion of Special Infrastructure Contributions (an additional \$545 million in infrastructure funding over the next four years).
- Major transport projects, which continue to receive substantial funding. The third stage of WestConnex, the M4-M5 link, will receive \$7.2 billion in investment. Funding will continue for Sydney Metro City and South West (\$4.9 billion across four years) and Sydney Metro Northwest (\$4 billion) over four years.

## **World class healthcare and hospitals**

The Government is committed to delivering a world class health system, designed to keep up with the challenges of the future, including an ageing population, as well as protecting and improving the health and wellbeing of the residents of New South Wales.

This Budget will provide an additional \$1 billion of investment in health services in 2017-18 and an additional \$2.8 billion of capital investment over four years to 2020-21 including:

- an investment in over 4,500 additional nurses, midwives, doctors, allied health professionals and hospital support staff, going beyond the 2015 election commitment of 3,500 additional front line staff and delivering the commitment ahead of schedule
- investment in new and refurbished hospitals and health facilities including at Randwick Campus, Campbelltown (including enhanced paediatric services and mental health services), Tweed, Nepean, Maitland, Concord, Shellharbour, Hornsby, Wyong, Wagga Wagga, Coffs Harbour, Goulburn, Mudgee, Sydney Children's Hospital Network Westmead, Inverell and Cooma
- planning for future works at Rouse Hill, Liverpool, St George, Tumut and Griffith Hospitals, and a state-wide mental health capital works program
- improved ambulance services with full implementation of the Helicopter Retrieval Network Service, including provision of doctors on every flight with bases operating 24/7 at



Newcastle, Tamworth, Orange, Wollongong, Canberra, Lismore and Bankstown, allowing aircraft to respond to emergencies more effectively. An additional 50 paramedics will also be employed to meet critical health needs in rural and remote areas

- more capacity to address increasing demand for mental health services including an extra \$20 million for community based services, bringing the Government's recurrent investment in mental health reform to \$95 million per annum. Additional capital investment of \$22.5 million in mental health infrastructure will also include a mental health unit at Port Macquarie and enhancement of services at Campbelltown
- \$36 million for growth in emergency care services, allowing for an additional 28,000 emergency department attendances
- \$100 million for a new palliative care package (see Box 1.2).

### **Box 1.2: Investing in palliative care services**

The Government is committed to ensuring that everyone has access to quality palliative care services regardless of their geographic location, economic or social circumstances.

The Government has committed an additional \$100 million over four years to support:

- community-based Palliative Care services in Western Sydney, with an in-home 24 hour, seven day a week on-call specialist palliative care service
- 30 additional specialist palliative care nurses providing care in hospitals, homes and nursing homes
- six additional palliative care specialists in rural and regional areas
- two specialist positions to provide relief to other specialists in rural and regional areas
- on-the-job palliative care training for 300 nurses and allied health staff
- 300 scholarships for regional and rural staff to enhance palliative care skills
- medication management for palliative care patients through community pharmacy initiatives
- the development of comprehensive and integrated palliative care services, in line with community expectations and needs.

### **More and better schools for our community**

The Government is improving educational outcomes through the delivery of better teaching facilities and programs across New South Wales with:

- \$4.2 billion in new and existing capital works projects over the next four years to respond to rapid enrolment growth in government schools. As part of this total investment the Government will commence around 90 new capital works projects the next two years at an estimated total cost of \$2.2 billion, delivering more than 1,500 new classrooms
- a record \$747.4 million allocated over the next four years to address backlog maintenance in schools
- around 1,000 extra teachers to meet the demands of growing student numbers
- \$149 million in funding for education standards to support school curriculum assessment and teaching and regulatory standards in New South Wales schools
- \$46 million over four years to boost wireless access and internet capacity in around 900 regional schools under the Connecting Country Schools Program
- \$6.1 million over three years to support an anti-bullying strategy and resources for schools, students and parents.

## Public transport and local roads

The Government is continuing its significant investment to upgrade and expand public transport and local road infrastructure in 2017-18, including:

- \$1.8 billion for the maintenance of road, maritime and freight assets, including bridge rebuilding, pavement rehabilitation, traffic facilities maintenance, drainage upgrades, wharf maintenance and grants and subsidies to local councils
- \$1.5 billion to continue the New South Wales and Commonwealth Government funded Pacific Highway upgrade program, including continued construction between Woolgoolga and Ballina, completion of construction between the Oxley Highway and Kempsey and between Warrell Creek and Nambucca Heads, and planning for the future bypass of Coffs Harbour
- \$1.5 billion for bus services throughout New South Wales, including rural and regional bus services, school services and financing of 314 buses to replace older vehicles and 132 buses to provide capacity for growth services
- \$658 million to plan, develop and deliver enhancements to increase and improve rail services, including more express services for Western Sydney
- \$648 million for New South Wales and Commonwealth Government funded road upgrades to support Western Sydney Airport at Badgerys Creek, with completion of the first stage of Northern Road between Camden Valley Way and Peter Brock Drive and the first stage of Bringelly Road between Camden Valley Way and King Street. Construction is continuing on the remainder of Bringelly Road as well as further sections of The Northern Road between Narellan and Penrith
- \$264 million to reduce congestion on Sydney roads by addressing critical pinch points and commencing implementation of the Smart Motorways program on the M4 Motorway
- \$208 million for major road upgrades in regional New South Wales, including completing the Guanna Hill realignment on the Mitchell Highway, continuing construction of the additional bridge over the Clarence River at Grafton, commencing construction of the Ellerton Drive Extension at Queanbeyan, and continuing construction works for improving Local Roads' safety and congestion
- \$137 million for upgrades on the Princes Highway, including completion of the Princes Highway bypass of Berry and the new Burrill Lake Bridge, continuation of realignment works at Dignams Creek, starting construction of the Princes Highway upgrade between Berry and Bomaderry, and planning for replacement bridges at Nowra and Batemans Bay.

## 21st century infrastructure to connect our state

In 2017-18, the Government is continuing to deliver a number of major transport and road projects. Major transport investments currently underway or scheduled to substantially commence in 2017-18 include:

- \$3.2 billion to continue the development and delivery of WestConnex, comprising \$1 billion spending within Roads and Maritime Services for planning, pre-construction and construction and \$2.2 billion within Sydney Motorway Corporation
- \$2.8 billion in 2017-18 towards delivery of Sydney Metro, including \$1.1 billion to deliver a new rapid transit service for North West Sydney (Sydney Metro North West), scheduled to open in the first half of 2019. \$1.7 billion will also be invested this year for preconstruction activities and to begin early works of Stage 2 of Sydney Metro (Sydney Metro City and Southwest) which will link Chatswood with Bankstown and include a second harbour rail crossing
- \$463 million towards construction of NorthConnex

- \$127 million to continue with delivery of CBD and South East Light Rail that will run from Circular Quay along George Street to Moore Park, then on to Kingsford and Randwick (including a \$41 million contribution from the City of Sydney).

## Investing in our regional communities

Regional areas are an integral part of the New South Wales economy. The regions have experienced a significant uplift in employment growth over the last two years. Driving this growth, services are now making up a greater share of regional economies.

Investment in infrastructure in regional NSW is significant and growing. The Government has committed 30 per cent of all Restart NSW spending to regional and rural areas. Of the \$20 billion Rebuilding NSW plan, \$6 billion is targeted for regional areas.

New regional investment since the 2016-17 Budget includes:

- \$1 billion reserved through Restart NSW for the Regional Growth: Economic Activation Fund to support investment in:
  - Growing Local Economies: unlocking economic potential through investment in enabling infrastructure
  - Resources for Regions: addressing infrastructure requirements in mining communities
  - Connecting Country Communities: improving connectivity in regional NSW to drive economic growth
  - Regional Sports Infrastructure: supporting participation in regional sporting communities.
- repurposing \$1 billion of Restart NSW funding for the Safe and Secure Water Program, commencing in 2017-18 to provide a clean and reliable water supply to rural and regional New South Wales
- more than \$550 million in 2017-18 for investment in rural and regional hospitals and health facilities, including projects in Tweed, Goulburn, Coffs Harbour, Wagga Wagga, Macksville, Wyong, Mudgee, Maitland, Albury, Cooma, Inverell, Lismore and Shellharbour
- \$582.5 million for the Regional Road Freight Corridor program to create safer, more efficient road freight corridors
- \$341.3 million for Regional Growth Roads including \$153.1 million for the Pacific Highway Upgrade, Parsons Road to Ourimbah Street Stage 3B
- \$200 million over three years toward a Stronger Country Communities Fund. This fund will support community and public facilities such as playgrounds, bike paths and community halls. Every local government area within regional NSW will be eligible to receive funding under this initiative to enhance liveability and public amenity
- \$107.1 million for the Regional Water and Waste Water Backlog program to drought-proof regional communities by boosting essential water and waste water services, including the construction and upgrade of sewerage treatment and water treatment plants
- \$100 million over four years for a Regional Cultural Fund to support cultural and artistic activities in regional and rural communities to enhance quality of life and social amenity across New South Wales

- \$84 million for the Regional Freight Pinch Point and Safety program to improve key freight corridors
- \$38.6 million for Bridges for the Bush to replace or upgrade bridges in regional New South Wales, including Bruxner Highway and Tabulam Bridge.

### **Sports, arts and culture for locals and visitors**

The 2017-18 Budget continues to build on the State's vibrant sports, arts and cultural sector to support jobs, grow regional economies and ensure that New South Wales remains a great place to live, work and visit, including:

- \$300 million from Rebuilding NSW for a Regional Growth: Environment and Tourism Fund, investing in regional environment and tourism infrastructure to encourage and support regional tourism
- \$193 million for integrated tourism and events programs to grow New South Wales as a global tourism and event destination
- \$190 million over four years for the Opera House renewal program to ensure it is properly equipped to welcome as many people in as many ways as possible
- \$187 million over four years to rejuvenate the Walsh Bay Arts Precinct, an important piece of Sydney's waterfront heritage, providing a unique cultural and visitor experience
- \$160.5 million in 2017-18 to continue the construction of the Western Sydney Stadium in Parramatta, including comfortable seating for 30,000 people, five levels of corporate and function spaces, and advanced technology including Wi-Fi to provide for a world class spectator experience
- \$40 million towards the National Rugby League Centres of Excellence program to support investment in elite training and community facilities
- up to \$30 million to partner with the City of Parramatta to construct a new aquatic centre
- \$19 million (\$244 million total Government contribution) for the Sydney Modern project
- \$8.0 million (over four years from 2017-18) to double grants to surf lifesaving clubs.

#### **Box 1.3 Active Kids Rebate**

From 1 January 2018, families in New South Wales will be eligible to receive up to \$100 for every child enrolled in school to help meet the cost of their sport and fitness activities each year, by covering expenses such as sport registration and learn-to-swim lessons, under the NSW Government's new Active Kids Rebate.

Getting kids involved in community sport can be a real cost pressure for families – registration and membership fees all add up – so the Government is taking action to help families with children in school to meet the cost.

Local sporting clubs are the heart and soul of communities across New South Wales, and this initiative will give more children the opportunity to get active, have fun, and get involved in their own local communities through sport and fitness activities.

Encouraging participation in sport and fitness is an important way to reduce young peoples' risk of obesity and help them grow into physically active adults. This initiative will support a key Premier's Priority of reducing overweight and obesity rates of children by five per cent over 10 years.

## Helping families with the cost of living

The Government's 2017-18 Budget is easing the cost of living for families through:

- \$207 million over four years to introduce the Active Kids Rebate, to help meet the cost of getting their kids into sport and fitness activities (refer to Box 1.3)
- a comprehensive plan to tackle housing affordability, with a focus on giving first home buyers the best opportunity to enter the market, increasing the supply of reasonably priced housing and accelerating infrastructure to support growing communities (refer to Box 1.4)
- \$257 million in energy rebates to assist approximately 900,000 New South Wales customers with the cost of energy bills. Rebates include the Low Income Household Rebate, Family Energy Rebate, Gas Rebate, Life Support Rebate, Medical Energy Rebate and Energy Accounts Payment Assistance
- allocation of an additional \$217.3 million over four years to deliver on the Government's commitment to provide universal access to early childhood education, ensuring that affordability is not a barrier for families with young children
- Opal fare increases limited to CPI (2.4 per cent) from 3 July 2017, to keep public transport affordable for commuters in 2017-18
- enhancing regulatory oversight for compulsory third party motor vehicle insurance, expected to reduce premiums by an estimated \$100 a year.

### Box 1.4: Boosting housing affordability

The NSW Government has launched a comprehensive package to assist first home buyers to get into the market. The strategy includes measures to boost supply and deliver essential state and local infrastructure critical to new housing such as roads, utilities and schools. Key elements of the package include:

#### Giving first home buyers a better chance

- transfer duty abolished for first home buyers on new and existing homes up to \$650,000 and stamp duty reductions for properties between \$650,000 and \$800,000
- \$10,000 grants for first home buyers purchasing new homes up to \$600,000
- targeting off the plan transfer duty deferrals to owner-occupiers
- insurance duty on lenders' mortgage insurance will be abolished
- introduction of a First Home Builder Grant of \$10,000 for people who build their first home on vacant land, where the total value of the house and land does not exceed \$750,000.

#### Increasing housing supply

- the Government will ensure that the Greater Sydney Commission's final District Plans contain strong housing supply and housing diversity targets for each Local Government Area
- up to \$2.5 million provided to priority councils to fast track updates of Local Environment Plans that put District Plans into practice allowing more housing to be supplied in the right areas
- rezoning for Priority Precincts and Priority Growth areas will be accelerated as an interim step to deliver 30,000 additional dwellings
- the Government will consult on greater use of independent panels to determine more local development applications to speed up approvals
- complying development rules will be simplified in greenfield areas and medium density housing.

**Box 1.4: Boosting housing affordability (cont)****Accelerating infrastructure to support growing communities**

- Up to \$1.6 billion towards infrastructure aimed at unlocking housing supply
- the Government will support Local Councils with up to \$500 million of concessional loans to support the delivery of local infrastructure
- an allocation of \$369 million will be made to councils for local infrastructure under the Local Infrastructure Growth Scheme
- special infrastructure contributions will be expanded to 10 new areas to provide an additional \$545 million in infrastructure funding over the next four years.

**Making NSW better for jobs and small business**

Our state has become the most confident in the nation when it comes to starting and growing a business (see Box 1.5). The Government's 2017-18 Budget provides a range of measures to continue to support businesses to invest, grow and innovate, including:

- a range of insurance tax cuts for small business from 1 January 2018 to reduce the cost of doing business, protect against under insurance and support jobs growth in New South Wales
- providing \$96 million in 2017-18 to support high potential businesses through Jobs for NSW, as part of the Government's continued commitment of \$190 million to support jobs, including:
  - \$25 million to launch a co-investment vehicle with the private sector to make equity investments in growth companies across New South Wales
  - \$20 million to develop a site in the Sydney CBD where start-up incubators and accelerators will co-locate to foster collaboration and create jobs.
- funding of \$10 million to lead industry development activities that drive growth and global competitiveness. This includes collaborative programs with industry and universities, industry capability building, leveraging the benefits of a new airport in Western Sydney, establishment of Defence NSW, promotion and support of key industries and land activation through strategic project delivery
- investing \$9.4 million to make it easier for small businesses to be established, through an online portal and reduction in red tape
- allocating \$7.5 million for the New South Wales Government's Business Connect program, funding more than 60 advisors across New South Wales and the business bus to help small businesses start and grow
- \$3.6 million in 2017-18 to support and grow small businesses in New South Wales including the provision of small business advocacy services and dispute resolution services.

**Box 1.5: Making NSW the most competitive place to do business**

The NSW Government is committed to enhancing our State's reputation as the best place in Australia to do business, by reducing the tax burden for small and medium businesses, cutting red tape, and creating even better conditions for businesses to thrive.

In this Budget the Government will ease the tax burden on small businesses, abolishing inefficient taxes on insurance products that are a necessary part of doing business in New South Wales.

Initiatives like the Easy to Do Business program – which reduces the time it takes to start a small business by streamlining the regulatory application process – reduce start-up costs and ease the regulatory burden. In this Budget the Government has increased funding for the Easy to Do Business program, bringing it to more local government areas and more businesses across New South Wales.

A new strategy to make New South Wales the easiest place to start and grow a business will also be adopted to further enhance the State's favourable business conditions, attract more investment, and create new jobs for the people of New South Wales.

**A helping hand for those who need it**

Our state's success means we can take better care of those who need it most. The 2017-18 Budget provides additional support for vital social and government services, including:

- \$148 million over four years to support high needs children in Out-of-Home Care (OOHC)
- \$63.2 million over four years to improve child protection case work practice and address critical capacity gaps, including additional caseworkers, case managers, and case support workers
- an additional \$20.4 million over four years to support homelessness initiatives that provide access to additional transitional accommodation units and support packages for rough sleepers
- additional support for disadvantaged three-year olds to access early childhood education under Start Strong, recognising that disadvantaged children stand to gain the most from early childhood education.

**Protecting our communities**

The Government is undertaking an ambitious reform program to make our communities safer, with more effective offender management and fairer and more streamlined legal and court processes. Key initiatives in 2017-18 include:

- \$178 million (over two years) to accelerate enhancement of the communications services used by frontline agency staff in the delivery of emergency, law enforcement and essential community services
- \$127 million for construction of new 400 bed Rapid Build Prisons at both Cessnock and Wellington
- \$62 million to strengthen offender management and continue delivery of programs to support the State Priority to reduce adult reoffending rates
- \$51 million to continue implementation of the four year \$100 million Policing for Tomorrow Technology Fund, to provide the NSW Police Force with state-of-the-art technology to fight crime and enhance officer mobility
- \$47 million over three years to combat radicalisation in the NSW correctional system

## Budget Highlights

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- \$27 million to deliver early guilty pleas reform that will reduce stress for victims, minimise court delays and allow police to return to frontline duties faster
- \$38 million over four years to enhance the State's bush firefighting capability by engaging air tankers in fire season
- \$15 million to continue strengthening the NSW Police Force air support and counter terrorism capability.



## 2. FISCAL STRATEGY AND OUTLOOK

- The Government's disciplined fiscal strategy continues to deliver strong budget results and balance sheet reforms. This strategy is driven by the State's commitment to maintain its triple-A credit rating and be prepared for the challenges of the future.
- The 2016-17 budget result is an expected surplus of \$4.5 billion, which reflects a temporary boost in revenues from the State's asset recycling program. The Budget forecasts a surplus of \$2.7 billion in 2017-18 and average surpluses of \$2.0 billion across the budget and forward estimate years.
- Along with asset recycling and modest borrowings over the budget and forward estimates, these ongoing strong surpluses support the State's infrastructure investment of \$72.7 billion over four years.
- To safeguard the State's long-term fiscal sustainability, the Government is controlling expense growth, managing public sector wages and driving efficiency across the public sector to support reinvestment in the delivery of frontline services.
- The outlook for revenue is challenging. Total revenue growth over the four years to 2020-21 averages 1.8 per cent per annum – which is softer relative to previous years due to a flattening of GST revenues and declining National Partnership Payments from the Commonwealth Government. National Partnership Payments are expected to fall to around a quarter of their 2016-17 value by 2020-21.
- For the second consecutive year, the government will end the year with negative net debt – projected to be -\$7.8 billion at 30 June 2017.
- Net worth is forecast to reach more than one quarter of a trillion dollars by 30 June 2019, the first time this has been achieved by an Australian state government.

### 2.1 Introduction

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The 2017-18 Budget continues the Government's record of strong economic and financial management by delivering budget surpluses, a \$72.7 billion infrastructure program and record low net debt.

The Government is forecasting a surplus of \$4.5 billion in 2016-17 and average surpluses of \$2.0 billion over the budget year and forward estimates.

The 2016-17 surplus is supported by one-off revenues from asset recycling transactions.

Revenue growth over the budget and forward estimates continues to be supported by a strong housing sector, with growth in transfer duty and land tax. GST revenues from the Commonwealth Government are lower, with New South Wales' share of GST falling to record lows across the forward estimates as a result of its strong economic performance.

Expenses in 2016-17 are largely unchanged to what was forecast in the 2016-17 Half-Yearly Review. Expenses are expected to increase moderately each year over the budget and forward estimates as the Government invests in essential services including teachers, police, nurses, palliative care and family and community services case workers.

The successful completion of the lease of the NSW electricity network businesses and the concession of Land and Property Information titling and registry services has produced a negative net debt position for the second consecutive year. The State is estimated to have net debt of -\$7.8 billion at 30 June 2017, the lowest since comparable records began in 1996-97.

Table 2.1 sets out the key budget aggregates for the general government sector from 2015-16 to 2020-21.

Table 2.1. General government sector key budget aggregates

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
Revenue (\$m)	74,532	78,008	79,885	80,224	82,471	83,770
Revenue growth (per cent pa)	7.1	4.7	2.4	0.4	2.8	1.6
Expenses (\$m)	69,867	73,537	77,186	78,098	80,939	82,270
Expense growth (per cent pa)	4.7	5.3	5.0	1.2	3.6	1.6
Budget Result (\$m)	4,664	4,472	2,698	2,126	1,532	1,500
Per cent of GSP	0.9	0.8	0.5	0.3	0.2	0.2
Net Capital Expenditure (\$m)	9,351	10,943	14,515	16,491	10,707	7,939
Per cent of GSP	1.7	1.9	2.4	2.6	1.6	1.2
Net Lending/(Borrowing) Result (\$m)	392	1,769	(6,447)	(8,682)	(3,742)	(950)
Per cent of GSP	0.1	0.3	(1.1)	(1.4)	(0.6)	(0.1)
Net Debt (\$m)	(57)	(7,788)	(521)	9,864	15,850	18,583
Per cent of GSP	(0.0)	(1.4)	(0.1)	1.6	2.4	2.7

## 2.2 Budget position and outlook

### Budget result

The 2016-17 budget result is expected to be \$4.5 billion, \$0.8 billion higher than in the 2016-17 Budget, primarily due to one-off revenues associated with transactions (including transfer duty and asset recycling initiative payments) and higher than expected distributions from SICorp driven by investment earnings. Against this, GST revenue and Commonwealth National Partnership payments have fallen.

The 2017-18 budget result is higher than forecast at the 2016-17 Budget, primarily due to a stronger outlook for transfer duty and increased dividends from State Owned Corporations. This improved revenue outlook is also driving the increases in surpluses across the forward estimates relative to the 2016-17 Budget.

Table 2.2 provides a reconciliation of the changes in the budget estimates between the 2016-17 Budget, 2016-17 Half-Yearly Review and the 2017-18 Budget. The table separates the impact of Government policy decisions from parameter and other variations. The latter reflect the impact of changing economic conditions, budget assumptions, grants from the Commonwealth Government and other accounting adjustments.

Between the 2016-17 Half-Yearly Review and the 2017-18 Budget, revenue has improved through higher transfer duty receipts, new revenue policy measures (including an increase to the foreign investor surcharge for property transfer duty and land tax) and one-off revenues associated with transactions. There has also been a moderate increase in expenses to fund key services, which have been partially offset by new procurement savings measures and an increased efficiency dividend to help ensure that government continues to deliver value for money services.

New South Wales' strong performing economy and revenue position sees the State penalised under the current system for allocating GST. In comparison to the 2016-17 Budget, GST revenue has been revised down by \$1.4 billion over the four years to 2019-20, with New South Wales' share of GST receipts reaching a historic low. New South Wales strongly advocates reform to horizontal fiscal equalisation that would see the distribution of GST move closer to an equal per capita basis (see Chapter 5).

Table 2.2. Reconciliation of 2017-18 Budget to 2016-17 Budget<sup>(a)</sup>

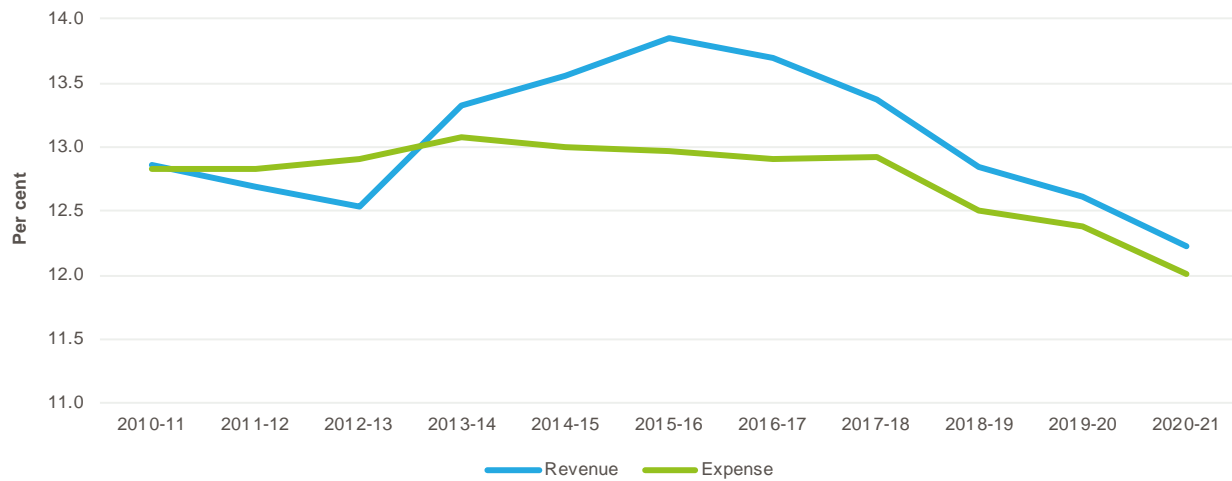
	2016-17 Revised \$m	2017-18 Budget \$m	2018-19 Forward Estimates \$m	2019-20 \$m
<b>2016-17 Budget</b>	<b>3,714</b>	<b>1,328</b>	<b>1,384</b>	<b>1,616</b>
<b>Changes from 2016-17 Budget to 2016-17 Half-Yearly Review</b>				
Policy measures				
Revenues	15	1,161	443	319
Expenses	(243)	(545)	(465)	(331)
<b>Total policy measures</b>	<b>(228)</b>	<b>616</b>	<b>(22)</b>	<b>(12)</b>
Parameter and other budget variations				
Revenues	608	(351)	(499)	(916)
Expenses	(121)	(95)	158	210
<b>Total of parameter and other budget variations</b>	<b>487</b>	<b>(446)</b>	<b>(341)</b>	<b>(706)</b>
<b>Total policy measures and parameter and other budget variation</b>	<b>259</b>	<b>170</b>	<b>(363)</b>	<b>(718)</b>
<b>2016-17 Half-Yearly Review</b>	<b>3,973</b>	<b>1,497</b>	<b>1,022</b>	<b>898</b>
<b>Changes from 2016-17 Half-Yearly Review to 2017-18 Budget Result</b>				
Policy measures				
Revenues	...	274	(128)	(213)
Expenses	(34)	(750)	(556)	(265)
<b>Total policy measures</b>	<b>(34)</b>	<b>(476)</b>	<b>(684)</b>	<b>(478)</b>
Parameter and other budget variations				
Revenues	208	1,492	2,548	2,263
Expenses	325	185	(759)	(1,151)
<b>Total of parameter and other budget variations</b>	<b>533</b>	<b>1,677</b>	<b>1,789</b>	<b>1,112</b>
<b>Total policy measures and parameter and other budget variation</b>	<b>499</b>	<b>1,201</b>	<b>1,105</b>	<b>634</b>
<b>2017-18 Budget Result</b>	<b>4,472</b>	<b>2,698</b>	<b>2,126</b>	<b>1,532</b>

(a) All totals show budget result impacts.

## Revenue and expense outlook

Chart 2.1 shows general government revenues and expenses as a percentage of GSP. Both revenue and expense growth are projected to fall as a share of GSP over the forward estimates, with expenses remaining below revenue as a share of GSP.

Chart 2.1. General government revenues and expenses as a percentage of GSP



Revenue as a share of GSP temporarily increased over 2013-14 to 2017-18 due to historically low interest rates, record housing completions and population growth that supported strong transfer duty revenue growth, as well as one-off revenues associated with asset recycling transactions. Revenue as a share of GSP peaked in 2015-16 and remains above the average of 13.1 per cent until 2018-19.

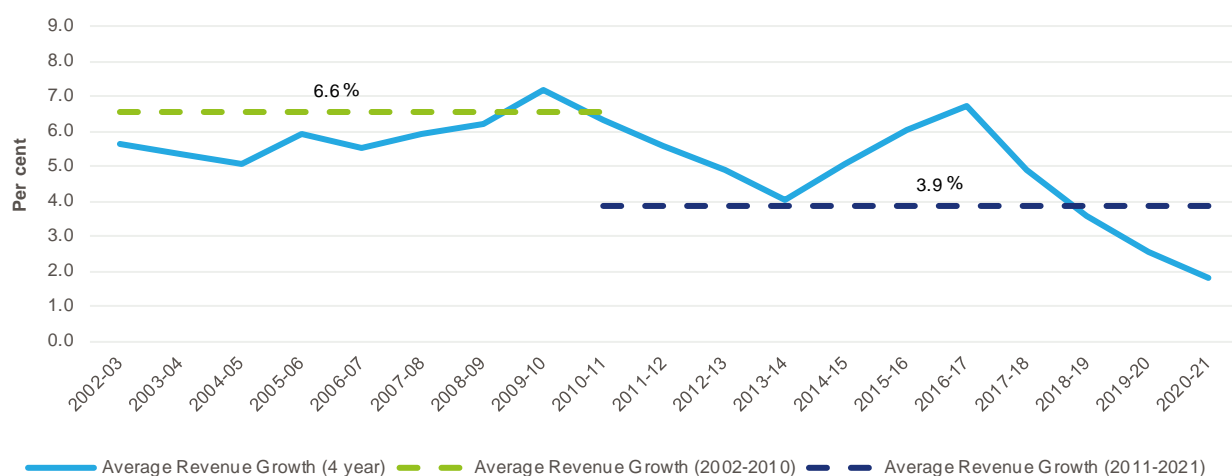
Over the budget and forward estimates, revenue is forecast to decline as a share of GSP as property transfer duty inflows return to trend, GST growth falls to record lows and the conclusion of the Government’s poles and wires asset recycling program.

If GST relativities had been fixed at 2016-17 levels, New South Wales’ annual average revenue growth would be 0.8 per cent higher over the four years to 2021.

Chart 2.2 shows a similar decline in four-year average revenue growth over the forward estimates.

Revenue trends are detailed in Chapter 5 of this *Budget Statement*.

Chart 2.2. Four year average revenue growth <sup>(a)</sup>



(a) Four year average per cent change to indicated year.

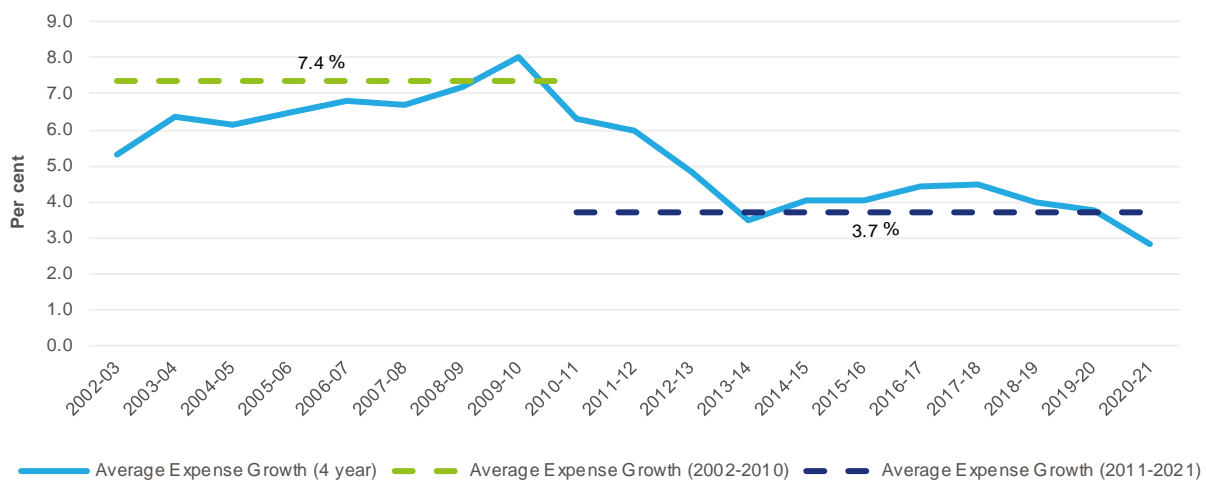
Expenses as a share of GSP are expected to fall over the forward estimates years (Chart 2.1), as the Government maintains control on expenses to match falling revenues.

The 2017-18 Budget includes a range of new expense measures for further investments in critical education, health, public safety and community services, cultural infrastructure, and the development of regional communities.

The Budget also includes a range of savings and offset measures to improve the efficiency of government spending and manage expense growth. These measures are in addition to previous strategies to manage expense growth, including moderating growth in public sector wages (see Chapter 6 of this *Budget Statement*).

Expense growth is expected to average 2.8 per cent over the four years to 2020-21, which is less than the average expense growth over the decade to 2020-21. Chart 2.3 shows four year average expense growth from 2002-03 to 2020-21.

Chart 2.3. Four year average expense growth <sup>(a)</sup>



(a) Four year average per cent change to indicated year.

## 2.3 Fiscal strategy

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

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

The 2017-18 Budget delivers on the Government's fiscal strategy by delivering budget surpluses across the forward estimates and ensuring expense growth is sustainable and below long-term average revenue growth.

This Budget continues to deliver an unprecedented infrastructure program, utilising the Government's successful asset recycling strategy, cash and liquidity reforms, and improved debt management. The Government remains committed to maintaining credit metrics consistent with a triple-A credit rating (see Box 2.1).

**Box 2.1: Securing the State's triple-A credit rating**

Both major international credit ratings agencies, Moody's and Standard and Poor's, currently rate New South Wales as triple-A, which is the highest possible credit rating.

New South Wales' triple-A rating signals to investors that the State is a good place to invest. The triple-A rating reflects the strong financial position of the State and means that investors in the State's debt can be confident in the Government's management of the State's fiscal position and in the strength of the State's balance sheet. It is also a signal that the NSW economy is broadly based and resilient to shocks.

These factors make jurisdictions with a triple-A rating attractive to investors. They also mean that jurisdictions with a triple-A rating are generally able to borrow at lower interest rates than other jurisdictions with a weaker credit rating.

In Australia, the credit rating of a state government also reflects the rating agencies' assessments of the strength of the Commonwealth Government. Ratings agencies take this into account because a large portion of state revenues come from the Commonwealth Government through GST and other payments. The ratings agencies assess that state ratings are effectively capped by the Commonwealth Government's credit rating.

Both Moody's and Standard & Poor's reaffirmed the State's triple-A credit rating in 2016 following the 2016-17 Budget. However New South Wales' outlook was changed by Standard & Poor's to negative in late July 2016 as a direct result of the same change being made to the Commonwealth Government's outlook.

In the event of a Commonwealth Government downgrade, New South Wales is committed to retaining a fiscal position that is consistent with a standalone triple-A credit rating. This will ensure the Government maintains its focus on the principles of sound long-term financial management and the continued delivery of sustainable services and infrastructure.

## 2.4 Asset recycling and the balance sheet

The Government concluded its successful poles and wires divestment program with the long-term partial lease of Endeavour Energy announced in May 2017. This followed the Government's April 2017 announcement of the successful concession of Land and Property Information's titling and registry services, with a tight regulatory framework and contractual safeguards to ensure the continued security of property rights and data.

The 2017-18 Budget includes the impact of the recently completed transactions and the full \$2.2 billion associated with the Asset Recycling Initiative National Partnership Agreement with the Commonwealth Government.

With the partial lease of Endeavour Energy, the concession of Land and Property Information and the partial lease of Ausgrid (reflected in the 2016-17 Half-Yearly Review), holdings of cash have increased and net debt has fallen significantly. Net debt is now estimated to be -\$7.8 billion at 30 June 2017. The impact of TransGrid was previously reflected in the 2015-16 Half-Yearly Review.

Net debt is expected to rise as the proceeds of transactions are reinvested in infrastructure, reaching \$18.6 billion by 30 June 2021, representing 2.7 per cent of GSP.

A successful divestment of at least a 51 per cent share of Sydney Motorway Corporation (the company delivering WestConnex) would further improve the State's balance sheet position (see Box 2.2).

The State's net worth is forecast to grow over the budget and forward estimates, driven by financial management reforms, active financial liability management and record levels of infrastructure investment. New South Wales is forecast to become the first Australian state government with a net worth of more than one quarter of a trillion dollars by 30 June 2019. Net worth rises from \$137.7 billion at 30 June 2012 to an estimated \$237.9 billion at 30 June 2018 and \$273.2 billion at 30 June 2021, representing an increase of 98.3 per cent from 2012 to 2021.

Net debt and net worth are explored further in Chapter 7 of this *Budget Statement*.

### **Box 2.2: Easing congestion across Western Sydney**

On 12 May 2017, the Government announced it will proceed with the sale of at least a 51 per cent stake in Sydney Motorway Corporation (SMC), to help fund the final stage of WestConnex. The Government expects this transaction to receive substantial interest from local and international investors.

SMC was established by the State to finance WestConnex by incorporating an initial NSW Government investment alongside the Commonwealth Government and private sector debt supported by toll revenue. This financing strategy was established to enable the State to recycle its equity investment in SMC and effectively use the sale proceeds from the initial stages to help fund the final stage of WestConnex.

The 2017-18 Budget recognises the funding for the final stage of WestConnex. However, in line with usual budget practice, the 2017-18 Budget does not reflect the divestment of at least a 51 per cent stake in SMC as it has not yet been completed.

## **2.5 Long-term fiscal gap**

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

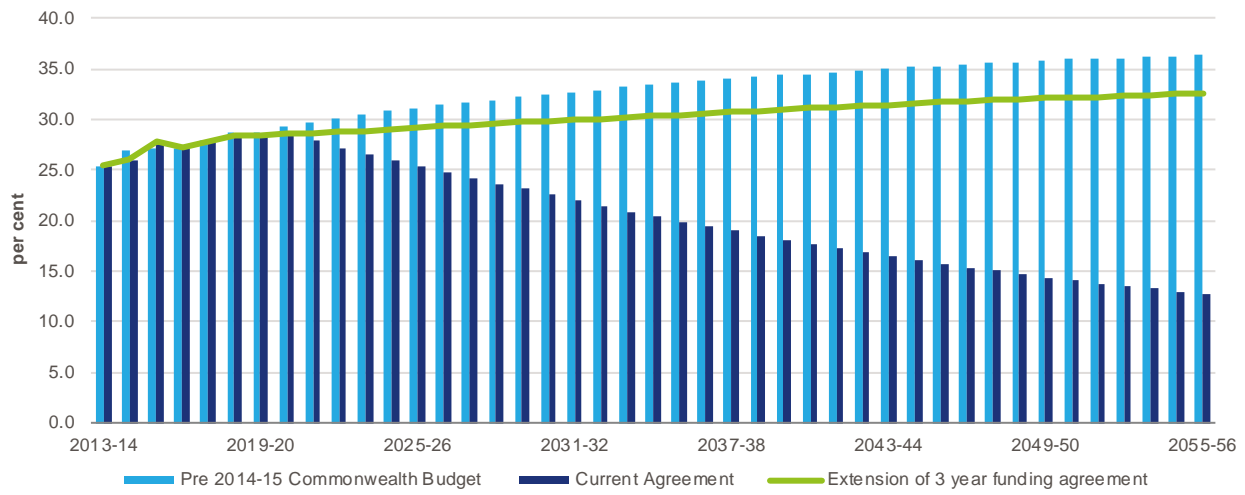
The fiscal gap is the change in the general government primary balance as a share of gross state product, currently over the period 2014-15 to 2055-56. The primary balance is revenues less expenditures, including net capital expenditure, but excluding interest transactions.

The 2016 *Intergenerational Report* highlighted the impact of the ageing population on the demand for government services and infrastructure. If current trends were to continue, a widening fiscal gap will emerge between state government revenues and service and infrastructure requirements. At the 2016-17 Budget, this gap was projected to be 3.4 per cent of GSP by 2055-56.

The NSW fiscal gap has marginally increased by 0.1 per cent as a result of measures in this Budget, and is now projected to be around 3.5 per cent of GSP by 2055-56. The change is attributable to slightly lower revenue growth, as well as small increases in both expenses and capital expenditure.

Just under two thirds of this fiscal gap is accounted for by health, largely due to projected declines in the Commonwealth funding share from 27.3 per cent currently, to 12.7 per cent by 2055-56 (Chart 2.4). This contrasts with the pre-2014-15 Budget health funding arrangement, where the Commonwealth funding share was projected to increase to 36.4 per cent by 2055-56.

Chart 2.4. Declining Commonwealth health funding share



While negotiations around future Commonwealth health funding continue, if the current temporary agreement is not extended beyond 2019-20, Commonwealth health funding will revert to growth in population plus CPI and not keep up with expenses. If the current three year agreement is extended, the Commonwealth share of health funding is projected to increase to 32.5 per cent by 2055-56.



### 3. THE ECONOMY

- The NSW economy outperformed the nation in 2016-17 and is set to do so again in 2017-18, with above-trend economic growth forecast over the next three years.
- In 2017-18, Gross State Product (GSP) is forecast to rise by 3 per cent. Above-trend growth of 2¾ per cent is anticipated in 2018-19 and 2019-20. The new GSP outlook is a ¼ of a percentage point stronger in all years than was expected at the 2016-17 Half-Yearly Review (HYR).
- Business investment, public infrastructure and dwelling construction are all showing significant strength, lifting construction activity and employment to record levels. The State's \$72.7 billion, four-year infrastructure program is expected to boost economic growth by an average of ½ a percentage point a year over the next two years.
- The labour market is forecast to improve in line with the strength in economic activity, with above-trend employment growth of 1¾ per cent forecast for 2017-18 and 2018-19. The unemployment rate is expected to remain low at slightly under 5 per cent over the next two years.
- Regional NSW is benefiting from rising demand for services which has driven employment growth of 4.9 per cent since April 2015, the strongest regional employment growth of all states.
- Inflation is expected to remain around 2¼ per cent in 2017-18 and increase very gradually over the forward estimates.

#### 3.1 New South Wales economic outlook

The NSW economy continued to outperform the nation in 2016-17, with GSP estimated to have increased by an above-trend 2¾ per cent (see Table 3.1).

Table 3.1: Economic performance and outlook <sup>(a)1</sup>

New South Wales	2015-16 Outcomes	2016-17 Forecasts	2017-18 Forecasts	2018-19 Forecasts	2019-20 Projections	2020-21 Projections
Real state final demand	4.4	3¼	3½	2¾	-	-
Real gross state product	3.5	2¾	3	2¾	2¾	2½
Employment	3.8	¾	1¾	1¾	1½	1¼
Unemployment rate <sup>(b)</sup>	5.4	5	5	5	4¾	4¾
Sydney consumer price index <sup>(c)</sup>	1.5	2	2¼	2¼	2½	2½
Wage price index	2.1	2	2¼	2½	2¾	3
Nominal gross state product	4.9	5¾	4¾	4½	4¾	4¾
Population	1.4	1½	1½	1½	1½	1½

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

(b) Year average, per cent

(c) 2015-16 to 2020-21 includes a ¼ percentage point contribution from tobacco excise increases

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

<sup>1</sup> Economic forecasts are based on data available at the time they were prepared, which includes results to June 2016 for GSP, to the March quarter 2017 for state final demand, the wage price index and the consumer price index, to the September quarter 2016 for population and to April 2017 for the labour force.

Investment—both public and private—has been the bedrock of economic growth over the last year. Business investment, public infrastructure and dwelling construction are all exhibiting strength, lifting construction activity and employment in the State to record levels. Service exports are also contributing strongly to economic growth, underpinned by overseas visitors and international student enrolments expanding at double digit rates.

The NSW economy will continue to benefit from low interest rates, a lower Australian dollar, strong demand from Asia, above-trend population growth and a historically large infrastructure and residential construction pipeline. The key drivers of growth in the near term are forecast to be overseas exports, dwelling investment and public capital expenditure. Further out, business investment, household consumption and interstate trade are expected to become stronger drivers of growth.

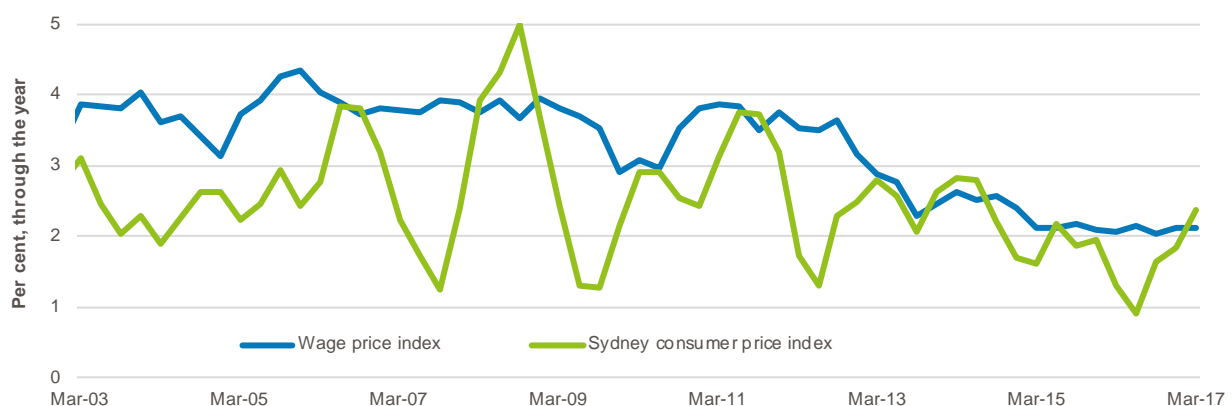
Indicators point to solid **labour market** conditions, with the unemployment rate remaining close to estimates of full employment in 2016-17. Productivity growth has lifted strongly through 2016-17, suggesting that firms have turned their focus to improving efficiency.

Strong economic activity and solid forward indicators of labour demand suggest that employment growth should accelerate through 2017-18. Strong activity in the labour-intensive services sector, which appears to be attracting a larger share of household consumption and exports, should also support a pickup in employment growth.

Over the forward estimates, the unemployment rate is expected to gradually drift down to 4¾ per cent, which is the estimate of full employment. The decline will be gradual despite strong employment growth. This is due to spare capacity in the NSW labour market as indicated by measures such as underemployment, average hours worked, wages growth and workforce participation.

It also reflects the relative strength of the NSW labour market, which is expected to continue to attract above-trend inward migration, drawing on significant interstate and global excess capacity. Strong levels of overseas and interstate migration are expected to result in average annual population growth of around 1½ per cent over the next four years—½ a percentage point above the long-run average.

Chart 3.1: Modest wages growth and inflation pressures



Source: ABS 6401.0, 6345.0 and Treasury

Spare labour market capacity has subdued **wages growth** over recent years, with slow wage growth observed across Australia and other advanced economies around the globe. This likely reflects factors beyond spare capacity, such as strong competition, low inflation and modest productivity growth also weighing on wages (see Chart 3.1).

Wage Price Index (WPI) growth is expected to remain soft in 2017-18 at 2¼ per cent, only slightly up from its current rate of 2.1 per cent through the year to the March quarter 2017. The WPI is forecast to gradually increase to 2½ per cent in 2018-19, as some of the factors weighing on wages slowly dissipate. Stronger wages growth is expected to be led by sectors such as construction and professional services, which are the most exposed to the current construction boom.

**Inflationary pressures** in Sydney and across Australia have been particularly weak over the past two years, held down by strong retail competition, spare capacity in labour and product markets, a generally soft global inflationary environment, and until recently, falling petrol prices.

There are signs that inflation will increase very gradually over the next few years. Higher global commodity prices (particularly for oil) and a strengthening global economy are expected to contribute to some inflationary pressures. A lower Australian dollar, consistent with falling terms of trade, is also expected to put some upward pressure on inflation through its impact on the price of imported goods.

Rising housing construction costs are likely to feed into inflation, with tentative signs of cost escalation of key inputs and rising construction wages. Added to this, price determinations by the Australian Energy Regulator and supply constraints will feed utility price pressures.

Notwithstanding these upward pressures, inflation is expected to remain within the Reserve Bank of Australia's target range due to modest wages growth and competitive pressures—particularly in the retail sector. Growth in the Sydney consumer price index is forecast to gradually move higher to 2¼ per cent in 2017-18 and 2018-19, and 2½ per cent in the out years.

**Interstate exports** have been weak in recent years in line with the slowdown in demand from the rest of Australia. The unwinding of the mining investment boom is expected to continue to weigh on interstate exports over the next year, before stronger national activity sees interstate exports add to GSP growth.

### **Business investment and public infrastructure spending will drive ongoing growth in construction**

As the State's infrastructure and asset recycling program has ramped up, publicly-led infrastructure has become a key driver of economic growth—with strong investment flows coming through in both the public and private sector.

Increases in construction activity boost demand and contribute to employment and economic growth (see Box 3.1). Underpinned by the State's \$72.7 billion four-year capital program, public investment in New South Wales is expected to boost economic growth by an average of ½ a percentage point a year over the next two years. This is around five times the historical average contribution to growth of 0.1 percentage points.

The State's infrastructure investment is being delivered by government agencies, public corporations and private sector partners (see Charts 3.3 and 3.4). Depending on the nature of the public-private partnership (PPP), some of these public infrastructure projects are flowing into Australian Bureau of Statistics (ABS) measures of private investment. The ABS attributes the construction activity of some of these projects to the private sector and, upon completion, transfers the infrastructure as a second-hand asset to the public sector. Business investment is also being boosted by publicly-led private investment, such as the \$3.0 billion NorthConnex Motorway, \$1 billion Northern Beaches Hospital and the transfer of the electricity network to the private sector.

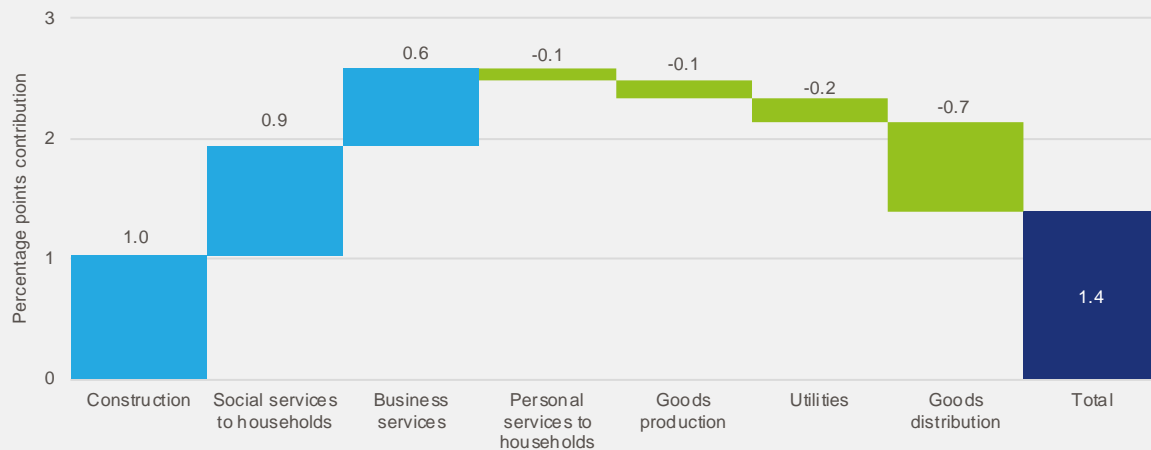
**Box 3.1: Housing and infrastructure investment supporting jobs**

New South Wales has experienced robust employment growth over recent years, and with the NSW Government continuing to support jobs through its infrastructure investment, business support programs and employment incentive schemes, this is expected to continue.

Over the last two years employment has grown at an annual average rate of 2.3 per cent, well above its long-run average of 1.5 per cent. This has resulted in around 192,000 more people being employed since April 2015. The relative strength of the NSW labour market is highlighted by an unemployment rate below 5 per cent. This is the lowest among the states and has been for nearly two years.

A key driver of this strength has been the construction sector, led by the dwelling investment and public infrastructure boom. Over the year to February 2017 the construction sector accounted for 1 percentage point of total employment growth of 1.4 per cent (see Chart 3.2). This is well above its long run average contribution, and even more impressive considering construction accounts for only a small (around 9 per cent) share of total employment.

Chart 3.2: Construction driving employment growth (a)



(a) Annual average growth to February 2017

Source: ABS 6291.0.55.003 and Treasury

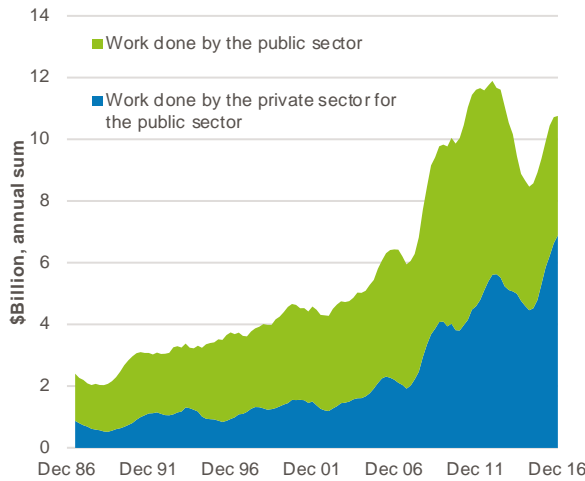
Beyond investment in infrastructure, the Government is supporting employment through a number of initiatives including:

- the Small Business Incentive Scheme, under which NSW small businesses may apply for a grant of up to \$2,000 when they hire new employees. To date, the program has received 7,200 applications
- \$96 million committed in 2017-18 from the \$190 million Jobs for NSW fund, including:
  - \$25 million to launch a co-investment vehicle with the private sector to make equity investments in growth companies across New South Wales
  - \$20 million to develop a site in the Sydney CBD where start-up incubators and accelerators will co-locate to foster collaboration and create jobs.

Government initiatives, infrastructure investment and increased housing supply will provide continued support for jobs and economic growth—improving services and enhancing economic opportunities.

Business investment is expected to strengthen into 2017-18 and remain strong in 2018-19, with a raft of non-residential building approvals over late 2016 leading to construction activity in coming quarters. Business investment is set to pick up in the short-term accommodation, education, retail and wholesale, office and entertainment, and recreation sectors. Above average capacity utilisation and business conditions are also conducive to an ongoing recovery in business investment.

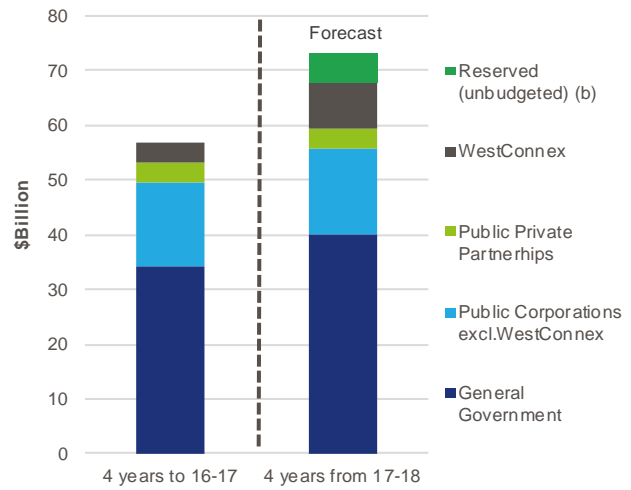
Chart 3.3: Infrastructure delivered by public and private sectors <sup>(a)</sup>



(a) NSW public engineering work for State, local and Commonwealth Governments

Source: ABS 8762.0 and Treasury

Chart 3.4: More public investment to come <sup>(a)</sup>



(a) Excludes land and other non-produced asset transactions. Net of asset sales.

(b) Reservations awaiting Government approval following Infrastructure NSW assurance processes

Source: Treasury

There is also an upside of a further ¼ of a percentage point per year boost to economic growth over the next two years due to Rebuild and Restart reserved projects that are awaiting full assessment by Infrastructure NSW, before they can be approved and budgeted (see Budget Paper 2, Chapter 2).

The timing of the infrastructure surge is well aligned with the broader national economic cycle. New South Wales’ infrastructure activity is absorbing spare labour and capital freed up from the unwinding of the mining boom in the rest of Australia—delivering employment and economic growth when it is most needed.

Even after the construction phase is over, new infrastructure will add to the long-term productive capacity of the economy. For example, improved transport infrastructure will reduce travel times and remove supply constraints, eliminating bottlenecks and bringing markets together. It will also support additional housing supply, and expand economic opportunities by bringing people closer to education and jobs. Social infrastructure will also improve the quality and accessibility of services such as health and education.

Following the boost to employment and economic growth during the construction phase, the long-term benefits of this new infrastructure will be significant and permanent. In its economic assessment of Rebuilding NSW—the Government’s strategy for asset recycling to fund \$20 billion in productive infrastructure investment—Deloitte Access Economics estimated that the State’s economy would grow by an additional 3.6 per cent by 2035-36.<sup>2</sup>

<sup>2</sup> November 2014, Deloitte Access Economics, *Economic Impact of the State Infrastructure Strategy – Rebuilding NSW*

## Household consumption will rely more on income growth as house price growth moderates

Despite a declining savings rate and robust housing market, household consumption growth has eased since mid-2016 in line with softer employment growth and a moderation in consumer confidence. This is expected to continue in the near term, with weak momentum in retail sales.

Spending by households is forecast to grow at a more modest rate than it has over recent years, growing broadly in line with household income.

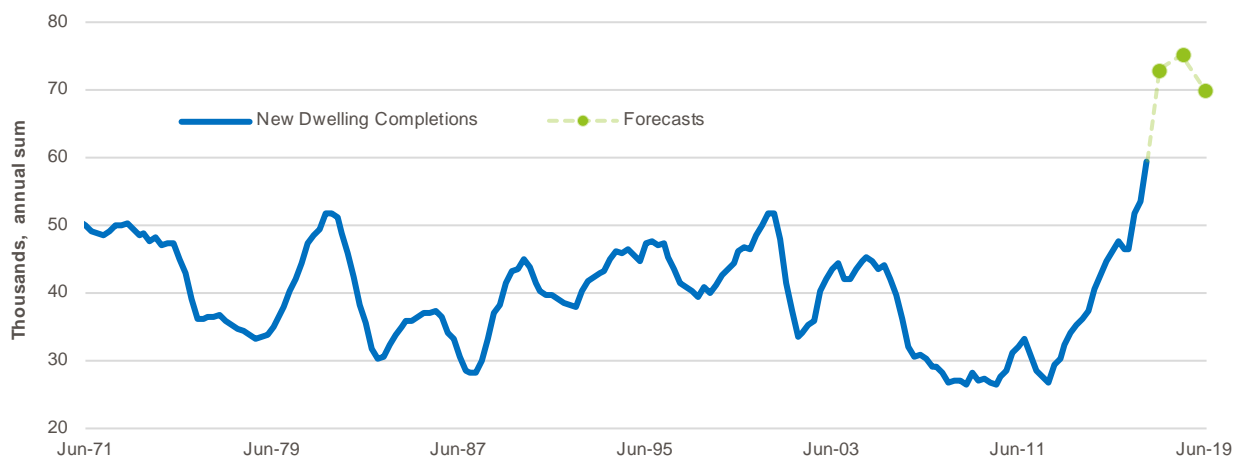
In recent years lower interest rates have reduced mortgage repayments, while above-trend population growth has added to demand. These forces combined with pent-up undersupply have driven double-digit house price growth over the last few years. Higher property values have strengthened household balance sheets, providing consumers with the confidence to lower their savings rate from post-global financial crisis highs. This has underpinned strong consumption growth, even while wages growth has remained moderate.

Strong property price growth has also spurred dwelling construction. Dwelling investment is forecast to record its sixth consecutive year of growth in 2017-18, by far the longest period of expansion in the housing stock on record. Historically high approvals over recent years, which peaked at around 77,000 in the 12 months to September 2016, have translated into activity and the build-up of an historically large dwelling construction pipeline. Over 2016 dwelling commencements have increased from 62,000 to 76,000 and completions have increased from 47,000 to 60,000. Dwelling construction activity has been concentrated in multi-storey apartments—which are currently taking a little over two years on average to move from approval to completion.

In 2017, the NSW property market is expected to transition into a supply phase, with past strength in approvals flowing into completions (see Chart 3.5). Approvals are expected to remain at very high levels, although slightly lower than their 2016 peak. Combined with supportive Government policy measures, a healthy construction pipeline, continuing demand and an emerging recovery in home renovations, dwelling investment is expected to increase through 2017-18. As the cycle matures, it is anticipated that 2018-19 will see a modest decline in dwelling investment, albeit remaining at historically high levels.

Tightening lending standards, slow wages growth and strong housing supply are expected to moderate house price growth.

Chart 3.5: *The housing boom is reaching the supply phase*



Source: ABS 8752.0 and Treasury

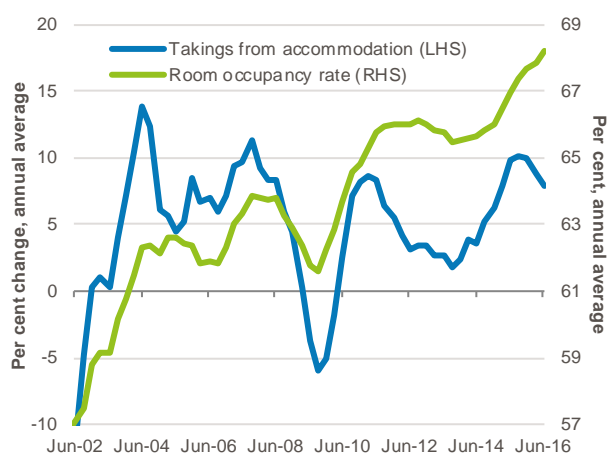
While household balance sheets remain strong—in aggregate mortgage buffers are around two and a half years of scheduled repayments at current interest rates<sup>3</sup>—further marked declines in the savings rate appears unlikely. Household consumption is therefore expected to grow at a below-average rate over the next couple of years, increasing broadly in line with wages and employment. While soft wages growth will continue to be a drag, the expected improvement in employment growth and demand for furnishings and household equipment, due to a pickup in household formation, will provide some support.

### The service exports boom will drive employment and business investment

Since early 2013 the Australian dollar has depreciated by around 30 per cent against the United States dollar, setting the scene for growth in non-commodity exports. Led by education and tourism, service exports have helped drive this recovery. With the services sector accounting for 73 per cent of economic activity and 90 per cent of employment in 2015-16, New South Wales has benefited strongly from this trend, especially the regions (see Box 3.2).

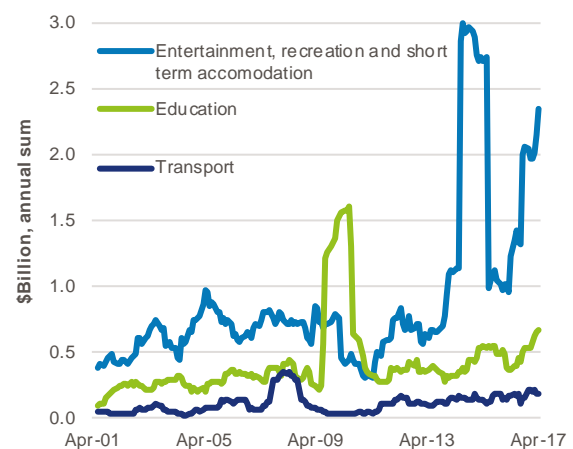
At the national level, tourism and education related services, including travel services for business, education and recreation, as well as transportation services, account for nearly three quarters of total growth in service exports. NSW student enrolments are up by 12.2 per cent on average over the past year and short term visitors are up by 12.0 per cent, with much of this increase being in visitors from China.

Chart 3.6: Rooms are filling up<sup>(a)</sup>



(a) Accommodation with 15 or more rooms  
Source: ABS 8635.0 and Treasury

Chart 3.7: Tourism is driving business investment<sup>(a)</sup>



(a) Private building approvals  
Source: ABS 8731.0 and Treasury

The rapid increase in visitors to New South Wales is absorbing accommodation capacity. Occupancy rates reached record highs of around 68 per cent in 2015-16, up by around three percentage points over the last two years (see Chart 3.6). The Sydney occupancy rate is even higher, averaging around 83 per cent.

While this highlights the growing demand for traditional hotel accommodation, the market for non-traditional services like Airbnb has been taking up an increasing market share. In 2015-16 1.4 million nights were booked through Airbnb in New South Wales, with an estimated contribution of around \$500 million to GSP, supporting around 4,500 full-time equivalent jobs.<sup>4</sup>

<sup>3</sup> *Household Debt, Housing Prices and Resilience*, speech by Reserve Bank Governor Phil Lowe to Economic Society of Australia, Brisbane, May 2017

<sup>4</sup> Direct and indirect contributions from the tourism expenditure of Airbnb guests, 2017, Deloitte Access Economics, *Economic effects of Airbnb in Australia*.

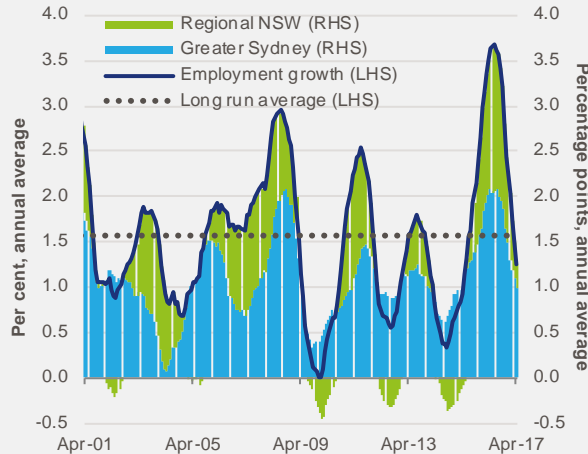
**Box 3.2: Economic performance of the regions**

Employment in regional New South Wales has grown by 4.9 per cent since April 2015, the strongest regional employment growth of all states. The Greater Hunter Valley (including Newcastle and Lake Macquarie), in particular has led the pack, growing by 11.2 per cent (32,300 employed).

Richmond-Tweed, growing by 13.0 per cent (12,700 employed) and the Central West of NSW growing by 9.6 per cent (9,300 employed) have also performed strongly. The NSW regional unemployment rate remains low. At 5.5 per cent it is well below the long-run average of 6.5 per cent.

NSW regions have experienced a significant uplift in employment growth over the last two years (see Chart 3.8). This reflects the ability of the regions to adapt to a growing demand for services. As a result, New South Wales' regions have been relatively less affected by the mining investment downturn.

*Chart 3.8: When the regions do well, NSW does well*



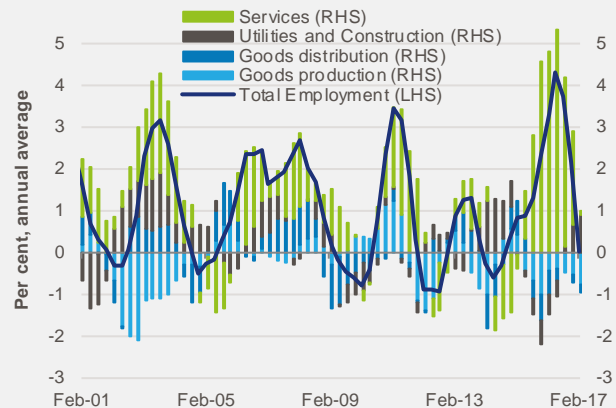
Source: ABS 6291.0.55.001 and Treasury

Over the last two years the move towards a service based regional economy has been pronounced, with almost all of the regional employment gains driven by the services sector (see Chart 3.9). Regional New South Wales now has the highest share of service based employment compared to regions in other states. This share has increased from 51.1 per cent in 2008, to its current level of 57.5 per cent. This growth has been across all service sectors, including social services, personal services and business services.

In particular social services to households, such as public administration, education and health, have grown at an annual average rate of 3.4 per cent over the last decade and accounted for more than two thirds of regional employment growth. Health and social assistance is among one of the largest sectors in regional NSW. With ageing likely to be more pronounced in the regions (as the proportion of aged persons is projected to remain well above the State average), there is likely to be continued growth in the sector.

Regional New South Wales has a different industry structure to Greater Sydney, with a higher share of social services (30.0 per cent, compared to 24.6 per cent) and personal services (14.7 per cent, compared to 11.5 per cent).

*Chart 3.9: Services the driver of regional employment*



Source: ABS 6291.0.55.003 and Treasury

The overseas and domestic visitor boom has benefited the whole State. In 2016 rural and regional NSW welcomed 58.9 million visitors, a rise of more than 7 per cent on the year before. Regional tourism accommodation added a total of \$1 billion to the economy in 2015-16.

Regional employment in food and accommodation services grew 4.1 per cent in the year to February 2017, well above the decade average of 1.7 per cent. Agriculture is another important industry within regional NSW and makes up nearly six per cent of regional NSW employment. As China shifts towards a consumption economy there will be increasing demand for commodities like wheat, grain, cottons, sugars and meats, and this will benefit regional NSW.



With the pickup in demand there is a need for capital renewal and expansion. The capital stock within the accommodation and food industry has been declining since June 2012 and the average age of machinery and buildings has been increasing steadily since June 2000.

Business investment is responding to this pickup in demand. In the 12 months to April 2017 private building approvals for entertainment, recreation and short term accommodation buildings nearly doubled, reaching \$2.3 billion. For example, a South West Sydney accommodation provider receives around 65 per cent of their business from international visitors. Having been at capacity for 95 per cent of the year, they have recently invested \$1.5 million to upgrade all rooms to international 5-star standards. The education sector is also showing robust growth—since 2013 approvals for private education buildings have more than doubled reaching \$660 million over the last 12 months (see Chart 3.7).

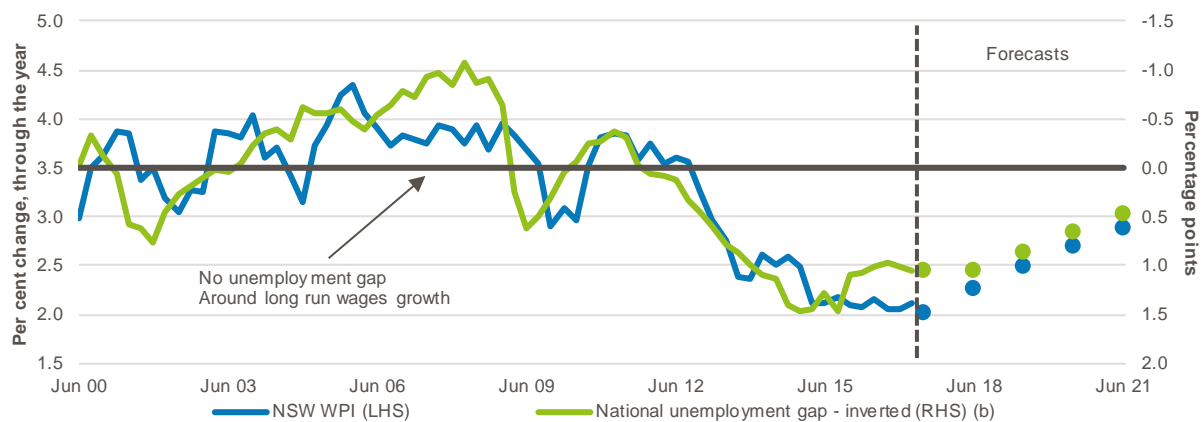
Along with the boost to business investment, the services boom is creating jobs. Since 2012, employment in tertiary education has grown by an annual average rate of 4.8 per cent, accommodation by 4.3 per cent, and the arts and recreation industry by 4.0 per cent—all exceeding the State average of 1.6 per cent.

With domestic household consumption likely to grow below trend over the next few years, the growing Asian middle class and an increasingly competitive exchange rate are expected to underpin a continued services boom.

### Inward migration restraining wages and boosting demand

While the NSW labour market has been stronger than the rest of Australia, wages growth has remained soft in recent years, consistent with national and international trends. Annual WPI growth is now close to 2 per cent for both New South Wales and Australia, and is the weakest since the WPI series began in 1997.

Chart 3.10: As the national labour market tightens, NSW wages will lift <sup>(a)</sup>



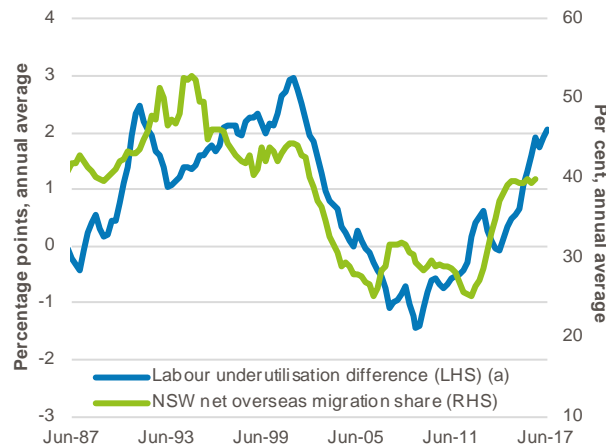
- (a) Forecasts are per cent change, year average
- (b) The unemployment gap represents the difference between the actual unemployment rate and the unemployment rate associated with full employment

Source: ABS 6345, 6202 and Treasury

With the unemployment rate below 5 per cent, New South Wales is now close to estimates of full employment, which is generally associated with the emergence of wage pressures. The absence of such pressures is partially due to local spare capacity, in terms of cyclically low participation and average hours worked. It is more fully explained, however, by considerable spare capacity both nationally and globally (see Chart 3.10). These national downward wage pressures are being transmitted to New South Wales through migration flows and common product markets.

While the rest of Australia’s unemployment rate is around one percentage point above New South Wales’, the underutilisation rate—a broader measure of spare capacity that includes employees who would like to work more hours—suggests a larger disparity. Currently the underutilisation rate in New South Wales is 12.9 per cent compared to 15.0 per cent for the rest of Australia.

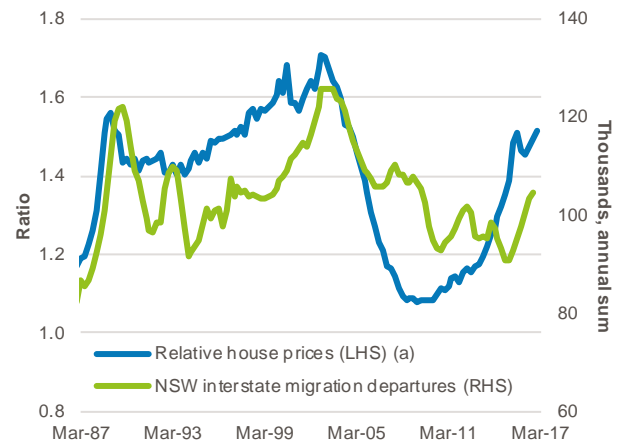
Chart 3.11: Strong labour market attracts migrants



(a) The difference between the underutilisation rate in the Rest of Australia and NSW

Source: ABS 6202.0, 3101.0 and Treasury

Chart 3.12: Housing affordability also drives migration



(a) Detached house prices, NSW/Rest of Australia

Source: ABS 6416.0, 3101.0 and Treasury

The migration program’s emphasis on skills and employment has tightened the linkage between labour market strength and people flows. With national net overseas migration (NOM) running close to 200,000 a year, the relative strength of the Australian labour market (compared to the rest of the world) is continuing to draw in large numbers of skilled migrants. New South Wales’ relative strength (compared to the rest of Australia) has lifted the State’s NOM share to decade highs of around 40 per cent (see Chart 3.11).

Interstate migration, which is normally a large net loss for New South Wales, has strengthened considerably over the last few years. The drivers for interstate arrivals and departures are different: for arrivals the labour market is a ‘pull’ factor, whereas relative house prices are a ‘push’ factor and tend to drive departures (see Chart 3.12). Currently the balance of these two forces is towards the ‘pull’, with a net interstate outflow running at around 12,000 per annum, below the long run average of around 17,000. These flows have lifted inward migration well above the historic average of 0.5 per cent of the population, driving strong working age population growth and demand for goods and services.

### 3.2 National economic outlook

The near term outlook for the Australian economy has weakened since the 2016-17 Half-Yearly. In 2016-17, national Gross Domestic Product (GDP) is expected to grow by a below-trend rate of 1¾ per cent, reflecting poor weather-related conditions (including the effect of Cyclone Debbie on coal exports) and a delayed pickup in non-residential building.

In 2017-18, national GDP growth is forecast to accelerate slightly to an around trend rate of 2¾ per cent. Despite the economy benefiting from a return to normal export operations, ongoing weakness in household consumption growth, in line with subdued labour income growth, is expected to weigh on the recovery.

National GDP growth is expected to increase to 3 per cent (above trend) in 2018-19 as the drag from mining investment dissipates and labour income growth gradually improves. Strong growth in service exports and public infrastructure are also expected to support growth as dwelling investment turns down and liquefied natural gas production reaches capacity.

### 3.3 Global economic outlook

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There has been a notable cyclical upturn in global manufacturing and trade, along with expectations of a more expansionary fiscal policy in the United States under the new administration. Near-term growth prospects in China have also strengthened on the back of fiscal and monetary policy stimulus. However, the Chinese economy is still expected to transition to a slower and more sustainable growth path as it rebalances away from investment and exports to consumption.

In April 2017 the International Monetary Fund (IMF) forecast global growth to lift from 3.1 per cent in 2016, to 3.5 per cent in 2017 and 3.6 per cent in 2018. These forecasts are largely unchanged from its October 2016 forecasts that underpinned the 2016-17 Half-Yearly Review, but mark the first time in five years that the IMF has upgraded its short-term global growth expectation.

Australia's major trading partners are expected to grow by 4 per cent in 2016-17, in line with outcomes over the last two years, before slowing to 3¾ per cent in 2017-18 and 2018-19. This outlook for growth is below the long run average of 4¼ per cent. Nevertheless, it will increasingly be focused towards demand for services and soft commodities driven by the growing middle class in Asia. New South Wales is more exposed to these sectors than non-rural commodity exports (particularly steel making commodities), which has been the key source of demand over the last decade.

### 3.4 Risks to the NSW economic outlook

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While the risks to the economic outlook appear broadly balanced, uncertainties remain, particularly around the housing market and wages growth.

The largest risk to the forecasts, both to the upside and the downside, is the outlook for the housing market given its highly cyclical nature and large flow-on effects. A significant slowdown in dwelling approvals could see the pipeline exhausted and activity decline by more than expected in 2018-19. Higher than expected interest rates or a sharp decline in dwelling prices could also bring an end to the cycle. On the upside, strong population growth or supportive government policies could boost demand and drive higher-than-expected activity.

The outlook for wages growth, which has flow on effects to inflation, consumption and economic activity, is another key risk. Factors that are currently putting downward pressure on wages, including the mining boom unwinding, could be stronger or last longer than expected. On the upside, capacity constraints in the construction sector, or relative housing affordability slowing inward migration (and therefore available labour supply), could be more pronounced than anticipated.

## 4. IMPROVING THE EFFECTIVENESS OF STATE SPENDING

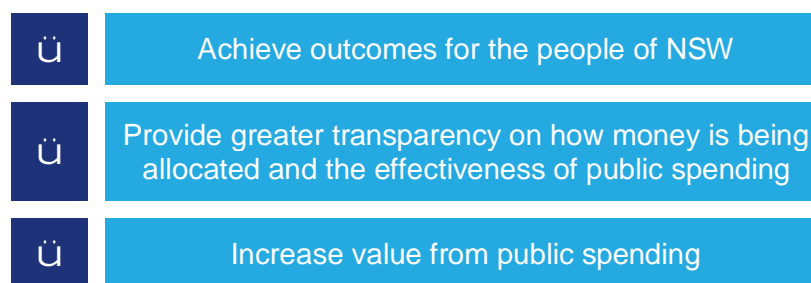
### 4.1 Introduction

The NSW Government is transforming the way it manages and measures its annual expenditure of \$77.2 billion on behalf of the people of New South Wales. This transformation is about delivering better outcomes for the people of New South Wales – more transparency and accountability for expenditure, and better value for money.

Traditionally, the focus of budget decision making has been on the additional programs, services and infrastructure announced in each budget. Under the Government's Financial Management Transformation program (FMT), the focus is moving towards a more comprehensive view of total government spend – with the ability to measure and monitor the outcomes achieved for the total dollars invested.

This journey begins with the delivery of a new whole-of-government financial management system, Prime, and will be followed by new legislation to replace and modernise a thirty-year-old legislative framework. The new system and the legislation will enable the Government to move towards an outcome-budgeting approach commencing from the 2018-19 Budget, which will improve the effectiveness of total State spending and ensure that New South Wales is a great place to live, work and raise a family (see Chart 4.1).

Chart 4.1: The benefits of outcome budgeting



### 4.2 Moving towards budgeting decisions based on outcomes for the people of New South Wales

#### Shifting the focus from delivering services to achieving outcomes

The key change between the traditional budgeting approach and the new, outcome-budgeting approach, is a shift away from incremental funding of government agencies to provide services, to funding of programs that deliver specific outcomes for New South Wales citizens. Table 4.1 below outlines how this shift will work in practice.

Table 4.1: *Shifting from delivering services to achieving outcomes*

Before: Service delivery approach	After: Outcomes approach
Deliver more buses and trains	Reduce commuter time
Increase the number of doctors and nurses in emergency departments	Reduce waiting times in emergency departments
Increase the number of teachers and build new schools	Improve educational outcomes for primary and secondary students

The result of an outcome-budgeting approach is that the Government can focus on the best way to achieve outcomes for the people of New South Wales, which could mean a different mix of services and agency input. This approach puts the needs of the people at the centre of investment decision making.

Table 4.2 below highlights how the budget process will change under an outcome budgeting approach.

Table 4.2: *How the budget process will change*

Traditional service delivery approach	Outcomes approach
<b>Agency focus:</b> Resource allocation planning and decisions centred around agencies, limiting cross sector and whole-of-government perspectives.	<b>Outcome focus:</b> Resource allocation planning and decisions to be centred around achieving outcomes, encouraging cross cluster collaboration and a whole-of-government perspective.
<b>Financially driven decisions:</b> Budget information focused more on financials, with performance information, where available, providing input and output measures but not routinely incorporated in decision making.	<b>Performance informed decisions:</b> Budget information will endeavour to routinely link financial and performance aspects, covering inputs, outputs, efficiency, effectiveness and equity, where available, driving a performance-informed decision making culture.
<b>Service provider perspective:</b> The total budget spend is not clearly linked to outcomes and is often expressed as services delivered to the people rather than outcomes achieved.	<b>Citizen perspective:</b> Every budget spend will be linked to outcomes. Budgets will clearly articulate outcomes to be achieved for the people of New South Wales.
<b>Ad hoc reviews:</b> Reviews of public spending carried out as and when necessary to assess the Budget spend.	<b>Systemic reviews:</b> Reviews will be more systemic and integrated with the budget process to inform funding decisions, and ensure continued value for money of public spending.

## Transitioning to outcome budgeting

Changing the way the Government makes budget decisions is a fundamental reform. To ensure the reform's success, the Government is transitioning towards outcome-budgeting over a number of years.

In this Budget, we are delivering the foundation for outcome-budgeting. As part of the 2017-18 Budget process, agencies in the public sector have reported their financial information in our new financial management system, Prime. For the first time, this financial data has been systematically built around programs that agencies provide to the community. In *Budget Paper No.3 Budget Estimates*, these programs are presented in Program Groups that represent the total service packages provided to the community. Each Cluster within the NSW Government will have a number of Program Groups. A key element of this design is that multiple agencies within a Cluster can contribute programs to a program group, ensuring the focus is on what government is trying to achieve for citizens.

As part of the 2018-19 Budget, we will build on this model by clearly identifying the outcomes into which the Government is investing, and ensuring that there are robust measures to track performance against these outcomes.

This is a significant change for the NSW Government, and represents a long-term transformation of decision making processes - moving away from reviewing incremental funding to whole-of-government budget funding, and changes to operations and practices in the sector. This will shift the public sector towards managing resources to improve outcomes and leverage the massive spending power of the entire \$77.2 billion State budget.

### **Building on evidence and experience to create a world class budgeting model**

The outcome budgeting model builds on our own experience in commissioning outcomes, international evidence and experience moving towards performance budgeting from countries such as Canada, UK, New Zealand, USA, and the Commonwealth Government. The proposed model will not only change policy and processes in the NSW Government, but will also transform the practices of the public sector to deliver more tangible and meaningful results to the public.

This program-based and outcome focused budgeting approach will encourage public sector agencies to coordinate and collaborate with each other so that resources are optimally pooled to serve the needs of communities. This will allow for targeted programs to meet the needs of specific communities or cohorts of people, when such tailored approaches can deliver better outcomes. A focus on outcomes also facilitates non-government service providers, as government makes decisions about how services are provided based on what is best for customer outcomes, not who provides the service.

The NSW Government has benefited from cross cluster approaches and has experience in engaging non-government providers on outcome contracts. For example:

- Out of home care (OOHC) recommissioning - providing children and young people with safe and permanent outcomes to reach their potential is the driving force behind the work of FACS and the agencies that provide out-of-home care services. OOHC recommissioning, currently underway, represents a move towards to outcomes based contracting;
- Office of Social Impact Investing - has piloted commissioning of outcomes in areas such as child protection, recidivism and mental health.

The proposed transformation seeks to encourage these practices across the total NSW public sector and will complement the Government's Commissioning and Contestability Policy, where applicable and beneficial to the public.

### **4.3 Better information for decision making**

Currently budget information is organised around the agencies in the NSW public sector. From the 2018-19 Budget onwards, the Government will commence capturing more information on outcome and program performance in addition to regular agency financial information. As described above, this financial and performance information will be reorganised, structuring it around outcomes for the people of New South Wales. This will assist the Government to make better and more informed resource allocation decisions.

This will also lead to more meaningful information being available to the public to show performance of programs and to track progress towards outcomes. The aim is to promote greater transparency on how tax-payer dollars are being spent by the Government. These initiatives will build on the existing performance information, and will gradually expand to include more detailed and granular information so that the public can better evaluate government performance.

We envisage that financial and performance information will evolve and improve over time as the needs of the people and the demand for government services changes and as information becomes more sophisticated.

### **Investing in systems to provide better information**

In order to deliver on these reforms, the Government has made a substantial investment in a new financial system. This Budget is the first Budget to be delivered in Prime, which will be a world class whole-of-government IT platform.

This is the first time in New South Wales where both financial and performance information is readily available in one central IT platform for all the agencies in the NSW public sector. This will provide the government with integrated financial and performance information, supported by detailed analytics.

The functions of Prime include:

- prioritisation and planning tools which drive whole-of-government collaborative programs
- outcome and program-based information and risk reporting
- periodic reporting and monitoring of performance metrics
- consolidating and reporting financial and performance information by outcomes, sectors and identified priorities.

## **4.4 Improved value from public spending**

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The Government is constantly looking at ways to improve the value for money from taxpayer dollars and as part of transforming financial management is introducing practices in the sector to achieve this.

### **Overall spending to be periodically reviewed**

In order to identify areas for continual improvement, the effectiveness of the Government's investment into outcomes will be supported by ongoing strategic reviews and evaluations that focus on the entire stock of spending, rather than incremental changes in spending.

These reviews will be designed to assess whether services and outputs are:

- appropriately designed and properly targeted to meet the needs of New South Wales communities across New South Wales
- relevant and effective in achieving the desired outcomes
- delivered efficiently and effectively.

The introduction of strategic reviews and improvements to the existing performance and program review and evaluation practices will significantly enhance the capability of, and information available to, the Government. The results of these reviews will inform resource allocation decisions and will enable the Government to vary funding levels for different programs, as necessary to deliver improved outcomes. The Government has also announced its commitment to a comprehensive review of government spending (see Box 4.1)

**Box 4.1: Making government expenditure count**

The move to outcomes budgeting will provide greater transparency to both the Government and the public in relation to ongoing funding (and expenditure) by government agencies, enabling the Government to better ensure that expenditure is achieving real outcomes for the benefit the people of New South Wales.

With better information available about the outcomes government expenditure achieves, Treasury will be able to use the new budgeting system to comprehensively review expenditure to ensure it is achieving the outcomes intended.

This enhanced capacity to review expenditure will complement the Government's ongoing efforts to invest in priority services while getting the back office in order and making government more efficient.

## 4.5 Paving the way for a new budget process

The 2017-18 Budget delivered in Prime is a significant and strategic step that positions New South Wales to commence outcome budgeting in 2018-19. The Government is committed to building the capability and systems to embed the transformation.

In the 2018-19 Budget all program groups will begin to be restructured to align with outcomes, for the total budget spend. It will also include performance indicators tracking each outcome.

As a result, the budget will more clearly link spending with the outcomes the Government is seeking to achieve for the people of New South Wales.



## 5. REVENUE

- The 2017-18 Budget introduces a range of tax cuts to ease housing affordability pressures for first home buyers and reduce insurance costs for small businesses and farmers to support business growth.
- Total revenue in 2016-17 is estimated at \$78.0 billion. This is \$830.6 million more than anticipated in the 2016-17 Budget, largely due to transfer duty received as part of the State's asset recycling program.
- Prolonged strength in the property market increased transfer duty in 2016-17, although this increase is expected to moderate across the forward estimates. Capital restructuring underway to improve government businesses efficiency will result in higher dividends across the budget and forward estimates.
- The outlook for revenue is challenging. Total revenue growth over the four years to 2020-21 averages 1.8 per cent per annum – which is softer relative to previous years due to a flattening of GST revenues and declining National Partnership payments from the Commonwealth Government. National Partnership Payments are expected to fall to around a quarter of their 2016-17 value by 2020-21.
- Under the current distribution model for the GST, New South Wales receives a falling share of national GST revenue. The State's share of the GST is projected to fall to record lows by 2019-20, representing a decrease in real dollars over the four years to 2020-21.

### 5.1 General government revenue

The revenue raised by government funds the construction of critical infrastructure and delivery of essential government services to communities across New South Wales.

In 2016-17, general government revenues are estimated to be \$78.0 billion (see Table 5.3). This is 1.1 per cent higher than projected in the 2016-17 Budget, primarily reflecting one-off transfer duty payments associated with the partial leases of Ausgrid and Endeavour Energy, as well as higher than expected distributions from SiCorp.

In 2017-18, revenues are expected to grow to \$79.9 billion. Revenue is forecast to be higher over the forward estimates compared with the 2016-17 Budget. This is mainly due to higher revenue from transfer duty, including an increase to the Foreign Investor Surcharge, and dividends received from government-owned businesses reflecting more efficient capital structures.

The strong economic performance of the State in recent years is expected to reduce the New South Wales share of national GST revenues over the forward estimates to new lows. Softer GST revenue has a significant dampening effect on total revenue growth over the budget and forward estimates, which is expected to be 1.8 per cent. This is slightly lower than the 2.3 per cent forecast at the time of 2016-17 Budget. Table 5.1 provides a reconciliation of revenue estimates between the 2016-17 Budget and 2017-18 Budget.

## Revenue

Table 5.1: Revenue reconciliation

	2016-17	2017-18	2018-19	2019-20
	Revised	Budget	Forward Estimates	
	\$m	\$m	\$m	\$m
<b>Revenues - 2016-17 Budget</b>	<b>77,178</b>	<b>77,309</b>	<b>77,859</b>	<b>81,018</b>
Policy Measures	15	1,161	443	319
Parameter and other budget variations	479	(209)	(267)	(655)
Other	129	(142)	(232)	(261)
<b>Total movement</b>	<b>623</b>	<b>810</b>	<b>(56)</b>	<b>(597)</b>
<b>Revenues - 2016-17 Half - Yearly Review</b>	<b>77,800</b>	<b>78,118</b>	<b>77,804</b>	<b>80,421</b>
<b>Policy measures</b>				
<b>Total policy measures <sup>(a)</sup></b>	...	<b>274</b>	<b>(128)</b>	<b>(213)</b>
<b>Parameter and other budget variations</b>				
Transfer Duty	484	277	478	676
Payroll Tax	(61)	(74)	(132)	(197)
Other Taxes	(146)	(22)	72	122
Royalties	193	277	151	12
GST	(227)	(52)	(10)	(283)
National Partnerships payments	(520)	(97)	936	223
National Agreement payments	(67)	215	230	285
Other Commonwealth payments and other grants	103	17	(33)	250
Interest income	99	(120)	(143)	(138)
Sales of goods and services	236	456	252	(138)
Dividends and income tax equivalents from other sectors	40	819	497	579
Other dividends and distributions	442	56	219	212
Fines, regulatory fees and other revenues	(365)	(340)	(161)	360
Other	(3)	81	193	301
<b>Total parameter and other budget variations</b>	<b>208</b>	<b>1,492</b>	<b>2,548</b>	<b>2,263</b>
<b>Total new policy and parameter and other budget variations</b>	<b>208</b>	<b>1,766</b>	<b>2,420</b>	<b>2,050</b>
<b>Revenues - 2017-18 Budget</b>	<b>78,008</b>	<b>79,885</b>	<b>80,224</b>	<b>82,471</b>

(a) See Table 5.2 for details

## 5.2 Revenue measures

The revenue measures announced in the 2017-18 Budget will help ease the burden of taxation for first home buyers and businesses across New South Wales (see Table 5.2). The total impact of these measures is \$277 million over the four years.

Table 5.2: Revenue Measures Announced in the 2017-18 Budget

	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
<b>Measures reducing taxation revenue</b>					
Abolish Insurance Duty on commercial vehicle insurance for small business	...	(11)	(22)	(23)	(24)
Abolish Insurance Duty on professional indemnity insurance for small business	...	(11)	(23)	(24)	(25)
Abolish Insurance Duty on product and public liability insurance for small business	...	(20)	(43)	(45)	(47)
First Home Buyers Transfer Duty Exemption	...	(187)	(310)	(312)	(314)
Abolish Insurance Duty on lenders mortgage insurance	...	(28)	(30)	(31)	(33)
Abolish Insurance Duty on crop and livestock insurance	...	(2)	(3)	(3)	(4)
Foreign developer surcharge rebates	...	(6)	(8)	(10)	(10)
Deferral of Fire and Emergency Services Levy (FESL)	...	(894)	(897)	(883)	(884)
<b>Measures increasing taxation revenue</b>					
Increase rate of Foreign Investor Surcharge on Transfer Duty	...	111	151	156	164
Increase rate of Foreign Investor Surcharge on Land Tax	...	69	75	81	86
Target off-the-plan deferral of Transfer Duty to owner occupiers	...	380	110	20	20
Reintroduction of Emergency Services Levy	...	794	793	783	783
Increase in Insurance Duty due to reintroduction of Emergency Services Levy	...	79	79	78	78
<b>Total New Measures</b>	...	<b>274</b>	<b>(128)</b>	<b>(213)</b>	<b>(210)</b>

## Measures to reduce the cost of insurance

### *Insurance duty exemptions for small business*

From 1 January 2018, small businesses with aggregate turnover less than \$2 million will be exempt from insurance duty on their premiums for commercial vehicle insurance, professional indemnity insurance, and product and public liability insurance (See Box 5.1).

Combined, these measures are forecast to reduce revenue by \$318.0 million over the four years to 2020-21. These tax cuts will encourage small businesses to take up more appropriate levels of insurance by removing the disincentive caused by higher insurance premiums. They will complement other Government measures designed to support the small business sector, which plays a key role in the growth of the New South Wales economy, and job creation.

### *Abolition of insurance duty on crop and livestock insurance for farmers*

Insurance duty on crop and livestock insurance will be abolished from 1 January 2018. This measure will help farmers with everyday expenses by reducing their insurance costs. This is forecast to reduce revenue by \$12.0 million over the four years to 2020-21.

## Measures to improve housing affordability

### *First home buyer assistance*

To help first home buyers enter the property market, first home buyers grants and concessions will be restructured to reduce the burden of transfer duty. From 1 July 2017, first home buyers will be exempt from transfer duty for both new and existing properties valued up to \$650,000, with discounts up to \$800,000. The First Home Owner Grant will be retained for buyers of new homes worth up to \$600,000, and for those building their first home worth up to \$750,000.

First home buyer assistance measures will also be available to purchasers under shared equity arrangements with Community Housing Providers. Changes to transfer duty concessions for first home buyers are forecast to save first home buyers \$1.1 billion over the four years to 2020-21.

*Abolition of insurance duty on lenders mortgage insurance*

From 1 July 2017, insurance duty on lenders mortgage insurance will be abolished. Lenders mortgage insurance is applied by banks, generally when homebuyers have less than 20 per cent deposit. This tax cut is designed to help home buyers saving for their deposits. Abolition of insurance duty applied to lenders mortgage insurance is forecast to save home buyers \$122.0 million over the four years to 2020-21.

*Increase foreign investor transfer duty and land tax surcharge*

From 1 July 2017 the foreign investor transfer duty surcharge will increase from 4.0 per cent to 8.0 per cent. Similarly, the land tax surcharge of 0.75 per cent will increase to 2.0 per cent per annum from the 2018 land tax year. Combined, these measures are forecast to generate additional revenue of \$893.0 million over the four years to 2020-21 and assist NSW residents buying their first home. Minor amendments to surcharge liabilities are also being introduced for returning permanent residents, and for commercial residential property including purpose built student accommodation.

*Foreign developer surcharge rebates*

The application of surcharges to foreign-owned residential property developers places these developers at a competitive disadvantage relative to Australian-owned developers. To avoid any adverse impact this may have on the supply of new dwellings, Australian-based foreign-owned developers will be granted a refund of surcharges paid, provided they sell developed properties within 5 years. The new arrangements will be backdated to apply from the commencement of the surcharges.

*Target off-the-plan deferral of transfer duty to owner occupiers*

First home buyers often face strong competition for off-the-plan properties from investors. To help counter this and assist families in purchasing their first home off the plan the current concession for residential off-the-plan purchases (which allows for a delay of up to 12 months in the payment of duty) will be targeted to owner occupiers only.

**Deferral of Fire and Emergency Services Levy**

In May 2017, the Government announce its decision to defer the introduction of the Fire and Emergency Services Levy (FESL), with effect from 2017-18, and to reinstate the insurance based Emergency Services Levy (ESL). This decision has avoided administration and implementation costs associated with the FESL which were to have been recovered through FESL revenues. As a result, a lower amount of revenue will be generated by the ESL and consequential insurance duty than would have been generated by the FESL, offset by lower costs.

### 5.3 General government sector revenue

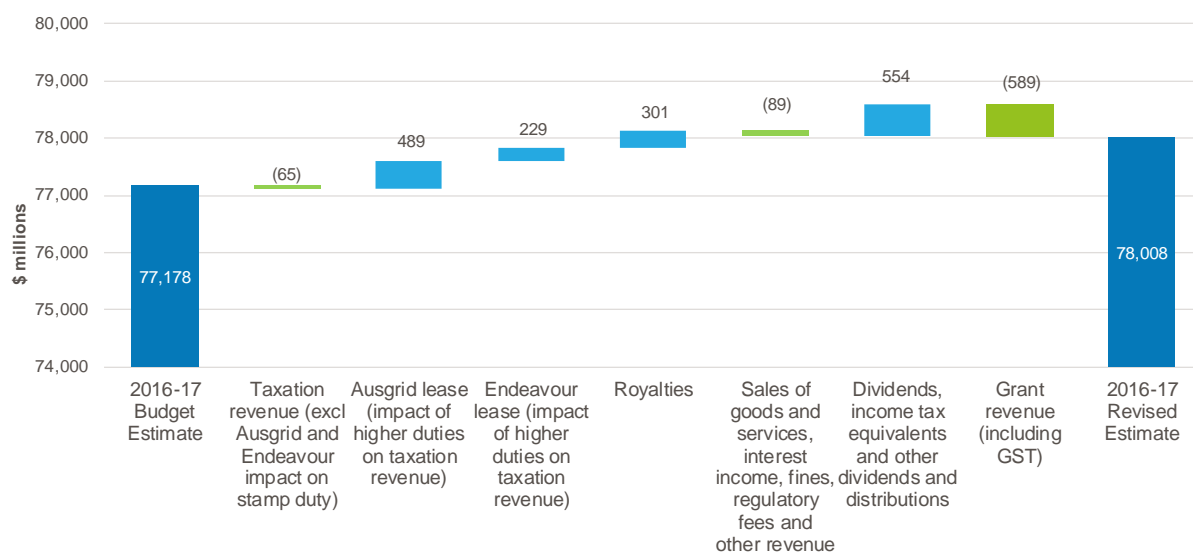
Table 5.3 provides a summary of general government sector revenue.

Table 5.3: General government sector summary of revenue

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	% Average Growth p.a. 2016-17 to 2020-21
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Revenue from transactions</b>							
Taxation	29,088	30,430	31,560	32,646	34,250	35,617	4.0
Grant revenue (including GST)	30,080	31,749	31,860	30,973	31,028	31,562	(0.1)
Sales of goods and services	8,390	8,475	8,976	9,181	9,009	8,570	0.3
Interest income	784	830	413	328	335	334	(20.3)
Dividends and income tax equivalents from other sectors	1,280	1,106	1,620	1,388	1,594	1,405	6.2
Other dividends and distributions	673	1,062	1,016	1,252	1,283	1,399	7.1
Royalties	1,189	1,558	1,665	1,574	1,520	1,530	(0.5)
Fines, regulatory fees and other revenues	3,049	2,798	2,774	2,882	3,451	3,353	4.6
<b>Total revenue</b>	<b>74,532</b>	<b>78,008</b>	<b>79,885</b>	<b>80,224</b>	<b>82,471</b>	<b>83,770</b>	<b>1.8</b>
<i>Annual change</i>		4.7%	2.4%	0.4%	2.8%	1.6%	
<b>Revenue without National Partnerships</b>	<b>71,910</b>	<b>73,825</b>	<b>76,414</b>	<b>77,731</b>	<b>80,725</b>	<b>82,604</b>	<b>2.8</b>
<i>Annual change</i>		2.7%	3.5%	1.7%	3.9%	2.3%	

In 2016-17, transfer duty will exceed expectations in the 2016-17 Budget, reflecting the ongoing strength in the property market as well as one-off transfer duty payments from the partial leases of Ausgrid and Endeavour Energy, which by convention are not recorded until transactions are complete. Commonwealth GST and other grants are expected to be lower than 2016-17 forecasts, offset by an increase in royalties as a result of higher than anticipated coal export prices (see Chart 5.1).

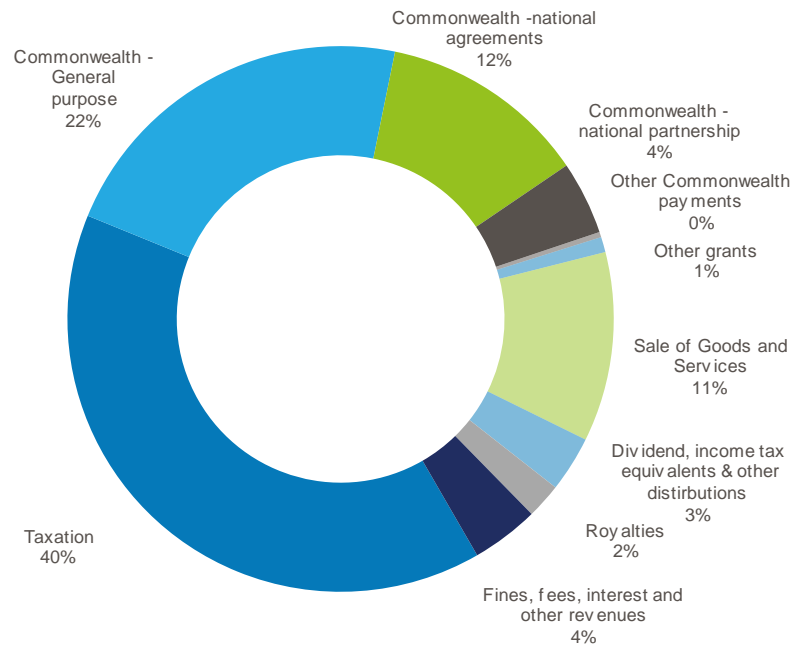
Chart 5.1: Influences on 2016-17 total revenue budget forecast versus 2016-17 revised estimate



Revenue

Chart 5.2 shows the composition of total revenue in 2017-18. Taxation revenue accounts for around 39.5 per cent of the total, while Commonwealth Government funding accounts for 39.0 per cent.

Chart 5.2: Composition of total revenue, 2017-18



### 5.4 Taxation revenue

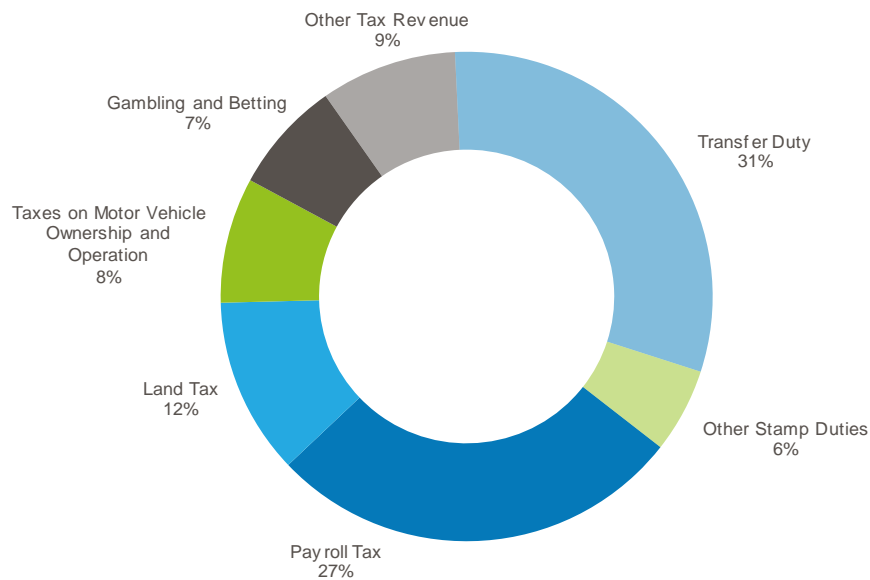
State taxation revenue is forecast to be \$31.6 billion in 2017-18, with growth over the four years to 2020-21 expected to average 4.0 per cent a year. The pace of growth is expected to remain solid with strong growth in motor vehicle taxes and land tax offset by weaker revenue growth from stamp duties and gambling taxes (see Table 5.4).

Table 5.4: General government sector summary of taxation revenue

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	% Average Growth p.a. 2016-17 to 2020-21
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Stamp duties</b>							
Transfer duty	8,805	9,634	9,699	9,866	10,319	10,757	2.8
Insurance	939	956	927	918	962	1,007	1.3
Mortgages	256	15	...	...	...	...	(100.0)
Marketable securities	52	14	...	...	...	...	(100.0)
Motor vehicles	786	817	834	864	896	928	3.2
Other	0	0	0	0	0	0	...
	<b>10,836</b>	<b>11,436</b>	<b>11,460</b>	<b>11,648</b>	<b>12,177</b>	<b>12,692</b>	<b>2.6</b>
<b>Payroll tax</b>	<b>7,931</b>	<b>8,225</b>	<b>8,635</b>	<b>8,992</b>	<b>9,448</b>	<b>9,926</b>	<b>4.8</b>
<b>Land tax</b>	<b>2,747</b>	<b>3,235</b>	<b>3,685</b>	<b>3,952</b>	<b>4,162</b>	<b>4,334</b>	<b>7.6</b>
<b>Taxes on motor vehicle ownership and operation</b>							
Weight tax	1,989	2,052	2,144	2,277	2,405	2,543	5.5
Vehicle registration and transfer fees	407	415	430	448	473	492	4.3
Other motor vehicle taxes	39	41	42	44	46	48	4.0
	<b>2,434</b>	<b>2,508</b>	<b>2,616</b>	<b>2,769</b>	<b>2,924</b>	<b>3,083</b>	<b>5.3</b>
<b>Gambling and betting taxes</b>							
Racing	134	112	111	99	87	65	(12.8)
Club gaming devices	775	775	800	826	855	884	3.3
Hotel gaming devices	680	731	766	806	848	893	5.1
Lotteries and lotto	362	346	363	373	381	389	3.0
Casino	285	278	278	286	390	303	2.2
Other gambling & betting	15	16	17	17	18	18	3.6
	<b>2,251</b>	<b>2,258</b>	<b>2,334</b>	<b>2,407</b>	<b>2,578</b>	<b>2,552</b>	<b>3.1</b>
<b>Other revenues</b>							
Health insurance levy	193	199	207	216	227	238	4.6
Parking space levy	104	104	106	108	110	113	2.1
Emergency services levy contributions	769	785	794	793	783	783	(0.1)
Waste and environment levy	704	641	565	516	522	527	(4.8)
Government guarantee fee	469	395	319	374	418	437	2.5
Private transport operators levy	22	36	68	68	68	68	16.9
Pollution control licences	28	28	29	30	31	31	2.4
Other taxes	598	579	742	774	802	832	9.5
	<b>2,889</b>	<b>2,768</b>	<b>2,829</b>	<b>2,878</b>	<b>2,961</b>	<b>3,030</b>	<b>2.3</b>
<b>Total taxation revenue</b>	<b>29,088</b>	<b>30,430</b>	<b>31,560</b>	<b>32,646</b>	<b>34,250</b>	<b>35,617</b>	<b>4.0</b>
<i>Annual change</i>		4.6%	3.7%	3.4%	4.9%	4.0%	

Chart 5.3 shows the composition of taxation revenue in 2017-18. Transfer Duty accounts for 30.7 per cent of the total, while Payroll Tax accounts for 27.4 per cent.

Chart 5.3: Composition of taxation revenue, 2017-18



## Transfer duty

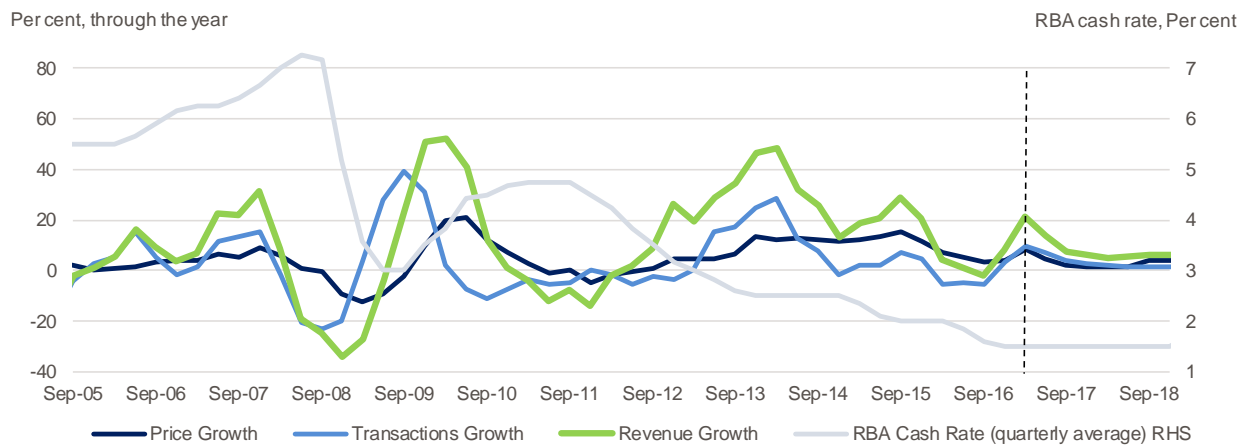
Since the 2016-17 Budget, transfer duty revenue in 2016-17 has been revised up by \$856.9 million, reflecting one-off transfer duty payments from the partial lease of Ausgrid and Endeavour Energy as well as stronger than expected price and volume growth in the residential property sector. Excluding revenue from large one-off transactions, over the budget and forward estimates transfer duty revenues are forecast to grow strongly, but to ease relative to recent growth at an average rate of 4.8 per cent per annum.

In the 2016-17 Budget, duty on residential property transfers was expected to increase by 5.5 per cent in 2016-17. Revenue from residential property transfers is now estimated to have increased by 9.6 per cent in 2016-17.

Looking forward, historically low interest rates, record housing completions and new revenue measures relating to foreign investors are expected to support transfer duty growth in 2017-18 and over the forward estimates, albeit at lower rates than in recent years (see chart 5.4). However, macro-prudential regulations along with new Commonwealth measures are expected to moderate activity in the housing market in 2017-18. Accordingly, residential transfer duty revenue is expected to grow by 5.9 per cent in 2017-18 and then moderate to an average growth rate of 5.4 per cent over the forward estimates.



Chart 5.4: Residential transfer duty, housing transactions and interest rates



### Other stamp duties

Other stamp duties include duties on general and life insurance and the transfer of new and used motor vehicles. Stamp duty on insurance is expected to grow at an average annual rate of only 1.3 per cent over the four years to 2020-21, due to the abolition of duty on small business policies, crop and livestock insurance, and lenders mortgage insurance.

Duty on motor vehicle transfers is expected to grow by 3.2 per cent per annum over the four years to 2020-21. This reflects growth in the number of motor vehicle sales and expected vehicle price growth in line with inflation.

#### Box 5.1: Helping small business by lowering insurance costs

This Budget introduces a range of measures to reduce the insurance costs of approximately 677,000 small businesses with a turnover of less than \$2 million in New South Wales. Duty on three types of insurance products will be abolished for small business from 1 January 2018; commercial vehicle insurance, professional indemnity insurance, and product and public liability insurance.

Reductions in these duties can be expected to be passed on to small business through reductions in premiums, given that the insurance market is competitive and that many small businesses are vigilant in managing their insurance costs.

Eligibility will be based on the Commonwealth definition of a small business that applies to their Capital Gains Tax (CGT) concession.

The abolition of insurance duty on commercial vehicle insurance for small businesses, which includes aviation insurance, will save small businesses \$80.0 million over four years to 2020-21. The current duty payable on this insurance is 5.0 per cent of the premium which encourages under insurance for commercial vehicles.

The abolition of insurance duty on professional indemnity insurance for small businesses (not including medical indemnity insurance) will save small businesses \$83.0 million over four years to 2020-21. Professional indemnity insurance helps protect individuals and companies from bearing the full cost of any negligence claims made by clients. The current duty payable on this insurance is 5 per cent of the premium.

The abolition of insurance duty on product and public liability insurance for small businesses will save small businesses \$155 million over four years to 2020-21. Product and public liability insurance protects businesses from claims relating to injury from products or from activities affecting third parties. The current duty payable on this insurance is 9 per cent of the premium.

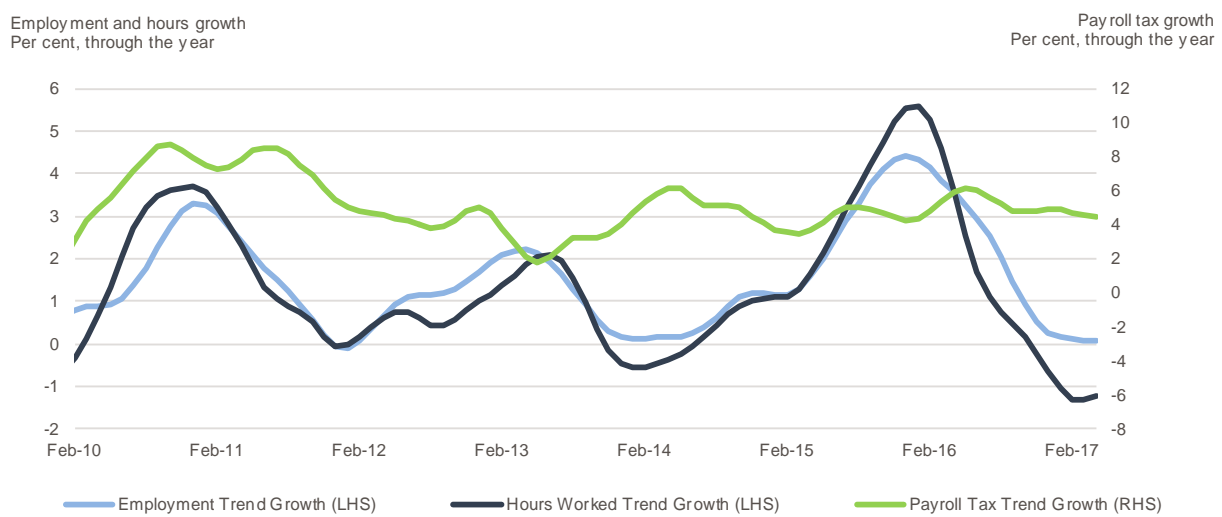
## Payroll tax

Payroll tax is forecast to grow at an annual average rate of 4.8 per cent over the four years to 2020-21.

Payroll tax revenue for 2016-17 has been revised down by \$22.9 million from the 2016-17 Budget, reflecting softer than expected wages growth and employment growth over the past year. Payroll tax receipts have remained higher than the pattern of employment and wages growth would suggest, as a result of strong compliance activity (see Chart 5.5).

While the slowdown in employment is expected to be temporary, payroll tax revenue has been revised down from the 2016-17 Budget by \$512.7 million over the four years to 2019-20. This reflects a softer wages outlook as spare capacity in the national labour market puts downward pressure on wage growth.

Chart 5.5: Growth of payroll tax, employment and hours worked



## Land tax

Land tax is payable on a landowners' total land holdings, excluding the value of a landowner's principal place of residence and farming land. The primary threshold for the 2017 land tax year is \$549,000, with the premium threshold set at \$3,357,000. Land tax assessments are issued for a calendar year and are based on the average of land values in the previous three calendar years. Averaging has the effect of smoothing annual variations in land values, increasing near-term predictability for taxpayers and the Government.

Land tax revenue is forecast to grow at an annual average rate of 7.6 per cent in the four years to 2020-21, reflecting strong growth in land values and an increase in the foreign investor land tax surcharge from 0.75 per cent to 2.0 per cent from the 2018 land tax year.

## Taxes on motor vehicle ownership and operation

Motor vehicles are subject to an annual weight tax and a fee for vehicle registration. Forecast growth in revenue reflects estimates of vehicle fleet growth and CPI indexation of the tax rates. Revenue is expected to grow at 5.3 per cent per annum on average over the four years to 2020-21.

## Gambling taxes

Gambling tax revenue is forecast to grow on average by 3.1 per cent per annum over the four years to 2020-21. Revenue from racing is expected to decrease by 12.8 per cent per annum over the four years to 2020-21 following the Government's decision in 2015-16 to bring wagering tax rates in line with those in Victoria. The changes commenced on 1 July 2015 and the reductions will be phased-in over five years with parity to be reached in 2020-21.

At the last meeting of the Council on Federal Financial Relations, the States and Commonwealth agreed to consider a common national approach to a point of consumption tax on wagering. To support that work, the New South Wales Government is assessing the impact of changing taxation on gambling from location of supplier to the point of consumption for New South Wales.

## Revenue risks

Appendix B of this Budget Statement sets out general budget risks, including the sensitivity of total revenue to changes in economic conditions.

## 5.5 Grant revenue

In 2017-18, New South Wales is expected to receive \$31.1 billion in Commonwealth Government untied payments for general purposes (primarily GST), tied grants for National Agreements and National Partnerships and other Commonwealth payments.

Total Commonwealth Government grant revenue is expected to decrease by 0.2 per cent on an annual average basis over the four years to 2020-21 (see Table 5.5).

Table 5.5: Grant revenue

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	% Average growth p.a. 2016-17 to 2020-21
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Commonwealth - general purpose	17,637	17,208	17,592	17,637	17,593	18,286	1.5
Commonwealth - national agreements	8,623	9,117	9,824	9,749	10,276	10,818	4.4
Commonwealth - national partnership	2,622	4,183	3,470	2,493	1,746	1,166	(27.3)
Other commonwealth payments	290	243	251	245	256	269	2.6
<b>Total Commonwealth grants</b>	<b>29,172</b>	<b>30,751</b>	<b>31,137</b>	<b>30,124</b>	<b>29,871</b>	<b>30,538</b>	<b>(0.2)</b>
<i>Annual change in Commonwealth grants</i>		5.4%	1.3%	-3.3%	-0.8%	2.2%	
Other grants	907	998	723	849	1,157	1,023	0.6
<b>Total grant revenue</b>	<b>30,080</b>	<b>31,749</b>	<b>31,860</b>	<b>30,973</b>	<b>31,028</b>	<b>31,562</b>	<b>(0.1)</b>

## General purpose grants - GST

In 2016-17, GST revenue is expected to be \$448.6 million lower than 2016-17 Budget as a result of overpayments in 2015-16 and GST collections being below forecasts.

Over the four years to 2019-20 revenue has been revised down by \$1.4 billion compared with the 2016-17 Budget (see Table 5.6). This is due to forecast national GST receipts shrinking by \$7.5 billion (2.9 per cent) over the four years to 2019-20 from forecasts in the 2016-17 Commonwealth Budget. The reduction has been partly offset by an increase in forecast relativities and population share for New South Wales relative to the 2016-17 Budget.

GST revenue is forecast to experience record low growth of 1.5 per cent on average per annum over the four years to 2020-21, representing a decline in GST revenue in real terms. This is due to New South Wales' share of GST per capita (or relativity) falling to 0.79 - the lowest since the GST was introduced (see Chart 5.6) – as well as slower growth in the GST pool. These trends in GST revenue contribute to softer growth in total revenue of 1.8 per cent compared to this time last year.

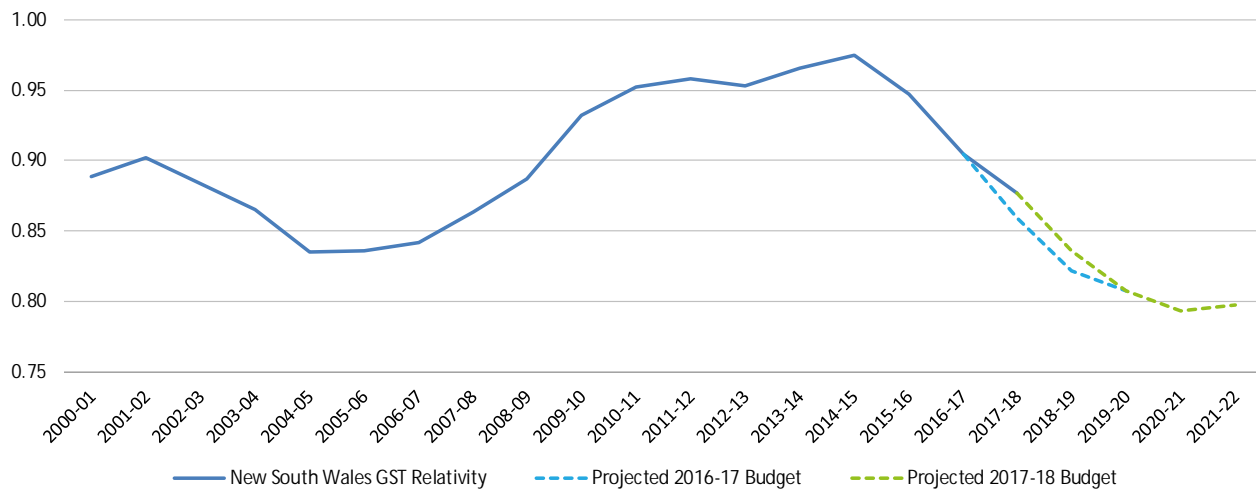
The New South Wales Government welcomes the Productivity Commission Inquiry into Horizontal Fiscal Equalisation (HFE). New South Wales has long called for HFE to be reformed, arguing for a move towards distribution closer to an equal per capita basis. The current system penalises New South Wales for having the nation's strongest performing economy and discourages states from undertaking productivity boosting reforms.

Box 5.2 further discusses GST revenues and the long overdue and necessary reform of the system that determines how it is distributed amongst states and territories.

Table 5.6: GST revenues to New South Wales – reconciliation statement

	2016-17	2017-18	2018-19	2019-20	2020-21	Total 4 years to 2019-20
	\$m	\$m	\$m	\$m	\$m	
<b>2016-17 Budget</b>	<b>17,634</b>	<b>17,644</b>	<b>17,768</b>	<b>18,243</b>		<b>71,289</b>
Change due to:						
2015-16 adjustment	(36)	...	...	...	...	(36)
Change in population	...	...	...	...	...	...
Change in pool	(186)	(36)	(36)	(36)	...	(294)
Change in relativities	0	(2)	(115)	(369)	...	(486)
<b>2016-17 Half- Yearly Review</b>	<b>17,413</b>	<b>17,607</b>	<b>17,617</b>	<b>17,839</b>	<b>18,327</b>	<b>70,475</b>
Change due to:						
Change in population	...	7	7	29	35	43
Change in pool	(228)	(324)	(167)	(654)	(404)	(1,373)
Change in relativities	...	264	150	342	292	757
<b>2017-18 Budget</b>	<b>17,186</b>	<b>17,554</b>	<b>17,607</b>	<b>17,555</b>	<b>18,250</b>	<b>69,902</b>
<b>Change since 2016-17 Budget</b>	<b>(449)</b>	<b>(90)</b>	<b>(161)</b>	<b>(688)</b>	<b>na</b>	<b>(1,387)</b>

Chart 5.6: New South Wales per capita relativity



**Box 5.2: The distribution of GST revenue is broken and needs reform**

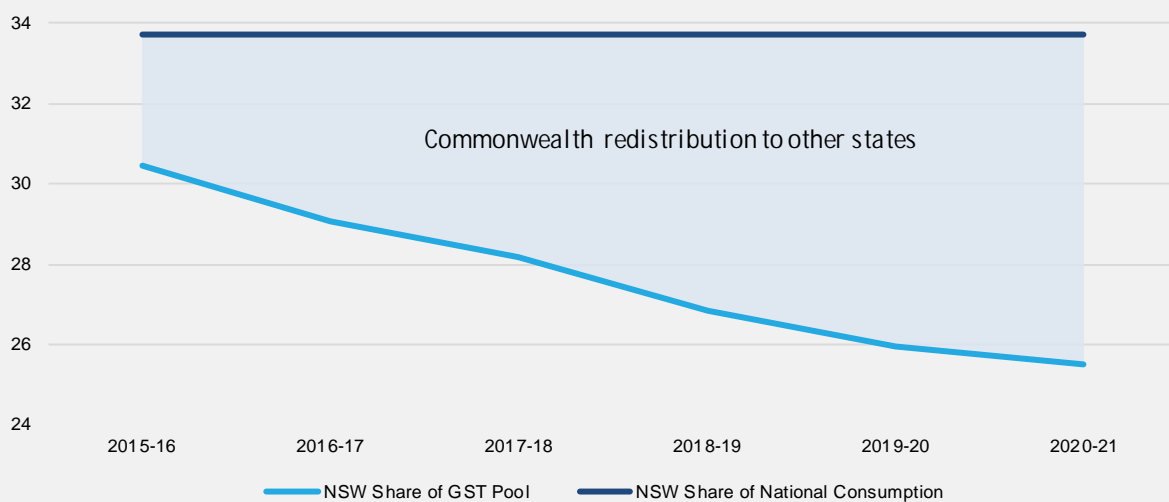
GST revenues are unequally distributed amongst the states and territories according to the principle of Horizontal Fiscal Equalisation (HFE), calculated by the Commonwealth Grants Commission (CGC).

By 2020-21, New South Wales’ GST revenue share relative to its population share is expected to decline to a historic low of 0.79 – largely reflecting NSWs’ strong economic performance.

A fairer and more efficient distribution would return a significant amount of GST revenue back to New South Wales. For example, if GST was distributed according to an equal per capita (EPC) system (that is, our population share of 32.0 per cent), New South Wales would receive an extra \$14.7 billion in revenue over the four years to 2020-21.

Even under this model, New South Wales taxpayers would still contribute more to GST revenue than the NSW government would receive. Chart 5.7 shows that our share of national consumption is approximately 33.7 per cent. Under the current system we expect to receive 28.2 per cent of the GST pool in 2017-18. This falls to 25.5 per cent by 2020-21. Under a model where GST is distributed according to share of national consumption, New South Wales would receive an extra \$19.1 billion over the four years to 2020-21.

Chart 5.7: New South Wales share of GST pool



New South Wales has long argued that the current GST distribution model is broken and should be reformed. While New South Wales broadly supports Horizontal Fiscal Equalisation (HFE), the Government believes that the distribution model should not impede national reform and economic growth. The Government, therefore, welcomes the Productivity Commission's *Inquiry into the Horizontal Fiscal Equalisation System*.

The current distribution model is complex, lacks transparency, adds to budget uncertainty, relies too heavily on the CGC's judgement and discourages initiative and reform by the states.

## National Agreements

Table 5.7 summarises the National Agreement payments by key service delivery area. Revenue from National Agreements is forecast to total \$9.8 billion in 2017-18, an increase of 7.8 per cent on 2016-17, and is expected to increase at an annual average rate of 4.4 per cent over the four years to 2020-21.

Compared to the Commonwealth Government 2016-17 MYEFO New South Wales will receive an additional \$822.2 million over the four years from 2017-18 to 2020-21 for all New South Wales schools (see Box 5.3).

New South Wales will no longer receive grants under the National Disability Agreement from 2018-19, as payments will be made directly to clients and service providers under the National Disability Insurance Scheme.

Under changes to the National Health Reform funding from the Commonwealth, New South Wales will receive less public hospital funding compared to the Commonwealth Government 2016-17 MYEFO. See Box 5.4 for further information on public hospitals funding.

Table 5.7: National Agreement and other payments to New South Wales (a)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	% Average growth p.a. 2016-17 to 2020-21
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Health	5,510	5,699	6,046	6,350	6,707	7,083	5.6
Education	1,758	2,036	2,261	2,403	2,557	2,716	7.5
Skills and workforce development	467	473	480	487	495	495	1.2
Affordable housing	425	430	436	473	480	488	3.2
Disability	462	478	495	...	...	...	(100.0)
Other	2	0	105	36	36	36	208.0
<b>Total National Agreement and other payments</b>	<b>8,623</b>	<b>9,117</b>	<b>9,824</b>	<b>9,749</b>	<b>10,276</b>	<b>10,818</b>	<b>4.4</b>

(a) Excludes payments 'through the state' such as non-government school funding

### Box 5.3: Schools funding

The 2017-18 Commonwealth Budget announced an additional \$822.2 million for all New South Wales schools (over four years from 2017-18 to 2020-21), compared to the previous Commonwealth 2016-17 MYEFO. The government sector will receive \$711.5 million and the non-government sector will receive \$110.7 million.

However, this is still a loss of at least \$1.8 billion in funding over the same period compared to the signed National Education Reform Agreement.

As part of its 2017-18 Budget, the Commonwealth Government announced a Review to Achieve Educational Excellence in Australian Schools to provide advice on how the additional Commonwealth Government funding should be used to improve school performance and student achievement.

The review will make recommendations on the most effective teaching and learning strategies to reverse declining results and seeks to raise the performance of schools and students. The final report will be provided to the Government no later than December 2017, ahead of the negotiation of new school reform agreements with states and territories in the first half of 2018.

With teacher quality being a key determinant of student outcomes, New South Wales advocates that the Review makes recommendations on initiatives that support improving teacher quality. New South Wales's view is that the review, and the Commonwealth Government, should also build on existing jurisdictional reform efforts.

New South Wales already has a rich education evidence base through the Department of Education's Centre for Education Statistics and Evaluation. The Centre undertakes in-depth analysis of education practices and their effectiveness with New South Wales being well placed to understand and evaluate what works well in its schools.

**Box 5.4: Funding for public hospitals**

In New South Wales, as in other states and territories, public hospitals are funded by a mix of State and Commonwealth contributions. These funding arrangements are set out in the National Health Reform Agreement (NHRA).

In April 2016, COAG agreed to extend the NHRA to June 2020 but to introduce changes to hospital funding arrangements alongside a number of national reform initiatives. These changes will take effect from 1 July 2017.

Under the new arrangements the Commonwealth will fund 45 per cent of growth in public hospital activity at the national efficient price. This funding growth will be capped at 6.5 per cent each year for every State and Territory.

New South Wales is expected to receive \$6.0 billion under the NHRA in 2017-18 which will finance almost 30 per cent of New South Wales's recurrent health expenditure. Alongside this, reforms will be introduced to improve the coordination of care for patients with complex chronic diseases and to improve the quality and safety of patient care.

COAG has agreed to settle new funding arrangements beyond June 2020 by the end of next year. This new agreement will be critical in ensuring the continued provision of world class health services in New South Wales and must provide certain, fair and sustainable funding to States.

The new agreement has the potential to significantly improve the value of the health system including by more effectively linking the primary and hospital care sectors and doing more to keep people well and healthy. New South Wales will also be advocating reforms to the national framework to strengthen the link between spending and the health outcomes achieved for patients.

**National Partnerships**

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

Table 5.8 summarises the payments for National Partnerships by key service delivery area. New South Wales will receive \$8.9 billion in National Partnership payments over the four years to 2020-21. Revenue from National Partnership payments over the four years to 2020-21 is forecast to decline by an average of 27.3 per cent per annum.

Table 5.8: National Partnership payments to New South Wales

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	% Average growth p.a. 2016-17 to 2020-21
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Roads and Rail including ARI	1,699	3,385	2,857	2,149	1,552	982	(26.6)
Education and skills	247	308	135	60	6	6	(62.1)
Nation building plan for the future	...	16	...	...	...	...	(100.0)
Health	160	136	125	124	91	90	(9.8)
Housing	78	30	30	...	...	...	(100.0)
Environment	56	74	82	71	9	...	(100.0)
Other	382	235	241	87	88	88	(21.8)
<b>Total National Partnership Payments</b>	<b>2,622</b>	<b>4,183</b>	<b>3,470</b>	<b>2,493</b>	<b>1,746</b>	<b>1,166</b>	<b>(27)</b>



National Partnership payments for roads and rail decline over the forward estimates due to the up-front funding profile for major infrastructure projects such as the Western Sydney Infrastructure Plan and the Pacific Highway. The fall over the forward estimates is also due to significant payments under the Assets Recycling Initiative being received in 2016-17 (\$1.0 billion) and 2017-18 (\$847.7 million).

Since the 2016-17 Budget, funding for roads and rail has increased significantly in 2018-19 and 2019-20 due to re-profiling of Commonwealth funding in the 2017-18 Commonwealth Budget. These increases also reflect the recognition of Asset Recycling Initiative following the completion of the electricity networks and Land and Property Information (LPI) transactions.

National Partnership payments in the education sector are expected to decline over the forward estimates mainly due to the expiry of agreements on early childhood education. New funding agreements covering these sectors are expected to be developed in the second half of 2018.

Housing-related National Partnership payments fall to zero over the forward estimates due to the expiry of the transitional agreement on homelessness in June 2018. A new intergovernmental agreement covering housing and homelessness is currently being developed, which is expected to replace this funding from 2018-19.

National Partnership payments for environment decline over the forward estimates due to the expiry of the agreement on Murray-Darling Basin reform and the National Partnership Agreement on Water for the Future.

The decline in other National Partnership payments is driven by the expiry of a transitional agreement related to aged care and disability services. This and most other disability-related payments that previously were provided by the Commonwealth Government to New South Wales will end after 2017-18 as part of the National Disability Insurance Scheme arrangements.

## **Federal Financial Relations**

In 2017-18, the NSW Government will pursue the following objectives in its relations with the Commonwealth Government and other states and territories:

- work toward a more dynamic form of federalism that as a minimum, removes disincentives for states to pursue fiscal and economic reform, while securing a sustainable and flexible revenue base for New South Wales over the medium term
- pursue opportunities to reform the current system of GST distribution, so that it encourages efficient service delivery and provides incentives for reforms that drive national productivity and growth (see Box 5.2)
- improve economic and fiscal outcomes for the state in the negotiation of National Agreements and National Partnerships, to ensure that government services meet the expectations and needs of the people of New South Wales
- New South Wales requires certain and stable Commonwealth Government funding, with the autonomy and flexibility necessary to continue delivering high quality services and infrastructure for the people of New South Wales.

## Other grants and subsidies

Other grants and subsidies are expected to fall from \$998.4 million in 2016-17 to \$722.6 million in 2017-18, primarily due to an increase in projected Government Property NSW and Place Management NSW asset sales deposited into Restart NSW which is not treated as revenue. Other grants and subsidies revenue are forecast to increase by 0.6 per cent on an annual average basis over the four years to 2020-21.

## Sale of goods and services

Revenue from the sales of goods and services is forecast to increase by 0.3 per cent on an average annual basis over the four years to 2020-21 (See Table 5.9).

In 2016-17, revenue from sales of goods and services is forecast to be \$280.8 million higher than at the 2016-17 Budget. This primarily reflects increased Commonwealth funding provided under the Highly Specialised Drugs arrangements due to the new Hepatitis C treatments being higher than expected. This is partially offset by lower revenue from Transport for NSW, reflecting the delay in *More Trains, More Services* from 2016-17 to 2017-18. Further increases in 2017-18 and 2018-19 are primarily due to bringing forward the New Intercity Fleet and the commencement of Central Walk.

Table 5.9: Sales of goods and services

	2015-16 Actual	2016-17 Revised	2017-18 Budget	2018-19	2019-20	2020-21
	\$m	\$m	\$m	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
Rents and leases	170	171	182	181	187	204
Fees for service	2,129	2,051	2,480	2,299	2,044	1,352
Entry fees	51	61	52	52	53	53
Patient fees and hospital charges	983	1,040	1,135	1,199	1,264	1,332
Department of Veterans' Affairs	334	337	325	375	395	416
Court fees	121	121	125	126	129	133
Road tolls	153	152	156	160	164	168
Other sales of goods and services	4,451	4,543	4,521	4,789	4,773	4,911
<b>Sales of goods and services</b>	<b>8,390</b>	<b>8,475</b>	<b>8,976</b>	<b>9,181</b>	<b>9,009</b>	<b>8,570</b>

## Royalties

Royalties over the four years to 2019-20 are expected to be \$839.0 million higher than forecast in the 2016-17 Budget, reflecting an increase in coal prices, which has been partially offset by a higher Australian-US dollar exchange rate and lower coal exports.

The forecasts draw on current market expectations for the thermal coal price, which are for some reduction over the forward estimates, though at a higher level than for the 2016-17 Budget. Changes in the Chinese Government's domestic coal production limits contributed to substantial coal price rises in the first half of 2016-17, and may be a significant influence on future prices.

## Dividends and income tax equivalents

Dividends and tax equivalent payments for 2016-17 are forecast to be \$1.1 billion and total \$6.0 billion over the period from 2017-18 to 2020-21. For further detail refer to Chapter 8 of this Budget Statement.

## Other dividends and distributions

In 2016-17, other dividends and distributions are expected to be \$621.2 million higher than expected in the 2016-17 Budget. This is due primarily to improved returns on SiCorp investments by TCorp. Over the four years to 2020-21, revenue is expected to increase by 7.1 per cent on average per annum. This is driven primarily by the transition of Restart NSW and Social and Affordable Housing Fund (SAHF) monies into TCorp managed unit trusts.

## Interest income

Interest income in 2017-18 is forecast to be \$416.7 million lower than in 2016-17. This is due to the transition of Restart NSW and Social and Affordable Housing Fund (SAHF) monies into higher yielding TCorp managed unit trusts. For these reasons, interest income is expected to decrease over the four years to 2020-21 as investments are moved into higher return term assets, represented in the increase in Other dividends and distributions.

## Fines, regulatory fees, licences and other revenue

Total revenue in this category is expected to grow by 4.6 per cent over the four years to 2020-21 (See Table 5.10). Special Infrastructure Contributions (SICs) are expected to increase significantly due to the SIC system being expanded to new regions.

Table 5.10: Fines, regulatory fees and other revenues

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
Fines	587	581	605	639	665	700
Regulatory fees	166	141	139	145	149	154
Licences	353	204	170	187	203	201
Other revenues	1,942	1,873	1,861	1,911	2,434	2,300
<b>Total fines, regulatory fees and other revenues</b>	<b>3,049</b>	<b>2,798</b>	<b>2,774</b>	<b>2,882</b>	<b>3,451</b>	<b>3,353</b>

## 6. EXPENDITURE

- The strength of the 2017-18 Budget allows the Government to continue to invest in key services and frontline staff to support local communities and help businesses to thrive.
- New expense measures in this Budget include investments in education, health, public safety and community services, cultural infrastructure, and the development of regional communities. These initiatives assist in delivering the Premier's Priorities and State priorities to support those in need, improve government services and invest in New South Wales' future.
- Expenses in 2017-18 are estimated to be \$77.2 billion. The majority of government spending in 2017-18 is related to the delivery of key services in health (26.6 per cent) and education (20.3 per cent).
- Over the forward estimates expenses are expected to grow at an average of 2.8 per cent per annum, reflecting the Government's commitment to sustainable expense growth.
- The Government remains committed to efficient service delivery, allowing it to reinvest in services that support families and communities, and managing expense growth. This is demonstrated through new whole-of-government procurement savings and an extension of the efficiency dividend.
- General government capital expenditure is expected to be \$49.7 billion over the budget and forward estimates. This is primarily related to investments in service delivery infrastructure in education, health, public transport and infrastructure to support housing supply.

### 6.1 General government recurrent expenditure

General government expenditure refers to the ongoing costs required to deliver government services that support schools, hospitals, police and other essential services. Recurrent expenditure includes salaries and wages, other operating expenses, depreciation, interest charges and grants.

General government sector (GGS) recurrent expenses in 2016-17 are expected to be \$73.5 billion. This is \$72.9 million higher than estimated in the 2016-17 Budget. The increase in expenses is driven by new policy measures and other budget variations related to health spending, enhancing transport services and supporting regional areas.

Expenditure in 2017-18 is expected to be \$77.2 billion, which is 5 per cent higher than 2016-17. Over the budget and forward estimates, annual expense growth is expected to remain below long-term average revenue growth of 5.6 per cent, in line with the Government's commitments outlined within the *Fiscal Responsibility Act 2012* (FRA).

Expenditure as a share of GSP is expected to fall from 12.9 per cent in 2017-18 to 12.0 per cent in 2020-21. Over the period from 2010-11 to 2020-21, expenditure as a proportion of GSP is projected to decline by an average of 0.7 per cent per annum (see Chart 2.3). This demonstrates the Government's responsibility in managing growth in expenses through carefully implemented savings measures and innovation in service delivery. This enables new spending to focus on the priorities of communities across New South Wales.

## Expenditure

Table 6.1 provides a reconciliation of expense aggregates between the 2016-17 Budget and the 2017-18 Budget.

Table 6.1: Expense reconciliation since the 2016-17 Budget

	2016-17 Revised \$m	2017-18 Budget \$m	2018-19 Forward Estimates \$m	2019-20 Forward Estimates \$m
<b>Expenses – 2016-17 Budget</b>	<b>73,464</b>	<b>75,981</b>	<b>76,475</b>	<b>79,402</b>
Policy measures	243	545	465	331
Parameter and other budget variations	121	95	(158)	(210)
<b>Expenses – 2016-17 Half Yearly Review</b>	<b>73,828</b>	<b>76,621</b>	<b>76,782</b>	<b>79,523</b>
Policy measures	34	923	1,034	826
Reforms, savings and offsets	...	(173)	(478)	(561)
Parameter and other budget variations	(325)	(185)	759	1,151
<b>Expenses – 2017-18 Budget</b>	<b>73,537</b>	<b>77,186</b>	<b>78,098</b>	<b>80,939</b>

In 2016-17, the growth in expenses since the 2016-17 Budget is largely driven by new policy measures, including grants to local government and businesses for the delivery of community infrastructure, resources for regions and tourism projects.

The increase in expenses in 2016-17 is offset by the net impact of parameter and other budget variations, largely related to reprofiling of rail related transport infrastructure.

Since the 2016-17 Budget, the variation in expenses over the period 2017-18 to 2019-20 is driven by:

- new policy measures made since the 2016-17 Half-Yearly Review totalling \$2.8 billion over three years (\$3.6 billion over four years) that will assist in delivering the Premier's Priorities and State priorities to support those in need, improve government services and invest in New South Wales' future growth
- the increase in expenses is partially offset by whole-of-government procurement savings and efficiencies in service delivery of \$1.2 billion over three years (\$1.9 billion to 2020-21), allowing the government to deliver critical services and meet the needs of the NSW community
- parameter and other budget variations amounting to \$1.7 billion over three years, largely related to increases in depreciation associated with implementing the Government's infrastructure program, the provision of Hepatitis C treatments in public hospitals, increased enrolments in schools and out-of-home-care and reprofiling of Commonwealth grants and rail infrastructure related expenditure
- new policy measures and other variations announced at the 2016-17 Half-Yearly Review of \$1.1 billion over three years.

## New policy measures

New policy measures announced in the 2017-18 Budget allow the benefits of New South Wales' strong fiscal and economic performance to be shared across the State. The new initiatives in this budget include investments in local infrastructure and frontline services, funding for our regions, and enhanced support for those in need. New policy measures include spending in the priority areas of:

- healthcare and hospitals
- schools and education services for our community
- public transport and local roads
- investments in our regional communities
- sports, arts and culture
- support for families, children and individuals in need
- infrastructure to connect our state
- helping families with the cost of living
- supporting business to invest, grow and innovate
- protecting New South Wales communities.

For further information on the Government's new initiatives, see Chapter 1 of this *Budget Statement*.

### Box 6.1: Building stronger regional and rural communities

The Government is investing in services and infrastructure for the economic and social benefit of regional communities.

#### Regional Growth: Economic Activation Fund

The Government has reserved \$1 billion through Restart NSW for a new Regional Growth: Economic Activation Fund to be spent on selected regional based projects commencing from 2017-18. The fund will unlock economic growth in the regions through targeting investments to:

- improve local infrastructure
- provide resources for regions and address infrastructure in mining communities
- connect country communities by improving voice and data connectivity
- support participation and high achievement for regional sporting communities.

#### Regional Cultural Fund

The Government is allocating \$100 million over four years for a Regional Cultural Fund. This fund aims to support cultural and artistic activities in regional and rural communities in order to enhance liveability and social amenity across New South Wales.

#### Stronger Country Communities Fund

The Government is allocating \$200 million over three years toward a Stronger Country Communities Fund. The fund will support community and public facilities such as community halls, playgrounds and cycle paths. Funding will be available for Local Government Areas within regional New South Wales to allow investment in improved public amenities.

**Box 6.1: Building stronger regional and rural communities (cont)****Safe and Secure Water program**

The Government has repurposed the Rebuilding NSW Regional Water Security and Supply Fund to create the \$1 billion Safe and Secure Water program. Funding will be provided for regional projects to improve water security, public health and environmental outcomes.

The Safe and Secure program will involve an applicant-led expression of interest process, with a number of projects already earmarked for consideration.

**Regional Growth: Environment and Tourism Fund**

The Government continues to progress the \$300 million Regional Growth: Environment and Tourism Fund as part of the \$20 billion Rebuilding NSW plan. The fund aims to increase tourist visitations by investing in regional environment and tourism infrastructure, particularly focusing on assets that will grow and further diversify NSW regional economies.

**Managing expenditure growth**

The 2017-18 Budget reaffirms the Government's commitment to deliver services to the community as efficiently and effectively as possible.

Reflecting the Government's desire to improve the efficiency of government spending, this budget includes a range of savings and offset measures. As a result, four year average expenditure growth of 2.8 per cent is forecast over the budget and forward estimates. Annual expense growth is also expected to remain below long-term average revenue growth of 5.6 per cent in each year from 2017-18 to 2020-21. This is in line with the Government's commitments outlined within the FRA.

Offsetting measures totalling \$1.9 billion over four years allow the Government to redirect spending towards areas of identified need and priority, and include:

- the annual efficiency dividend on agencies announced in the 2016-17 Budget will be increased from the current rate of 1.5 per cent to a rate of 2 per cent from 2018-19 for three years. The efficiency dividend will continue to target back office savings. This is expected to attain an additional net saving of \$547.5 million over three years
- savings of \$491 million over four years reflecting streamlining of existing New Home Grants and First Home Owner Grants, which was used to partially offset the significant enhancements and tax cuts in the Government's housing affordability strategy
- additional savings of \$169.7 million over four years are forecast through the delivery of procurement-based savings relating to enhanced contract and tendering of facilities management, ICT end-user devices and fleet management based services
- agency specific savings of over \$500 million across the budget and forward estimates.

A range of new policy proposals are being delivered by reallocating existing resources. This ensures no impact on aggregate expenses over the budget and forward estimates.

The Government also remains focused on a whole-of-government approach to better service delivery (see Box 6.2).

The Government is committed to prudent financial management and sustainable expense growth, allowing it to reinvest in services that support families and communities, as well as meeting the long-term fiscal pressures outlined in the *NSW Intergenerational Report 2016*. Table 6.2 below outlines the total impact of whole-of-government efficiencies and savings introduced since 2011-12, amounting to \$28.1 billion from 2016-17 to 2020-21.

Table 6.2: Whole-of-government efficiencies since 2011-12

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
		Budget	Forward estimates			
	\$m	\$m	\$m	\$m	\$m	\$m
<b>2011-12 to 2016-17 commitments<sup>(a)</sup></b>	<b>5,004</b>	<b>5,291</b>	<b>5,528</b>	<b>5,768</b>	<b>5,768</b>	<b>27,359</b>
<b>2017-18 commitments</b>						
<i>Efficiency Dividend</i>			64	128	355	<b>548</b>
<i>Procurement savings initiatives</i>		10	52	53	54	<b>170</b>
<b>Total savings</b>	<b>5,004</b>	<b>5,301</b>	<b>5,644</b>	<b>5,949</b>	<b>6,178</b>	<b>28,076</b>

(a) 2011-12 to 2016-17 commitments are based on total amounts published in 2016-17 Budget Paper No. 1.

Expense management continues to be supported by the NSW Public Sector Wages Policy, which has provided the Government with a fair and effective system to manage wage growth. The policy has avoided additional costs of around \$4 billion over the period from July 2011 to June 2017, providing additional resources for reinvestment in critical programs and services.

### Box 6.2: Commissioning and contestability policy

The Government is delivering on its commitment to develop new and innovative ways to provide high quality services in a fiscally responsible way.

The Commissioning and Contestability Unit (the Unit) was established within Treasury in 2016-17 to drive a whole-of-government approach to better service delivery. In consultation with service delivery agencies, the Unit has developed the NSW Government Commissioning and Contestability Policy, providing a whole-of-government framework for using commissioning and contestability to reform services. The Policy, released in November 2016, sets the Government's expectation for how to design, fund and facilitate new service models that enhance outcomes for citizens and put the customer at the centre.

The Unit is working with agencies to embed commissioning across Government, by identifying services that would benefit from innovative approaches and partnering with them to deliver projects to provide improved service outcomes. Key achievements to date include:

- working with the Department of Family and Community Services to design and deliver Phase 1 of the Social and Affordable Housing Fund (see Box 6.9)
- supporting Transport for NSW to design and implement a world-class transport system for Newcastle, with a focus on increasing patronage through a more integrated transport network that better meets the needs of customers
- working with Corrective Services on the market testing of management, operations and maintenance services for John Morony Correctional Centre to deliver quality outcomes for inmates, encourage innovation and increase accountability and transparency.

### Parameter and other budget variations

Parameter and other budget variations are driven by changes to underlying factors that are largely beyond government control, including changing economic conditions, growth in activity, demand or population, as well as Commonwealth Government grants and accounting adjustments.



## Expenditure

Major parameter and other budget variations that increase expenditure in 2017-18 and across the forward estimates include:

- \$371.1 million over four years relating to the accelerated delivery of rail infrastructure projects, including more trains, more services and increased expenditure on rail power supply
- \$321.9 million over four years to meet growth in student numbers in schools, including additional staff to support students with a disability
- additional expenditure of \$246.4 million over four years to provide new drug treatments for Hepatitis C, funded by the Commonwealth Government
- an increase in funding of \$148 million over four years for high-needs children in the out-of-home-care system (OOHC), reflecting higher numbers of children in OOHC and increased complexity of cases
- depreciation expenses associated with the Government's infrastructure program, including \$225.5 million following the 2016-17 Budget's investment in additional prison bed capacity and \$486.8 million related to the delivery of transport infrastructure that will help reduce the time people spend commuting
- \$40 million towards the assisted school travel program, related to higher demand for tailored transport services for school children.

### Trends and outlook – recurrent expenditure

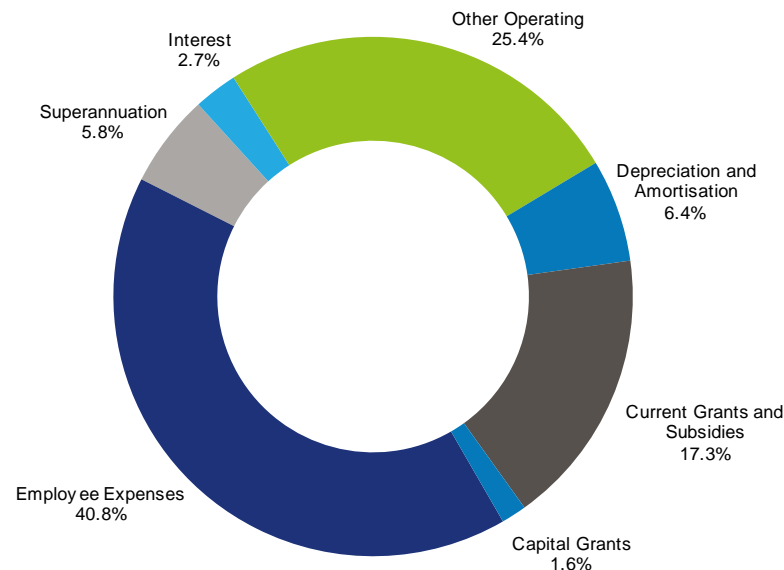
This section provides information on general government expenditure by major operating statement category, as shown in Table 6.3.

Table 6.3: General government sector expenses

	2016-17	2017-18	2018-19	2019-20	2020-21	% Four year average growth 2016-17 to 2020-21
	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	
Total Employee-Related Expenses	35,031	35,957	37,972	39,465	40,206	3.5
<i>Employee Expenses</i>	<i>30,605</i>	<i>31,483</i>	<i>33,718</i>	<i>35,195</i>	<i>35,927</i>	<i>4.1</i>
<i>Superannuation</i>	<i>4,426</i>	<i>4,474</i>	<i>4,253</i>	<i>4,270</i>	<i>4,279</i>	<i>(0.8)</i>
Other Operating	18,524	19,627	18,837	19,060	19,091	0.8
Depreciation and Amortisation	4,632	4,937	5,175	5,558	5,775	5.7
Current Grants and Subsidies	12,388	13,359	13,041	13,475	13,934	3.0
Capital Grants	844	1,212	908	854	677	(5.3)
Interest	2,117	2,094	2,165	2,526	2,586	5.1
<b>Total Expenses</b>	<b>73,537</b>	<b>77,186</b>	<b>78,098</b>	<b>80,939</b>	<b>82,270</b>	<b>2.8</b>
Annual change	5.3%	5.0%	1.2%	3.6%	1.6%	

Chart 6.1 shows the composition of expenses in 2017-18 by operating category. Employee expenses (including superannuation) are the largest category, being almost half of total expenses (46.6 per cent). Other operating expenses form the second largest category (25.4 per cent), followed by current grants and subsidies (17.3 per cent), depreciation and amortisation (6.4 per cent), interest expenses (2.7 per cent) and capital grants (1.6 per cent).

Chart 6.1: Composition of 2017-18 expenses



## Employee expenses

As the largest expense group, strong management of employee-related expense growth is paramount to the Government's fiscal strategy.

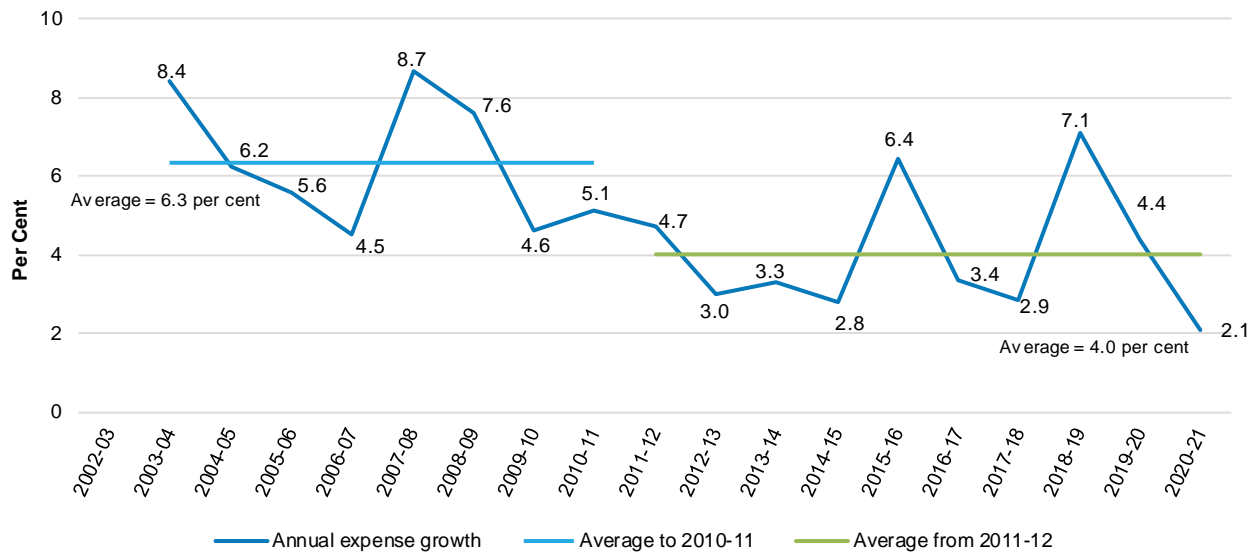
Employee expenses (excluding superannuation) are expected to increase by an average 4.1 per cent per annum across the budget and forward estimates.

This increase is driven primarily by wage growth combined with increased investment in frontline staff, largely within health and education.

Chart 6.2 below shows that the combination of initiatives such as the NSW Public Sector Wages Policy and the Labour Expense Cap has kept average employee expense growth low. Annual average growth in employee expenses was 6.3 per cent from 2003-04 to 2010-11 compared with the forecast average annual growth rate of 4.0 per cent for the ten years to 2020-21.

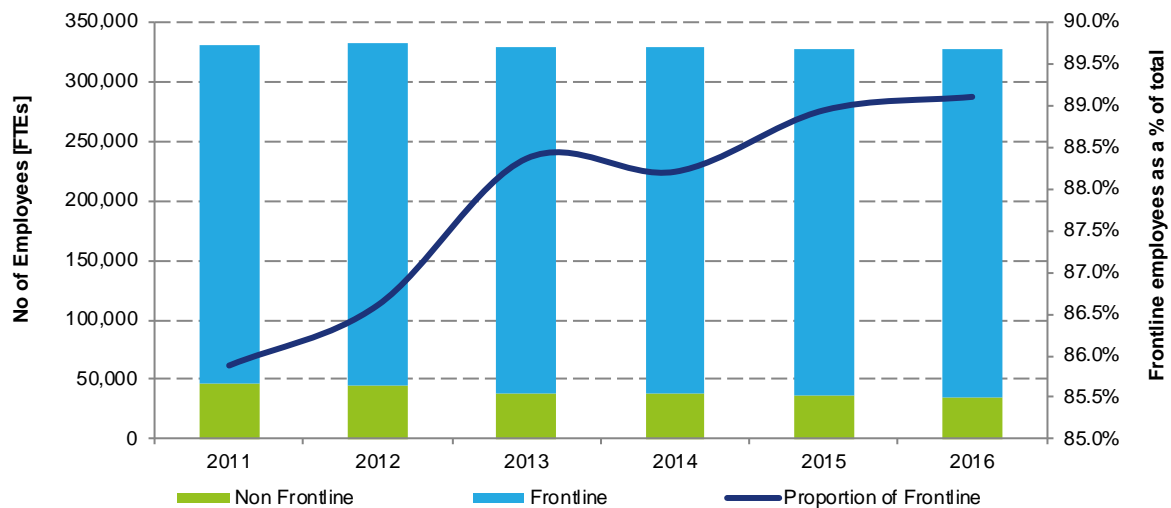
Expenditure

Chart 6.2: Employee expenses growth 2003-04 to 2020-21



Maintaining sustainable levels of expense growth has enabled the Government to increase frontline staff as a proportion of the total New South Wales public sector (see Chart 6.3). Over the period 2011 to 2016 the number of teachers, nurses, police officers and other frontline staff increased by 7,344 FTEs whilst the number of non-frontline staff fell by 10,658 FTEs.

Chart 6.3: Proportion of frontline and non-frontline staff from 2011 to 2016



(a) Employee numbers refer to the Total State Sector. In 2011, 380 FTE staff were not accounted for.

**Box 6.3: Expanding our services and investing in frontline staff****Additional caseworkers – *Their Futures Matter* program**

The Government has committed an additional \$63 million over four years to the *Their Futures Matter* program, to provide better protection and targeted assistance to individuals, families and children in need. This will increase the number of caseworkers and case support workers in priority areas to allow more effective and early assistance.

**Increasing the number of New South Wales' health providers**

In 2017-18, the Government will invest in over 4,500 additional nurses, midwives, doctors, allied health professionals and hospital support staff, going beyond the 2015 election commitment of 3,500 additional frontline staff and delivering the commitment ahead of schedule.

The Budget includes an additional \$12 million in 2017-18 towards the third year of the Government's commitment to employ 360 new specialised nursing, midwifery and support positions to provide extra training positions for medical, allied and oral health, including:

- \$9.8 million to recruit an additional 55 specialist nurses/midwives, 10 mental health clinical nurse educators for new graduate and undergraduate support and 30 clinical support officers
- \$8.2 million for an additional 30 specialist palliative care nurses, six additional palliative care specialists, and two specialist positions to provide relief to other specialists in rural and regional locations
- \$7.5 million to employ an additional 50 paramedics to assist in reducing fatigue in rural and remote areas
- \$2.3 million to provide an extra five rural generalist training and 15 medical specialist training positions, as well as additional medical, allied health and oral health scholarships.

**Superannuation expenses**

Superannuation expenses are expected to decline by an average of 0.8 per cent per annum across the budget and forward estimate years, consistent with reducing defined benefit superannuation liabilities, which are expected to be fully funded by 2030 in line with the Government's targets in the FRA.

**Other operating expenses**

Other operating costs are forecast to grow by an annual 0.8 per cent per annum over the budget and forward estimates.

Expenditure on other operating expenses is forecast to increase by 6 per cent from 2016-17 to 2017-18. This is largely driven by investments in education, such as school facilities, continued demand for the new Hepatitis C drug and funding related to major transport and infrastructure initiatives including the New Intercity Fleet, Western Sydney Stadium and the Walsh Bay Arts Precinct.

**Current grants and subsidies**

Current grants and subsidies form approximately 17.3 per cent of 2017-18 total expenses and are expected to grow by an average of 3 per cent per year over the budget and forward estimates.

## Expenditure

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In 2017-18, current grants and subsidies are expected to increase by 7.8 per cent relative to 2016-17. This is primarily driven by grants to non-government schools, payments related to the local infrastructure growth scheme and National Disability Insurance Scheme (NDIS) as well as \$235.6 million in Restart NSW grant payments to local and community organisations.

Current grants and subsidies are expected to decrease in 2018-19, reflecting the transition to the NDIS, before rising again in 2019-20 with anticipated growth in grants to non-government service providers in other sectors.

### **Capital grants**

Capital grants can be volatile, reflecting the timing and profile of the delivery of infrastructure projects.

Capital grants are forecast to increase in 2017-18 to \$1.2 billion. This increase is primarily driven by capital grant payments to facilitate the delivery of infrastructure projects such as the renewal and maintenance of the Sydney Opera House and the Western Sydney Stadium upgrade.

From 2018-19 to 2020-21, capital grants are expected to decline due to a reduction in the quantum of grant payments to Western Sydney Stadium and Sydney Opera House Renewal Stage 1.

### **Depreciation and amortisation**

Expenditure on depreciation and amortisation is expected to grow at an average of 5.7 per cent per year over the budget and forward estimates. This reflects the Government's ongoing commitment to investing in critical infrastructure including the development of new hospitals, the Prison Bed Capacity program, CBD and South East Light Rail and Sydney Metro Northwest.

### **Interest**

Average growth of interest expenses is forecast to be 5.1 per cent per annum from 2017-18 to 2020-21 as the Government looks to use low cost borrowing to contribute toward the delivery of its infrastructure program. This includes interest costs relating to the delivery of rail and light rail infrastructure including Sydney Metro Northwest and CBD and South East Light Rail.

## 6.2 General government capital expenditure

Table 6.4 provides a reconciliation of the changes in the general government sector capital expenditure program from the 2016-17 Budget to the 2017-18 Budget.

Table 6.4: Capital expenditure reconciliation

	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m
<b>Capital expenditure - 2016-17 Budget</b>	<b>12,531</b>	<b>12,092</b>	<b>12,331</b>	<b>7,718</b>
Policy measures	536	793	733	662
Parameter and other variations	(275)	(169)	(95)	(4)
<b>Capital expenditure - 2016-17 Half-Yearly Review</b>	<b>12,792</b>	<b>12,717</b>	<b>12,969</b>	<b>8,375</b>
Policy measures	144	1,526	1,937	2,422
Parameter and other variations	(1,993)	273	1,586	(90)
<b>Capital expenditure - 2017-18 Budget</b>	<b>10,943</b>	<b>14,515</b>	<b>16,491</b>	<b>10,707</b>

Capital expenditure for 2017-18 is \$14.5 billion, totalling \$49.7 billion over the four years from 2017-18 to 2020-21. General government capital spending includes spending by general government agencies and does not include spending by public non-financial corporations such as Rail Corporation of New South Wales and Sydney Water Corporation.

Spending by the non-financial public sector, which includes public non-financial corporations, will be \$72.7 billion over four years. Capital expenditure on infrastructure allows the Government to provide for a growing population and lays the platform for economic growth.

General government capital expenditure in the 2017-18 Budget has increased by \$8.0 billion from 2016-17 to 2019-20 since the 2016-17 Budget. This increase is mainly a result of new policy measures announced by the Government, including major investments in education, health and infrastructure to support housing supply.

### Trends and outlook – capital expenditure

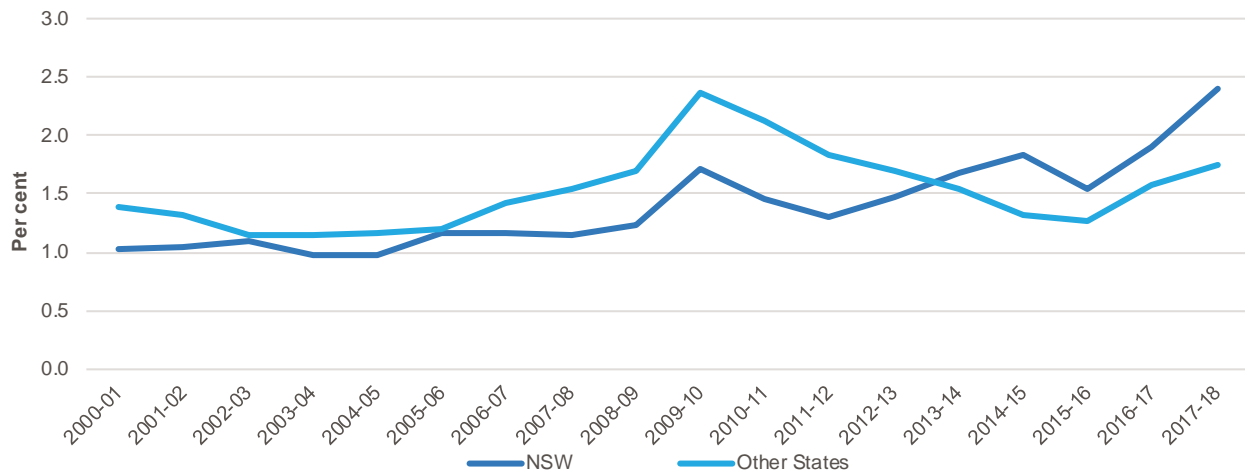
General government capital expenditure<sup>1</sup> as a share of GSP has grown from 1.5 per cent in 2010-11 to 2.4 per cent in 2017-18 (see Chart 6.4) reflecting the continuing record levels of the Government's infrastructure program.

For further information on capital expenditure, refer to *Budget Paper No.2*.

<sup>1</sup> General government purchases of new non-financial assets. This does not include assets acquired through finance leases to allow for jurisdictional comparison.

Expenditure

Chart 6.4: General government sector capital spending relative to GSP <sup>(a)</sup>



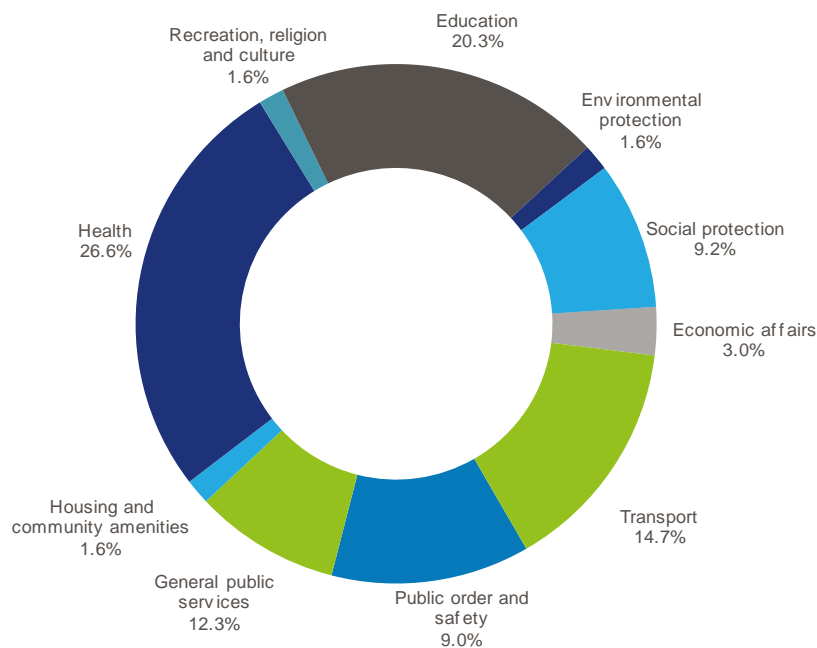
(a) General government sector – purchases of new non-financial assets, percentage of GSP. For consistency with other states, assets acquired through finance leases are excluded.

Source: ABS cat no. 5520.0 & 5512.0 for years 1999-00 to 2015-16. State Budget papers and NSW Treasury calculations for 2016-17 and 2017-18.

### 6.3 Recurrent and capital expenditure by function

The following section provides information on the State’s total expenditure by the Classification of Functions of Government – Australia (CoFOG-A).<sup>2</sup> Chart 6.5 and Chart 6.6 outline the composition of total recurrent and capital expenditure by function.

Chart 6.5: Composition of total recurrent expenditure 2017-18: by policy area <sup>(a)</sup>



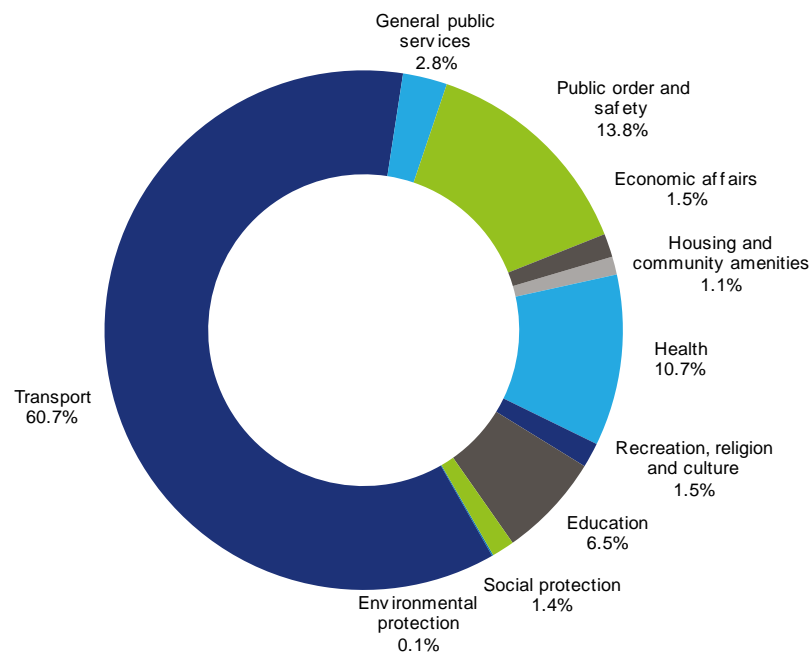
(a) The composition of total recurrent expenses is classified by Government Finance Statistics (GFS) Classification of Functions of Government – Australia (CoFOG-A)

<sup>2</sup> This replaces the previous Government Purpose Classification framework (GPC) and is different to agency budgets to allow for cross jurisdictional comparisons. See Appendix A1 for details.

As shown in Chart 6.5, the five largest recurrent expense groups are health, education, transport, general public services and social protection, accounting for 83.2 per cent of total recurrent expenditure.

Chart 6.6 shows the five largest capital expense groups are transport, public order and safety, health, education and general public services which, combined, account for 94.4 per cent of total capital expenditure. Chart 6.6 does not include spending by public-non-financial corporations.

Chart 6.6: Composition of total capital expenditure 2017-18: by policy area <sup>(a)</sup>



(a) The composition of total capital expenses is classified by Government Finance Statistics (GFS) Classification of Functions of Government – Australia (CoFOG-A)

## Health

In 2017-18 recurrent health related expenditure of \$20.6 billion accounts for 26.6 per cent of total recurrent expenditure. This spending delivers better health outcomes for the people of New South Wales by providing increased hospital capacity, funding for palliative care, improved ambulatory services, mental health treatment and targeted community health services.

The capital program for health in 2017-18 accounts for 10.7 per cent of total GGS capital expenses and amounts to \$1.5 billion with an additional \$149 million from Health’s expense budget, bringing the total to \$1.7 billion.

The Government remains committed to improving mental health services, with record expenditure of \$1.9 billion in 2017-18.



**Box 6.4: Investing in health infrastructure and the wellbeing of our communities**

The Government is committed to protecting, and improving the health and wellbeing of the people of New South Wales. During 2017-18, the Government will increase recurrent spending on health by almost \$1 billion. This increase will support investment in a number of key health services, including:

- an extra \$366 million for meeting demand for patient services in NSW public hospitals. This includes an estimated 28,000 increase in emergency department attendances, 45,900 increase in acute inpatient separations, including additional elective surgery for 3,200 more patients
- additional funding of \$21 million in 2017-18 for small rural and specialist hospitals. This includes support in developing multi-purpose services, which help deliver inpatient, emergency, community health and residential aged care services for rural patients closer to home
- \$20 million additional funding to continue the implementation of *Living Well: A Strategic Plan for Mental Health Reform in NSW*. This new funding now brings total annual spending to \$95 million for implementing this major reform in how we care for those with mental health conditions. Total mental health recurrent spending will exceed \$1.9 billion in 2017-18, an \$87 million increase over the previous year
- \$10 million for a new Integrated Violence Abuse and Neglect Service, providing: 24 hour integrated crisis counselling, medical and forensic responses to sexual assault, child abuse and neglect, and domestic family violence patients presenting to hospital; and additional psychosocial follow-up support to help facilitate an integrated patient journey
- \$10 million towards increased dental services, allowing around 17,000 more patients to receive a course of dental care
- \$10 million to protect the health and wellbeing of New South Wales ambulance staff and help reduce the number of paramedics impacted by workplace injuries
- \$9.8 million to recruit an additional 55 specialist nurses/midwives, a further 10 Mental Health clinical nurse educators for new graduate and undergraduate support, and an extra 30 Clinical Support Officers in hospitals across New South Wales
- \$7.5 million to employ an additional 50 paramedics to assist in reducing fatigue in rural and remote areas of the State
- \$4.5 million for providing meningococcal W vaccinations for Year 11 and 12 students, in response to increasing numbers of notifications of this meningococcal strain in Australia.

**Education**

Recurrent expenditure in the education sector is estimated to be \$15.7 billion in 2017-18, or 20.3 per cent of total expenses.

In 2017-18, investments in pre-school and long day care, primary and secondary education represent the largest component of education expenditure, totalling \$12.1 billion. This expenditure supports 1,606 primary schools, 401 secondary schools, 65 central/community schools, 113 schools for special purposes and 23 environmental education centres, delivering educational services to around 789,000 students and will also fund around 1,000 additional teachers.

The 2017-18 Budget will provide capital expenditure to the education sector, which accounts for 6.5 per cent of total capital expenditure. Across the budget and forward estimates, a record

\$4.2 billion is being invested into new and existing infrastructure projects in government schools.

### **Box 6.5: Investing in our schools and early childhood education**

#### **Schools infrastructure and maintenance**

Student enrolments in NSW Government schools are projected to grow by 21 per cent, or 164,000 students, over the next 15 years. The NSW Government is responding to this spike in student enrolments by delivering the public school infrastructure to meet the needs of students and parents across New South Wales.

Commencing from 2017-18, a significant program of school capital works projects will deliver new and renewed teaching spaces to support modern teaching methodologies and high quality teaching and learning outcomes in NSW Government schools.

Well-maintained schools lead to better educational outcomes, and teachers and students in existing schools will also be supported through a record investment of \$747.4 million over the next four years to address high priority and backlog maintenance requirements. This funding commences from 2017-18 and represents an additional \$411.3 million investment from 2017-18.

A newly created specialist assets unit, School Infrastructure NSW, has been tasked with responsibility for delivering the significantly expanded program of capital works and maintenance being undertaken in NSW Government schools.

#### **Start Strong funding for early childhood education**

Recognising the developmental benefits for children enrolled in quality pre-school programs, the Government will invest an additional \$217.3 million over four years towards the *Start Strong* program for preschool education in community pre-schools and long day care services.

*Start Strong* provides needs-based funding for all children in the year before school and disadvantaged three year olds, helping build their development capabilities and equipping them with the required skills to more effectively engage in learning when they start school. Participation in a quality early childhood education program has been shown to improve performance in the National Assessment Program – Literacy and Numeracy (NAPLAN) and support higher student achievement which endures into the senior years of schooling.

## **Transport**

The 2017-18 Budget's recurrent expenses in the transport sector are expected to be \$11.4 billion, which is 14.7 per cent of total recurrent expenses. Capital spending for transport in 2017-18 accounts for 60.7 per cent of total capital expenses and amounts to \$8.8 billion. This significant investment in transport services demonstrates the Government's determination to connect New South Wales with efficient and affordable transport options.

The 2017-18 Budget builds on the Government's commitment to invest in major road and public transport projects across the State to improve public transport, relieve congestion, increase productivity and accommodate population growth, including:

- \$1.8 billion for the maintenance of road and maritime assets, which includes bridge rebuilding, pavement rehabilitation, traffic facilities maintenance, drainage upgrades and wharf maintenance
- over \$1.4 billion (including \$336 million capital expenditure) to maintain rail network assets including track and electrical work, fleet maintenance and improvements to passenger services.

**Box 6.6: Investing in Western Sydney roads**

The Government remains committed to planning, developing and delivering road infrastructure that better supports population and economic growth in Western Sydney.

This includes allocating in the 2017-18 Budget:

- \$3.2 billion in 2017-18 to continue the development and delivery of WestConnex, comprising \$1 billion spending within Roads and Maritime Services for planning, pre-construction and construction and \$2.2 billion within Sydney Motorway Corporation
- \$648 million in capital expenditure for NSW and Commonwealth funded road upgrades to support Western Sydney Airport at Badgerys Creek. This will include the completion of the first stage of The Northern Road between Camden Valley Way and Peter Brock Drive and the first stage of Bringelly Road between Camden Valley Way and King Street. Construction will also continue on the remainder of Bringelly Road, as well as further sections of The Northern Road between Narellan and Penrith
- \$264 million to reduce congestion by addressing critical pinch points, and commencing the implementation of the Smart Motorways program on the M4 Motorway
- \$153 million for road upgrades to support population and economic growth in Western Sydney, including completing the Narellan Road and stage 2 of the Schofields Road upgrades. Spending will also commence on the construction of the first stage of the Campbelltown Road upgrade at Edmondson Park, as well as planning for the Jane Street and Mulgoa Road upgrade.

**Public order and safety**

In 2017-18 the Government is forecast to spend approximately \$7.0 billion of recurrent expenditure on public order and safety to ensure the citizens of New South Wales are safe and supported. In total, this represents 9 per cent of total recurrent expenditure. The Government is also committing 13.8 per cent of total 2017-18 capital expenditure on public order and safety.

Spending of \$3.7 billion (including \$246 million capital) in 2017-18 will be allocated to law enforcement. This expenditure will continue to protect communities across the state by preventing, detecting and investigating crime, maintaining social order and providing additional police officers.

In 2017-18, the Budget allocates \$1.1 billion toward the State's extensive network of courts and tribunals to effectively manage civil and criminal legal matters. In addition, \$27 million has also been allocated in 2017-18 to deliver early guilty plea reforms.

**Box 6.7: Enhancing the State's counter terrorism capability.**

The Government is investing throughout the criminal justice system to safeguard the community against terrorism. This includes allocating in the 2017-18 Budget:

- \$15 million in 2017-18 to continue to strengthen the NSW Police Force counter terrorism capability and air support
- \$5.4 million in 2017-18 to support the continued delivery of an additional 40 sheriff officers at NSW Court Houses
- \$5 million to improve police officer safety through the provision of integrated light armoured vests
- \$47 million over three years to combat radicalisation in the NSW correctional system.

## Social protection

Recurrent social protection expenditure in 2017-18 amounts to \$7.1 billion, or 9.2 per cent of total expenditure. This expenditure contributes to supporting those in need, including protecting the vulnerable, creating opportunities for people with a disability and providing social housing and homelessness assistance.

This includes \$3.2 billion to provide a range of services supporting people with a disability to participate socially and economically in their community and help them realise their potential.

### Box 6.8: Supporting children and families in need: Out-of-Home Care

Providing children and young people with safe and permanent outcomes to reach their potential is the driving force behind the work of the Department of Family and Community Services and the agencies that provide out-of-home care (OOHC) services.

Funding of \$148 million over four years will be provided to ensure the NSW Government can provide comprehensive support to high needs children in the out-of-home care system.

This helps ensure children and young people are protected from abuse and neglect and receive the necessary supports in a safe home.

In addition, a new approach to contracting with non-government providers is the first stage of a longer term vision for the Government's recommissioning of services within a broader child permanency framework that will create a pathway for successive contract changes over time. The new OOHC contracts will promote safety, permanency and wellbeing outcomes for children and raise the bar for OOHC services in New South Wales.

## Housing and community amenities

The Government will undertake \$1.2 billion in recurrent spending in 2017-18 for the provision of housing and community amenity services, which includes:

- measures to increase housing affordability and develop regional and local communities
- environment protection and natural resource management programs that improve landscape, water management, and reduce environmental degradation and pollution to improve community amenities.

### Box 6.9: Investing in social and affordable housing

In March 2017 the Government signed five contracts with service providers to deliver access to 2,200 additional social and affordable homes in quality locations in metropolitan and regional NSW as part of the first phase of the Social and Affordable Housing Fund (SAHF) procurement. Each service package will deliver integrated support coordination for social and affordable housing tenants, helping them achieve greater independence.

Building on the successes and lessons learned of the first phase of the SAHF, the Government is undertaking a second phase of procurement.

SAHF Phase 2 will continue to target opportunities for new partnerships with not-for-profit organisations, private developers and investors coming together to deliver better outcomes for social housing tenants. For example, identifying land held by developers and not-for-profit partners that could be unlocked for social housing development. This phase may target the elderly as well as a range of other cohorts including victims of domestic violence and others.

The dedicated SAHF fund will continue to facilitate investment into the sector and provide a stable income stream to support a sustainable social housing system, deliver services that achieve outcomes for tenants, and promote partnerships with non-government participants.

## 6.4 Recurrent expense measures statement

Table 6.5: Net impact of expense measures since 2016-17 Half-Yearly Review <sup>(a)(b)</sup>

	2017-18 Budget	2018-19 Forward estimates	2019-20	2020-21	Four year Total	Description of major initiatives
	\$m	\$m	\$m	\$m	\$m	
<b>Education</b>	18.9	157.7	212.1	251.7	<b>640.4</b>	<ul style="list-style-type: none"> <li>Delivering greater access to preschool education through the <i>Start Strong</i> program with additional funding for community preschools and long day care services.</li> <li>Development of an anti-bullying strategy, and a community languages program in schools.</li> <li>Additional funding to address backlog maintenance needs in schools.</li> </ul>
<b>Family and Community Services</b>	71.6	64.3	27.9	(38.9)	<b>124.9</b>	<ul style="list-style-type: none"> <li>Improving child protection services through the <i>Their Futures Matter</i> program by providing additional caseworkers, with support services and programs to support caregiver effectiveness.</li> <li>Additional support for <i>Homelessness Strategy</i> initiatives, providing for additional transitional accommodation units and support packages for rough sleepers, supporting the Premier's priority to reduce homelessness.</li> <li>Implementing the revised Out-of-Home Care service model, improving outcomes for children and reducing the cost to the government.</li> </ul>
<b>Finance, Services and Innovation</b>	7.0	(5.4)	10.2	3.1	<b>14.8</b>	<ul style="list-style-type: none"> <li>CTP Green Slip scheme reform to better support people injured on New South Wales roads and reduce the cost of Green Slips, and continuation of the Digital Driver's License Rapid Deployment Project.</li> <li>Critical Communication Enhancements to aid in the delivery of emergency, law enforcement and essential community services to the people of NSW.</li> <li>Reduced expenses following the granting of a service commission for the State's titling and registry services.</li> </ul>
<b>Health</b>	144.3	(120.3)	14.7	14.8	<b>53.5</b>	<ul style="list-style-type: none"> <li>Health's adjusted expenditure will grow by 4.8% in 2017-18, (partly re-profiled from 2018-19), supporting: <ul style="list-style-type: none"> <li>increased frontline staff</li> <li>better ambulance service</li> <li>further investment in mental health services.</li> </ul> </li> <li>Further investments have also been made into palliative care services, and welfare programs to support paramedics.</li> </ul>
<b>Industry</b>	136.3	229.5	165.7	110.3	<b>641.8</b>	<ul style="list-style-type: none"> <li>Investments in the Land Management and Biodiversity Conservation reforms, and safeguarding water services for regional NSW against emergencies.</li> <li>Introducing the Active Kids Rebate aimed at encouraging physical activity and fitness to reduce the prevalence of childhood obesity.</li> <li>Establishing the Stronger Country Communities Fund for projects that improve community infrastructure and services.</li> </ul>

Table 6.5: Net impact of expense measures since 2016-17 Half-Yearly Review <sup>(a)(b)</sup> (cont)

	2017-18 Budget	2018-19 Forward estimates	2019-20 Forward estimates	2020-21 Forward estimates	Four year Total	Description of major initiatives
	\$m	\$m	\$m	\$m	\$m	
<b>Justice</b>	52.1	46.5	26.9	17.0	<b>142.5</b>	<ul style="list-style-type: none"> <li>Delivering permanent enhancements to the State's bush firefighting capability with large and very large air tankers.</li> <li>Supporting the rollout of critical communications equipment for the emergency services and police to ensure effective response.</li> </ul>
<b>Planning and Environment</b>	214.7	257.3	361.2	164.1	<b>997.2</b>	<ul style="list-style-type: none"> <li>A suite of initiatives for the delivery of new housing and infrastructure, to accelerate rezoning and assessment processes as part of the Government's Housing Affordability Strategy.</li> <li>Initiating the Regional Cultural Fund, to aid development of cultural programs and infrastructure in regional growth centres.</li> <li>Upgrades to the Sydney Opera House.</li> </ul>
<b>Premier and Cabinet</b>	143.2	197.6	200.7	127.5	<b>668.9</b>	<ul style="list-style-type: none"> <li>Major urban renewal projects to be delivered by the Urban Growth Development Corporation and Hunter Development Corporation (moved from the PNFC sector to the GGS).</li> <li>Maintaining the Office of the Customer Service Commissioner, and additional support for the Ombudsman Office and Electoral Commission.</li> <li>A permanent memorial to commemorate the Martin Place siege victims.</li> </ul>
<b>The Legislature</b>	0.5	0.4	1.2	1.4	<b>3.5</b>	<ul style="list-style-type: none"> <li>Improving broadcasting and communication infrastructure at Parliament House.</li> </ul>
<b>Transport, Roads and Maritime</b>	101.0	156.2	(243.7)	97.7	<b>111.2</b>	<ul style="list-style-type: none"> <li>Investments in the future transport system and planning initiatives, including regional road corridor identification and Newcastle Urban Transformation.</li> <li>Accelerating delivery of road and rail infrastructure.</li> </ul>
<b>Treasury</b>	34.0	50.6	48.6	34.6	<b>167.9</b>	<ul style="list-style-type: none"> <li>Optimising the Financial Management Transformation program to further improve the financial capability of the NSW public sector.</li> <li>Grants for infrastructure projects funded from Restart NSW, and for first-home builders as part of the Government's Housing Affordability Strategy.</li> </ul>
<b>Savings and Offsets</b>						
Whole-of-Government	(92.1)	(283.2)	(377.1)	(617.8)	<b>(1,370.2)</b>	<ul style="list-style-type: none"> <li>Efficiency dividend, procurement based savings, and offset for stronger communities, and housing affordability.</li> </ul>
Agency specific savings	(80.7)	(194.8)	(183.6)	(60.0)	<b>(519.0)</b>	<ul style="list-style-type: none"> <li>Farm Business Skills Package offsets.</li> <li>Agency savings redirected to the Stronger Country Communities Fund.</li> <li>Funding realignment over the forward estimates within the Justice Cluster to reflect revised program delivery milestones.</li> <li>Contestability reforms in public transport.</li> </ul>

(a) A positive figure increases expenses, a negative figure decreases expenses

(b) The figures presented are the net figure for new policy decisions that increase or reduce expenditure

## 7. MANAGING THE STATE'S ASSETS AND LIABILITIES

- The Government is implementing an agenda of financial reforms to enable better use of the State's assets and more efficient management of the State's liabilities, creating a more resilient balance sheet.
- As the Government invests asset recycling proceeds into the State's \$72.7 billion infrastructure program, general government assets are projected to reach \$399.5 billion by June 2021, increasing by \$42.0 billion over four years.
- General government liabilities are expected to increase by \$6.7 billion over the four years to June 2021, with a \$9.7 billion decrease in superannuation liabilities being offset by a \$12.7 billion increase in borrowings (including new finance leases) and higher payables.
- For the second consecutive year, general government net debt is expected to be negative. Net debt of -\$7.8 billion at June 2017 represents an historic low of -1.4 per cent of GSP.
- As the Government rolls out its infrastructure program, net debt is forecast to increase to 2.7 per cent of GSP by June 2021. However, New South Wales is still forecast to maintain the lowest net debt as a percentage of GSP of the mainland states over the next four years.
- New South Wales is projected to be the first state to have a net worth of more than one quarter of a trillion dollars, with net worth forecast at \$273.2 billion by June 2021. This represents an increase by \$35.6 billion over four years, with an annual average growth of 8.5 per cent, the highest growth of all the mainland states.
- The strength of the State's balance sheet is reflected in the State's triple-A credit rating.

### 7.1 Reforming the State's balance sheet

The Government continues to enhance how New South Wales manages its finances, including balance sheet and financial risk management. This work helps protect the State's finances from downside shocks whilst unlocking fiscal capacity that can be used to improve outcomes for the people of New South Wales.

The Government takes a whole-of-government approach to balance sheet and financial risk management. This ensures:

- financial assets and liabilities are effectively and efficiently managed through a robust centralised approach
- the State has access to liquidity to fund the State's operations and ensure a prudent buffer is maintained
- the investment of any surplus cash considers both future requirements and the State's risk profile
- funding costs are minimised, while investment returns are maximised
- government can plan ahead and adjust its management of assets and liabilities to maximise opportunities and mitigate risk
- key balance sheet decisions are managed within the State's legislative framework.

**Box 7.1: Asset and Liability Committee informing smarter balance sheet decisions**

The International Monetary Fund and World Bank have acknowledged the potential of an Asset and Liability Committee (ALCO) to improve balance sheet management in the government sector. The NSW Government's creation of a whole-of-government ALCO in 2015 was a world-first for government.

ALCO advises the Treasury Secretary and brings commercial best practice, including asset and liability matching, observations of natural hedges, and stress testing. This allows government to make smarter decisions about the State's balance sheet.

Since the establishment of ALCO, the Government has implemented a number of reforms, including:

- the establishment of the New South Wales Infrastructure Future Fund (NIFF) (see Box 7.2), with an expected balance of \$14.8 billion at 30 June 2017
- the establishment of the Social and Affordable Housing Fund (SAHF) (see Box 7.2), with available cash of \$1.1 billion
- further cash and liquidity management reforms, including cash management reforms which have already centralised approximately \$4.0 billion of cash into the Treasury Banking System with up to an additional \$1.0 billion planned for 2017-18
- the staged retirement of debt held by the assets divested by the State
- improved debt management and the adoption of a smoother, longer-dated borrowing profile for the State, including the issue of a 2027 benchmark bond by TCorp in March 2017
- tighter management of borrowing requirements which, along with other strategies including asset recycling, has helped New South Wales maintain lower net debt as a percentage of GSP than other mainland states.

The Government is focused on improving the performance of its debt portfolio through the use of active debt management strategies aimed at lowering overall funding costs, mitigating risks and maintaining an appropriate maturity profile for its debt portfolio.

Following the successful partial long-term lease of Ausgrid and Endeavour Energy in 2016-17, net debt is once again projected to be negative, at -\$7.8 billion as at 30 June 2017, surpassing the record low outcome for June 2016. The Government will keep net debt at sustainable levels with net debt as a percentage of GSP forecast to be lower than all mainland states at -1.4 per cent to 2.7 per cent from June 2017 to June 2021.

The NSW Government's successful asset recycling strategy is helping deliver a \$72.7 billion infrastructure program. Proceeds from other transactions are also being reinvested to fund essential infrastructure that will enhance the State's productive capacity and provide improved services to the people of New South Wales. The Government is using its cash and financial investment holdings to support these commitments rather than relying solely on debt.



## 7.2 General government sector

The balance sheet includes the forecast value of all assets, liabilities and net worth estimated at the end of each financial year for the budget year and forward estimates. Table 7.1 outlines the key balance sheet aggregates for the GGS across the budget year and forward estimates.

Total assets are projected to be \$348.9 billion at June 2017, increasing to \$399.5 billion by June 2021. The total asset position includes financial and non-financial assets.

Total liabilities are projected to be \$123.9 billion at June 2017, increasing to \$126.3 billion by June 2021.

Table 7.1 Key balance sheet aggregates of the general government sector

	June 2016 Actual	June 2017 Revised	June 2018 Budget	June 2019	June 2020 Forward Estimates	June 2021
Total Assets (\$m)	316,278	348,855	357,525	372,135	386,509	399,484
Financial Assets (\$m)	144,618	166,309	161,289	160,168	163,030	166,684
Non-Financial Assets (\$m)	171,660	182,545	196,235	211,968	223,479	232,799
Total Liabilities (\$m)	134,478	123,938	119,665	121,157	123,835	126,317
Net Worth (\$m)	181,799	224,917	237,859	250,978	262,674	273,166
Net Worth as a per cent of GSP	33.8	39.5	39.8	40.2	40.2	39.9
Net Debt (\$m)	(57)	(7,788)	(521)	9,864	15,850	18,583
Net Debt as a per cent of GSP	(0.0)	(1.4)	(0.1)	1.6	2.4	2.7

### Financial assets

Financial assets are expected to be \$166.3 billion at June 2017, with a minor increase to \$166.7 billion by June 2021. They include cash, receivables, financial investments and equity investments and are typically invested by the State to match against future liabilities and manage liquidity needs.

Cash balances have fallen during 2016-17 primarily due to investment in the Government's infrastructure program and investing cash previously held in the Restart NSW cash account into other financial assets managed through the NIFF (see Box 7.2). The NIFF makes better use of Restart NSW resources by better matching investment profiles with the State's infrastructure delivery timetable. Accordingly, higher returns can be earned within acceptable risk parameters while the funds are waiting to be used. Investment strategies used for the NIFF ensure the State maintains an adequate level of liquidity against its obligations.

Overall, non-equity financial asset holdings are forecast to decrease by \$14.2 billion from June 2017 to June 2021 driven primarily by a reduction in cash and other financial assets (NIFF) associated with investment in infrastructure (see Chart 7.1).

**Box 7.2: More active management of the State's financial assets – NIFF and SAHF****New South Wales Infrastructure Future Fund (NIFF)**

In December 2016, the NIFF was established by the NSW Government as part of its active management approach to the State's balance sheet. The net proceeds from the State's asset recycling program are being invested into the NIFF, which is managed by TCorp and is expected to have a balance of \$14.8 billion by 30 June 2017.

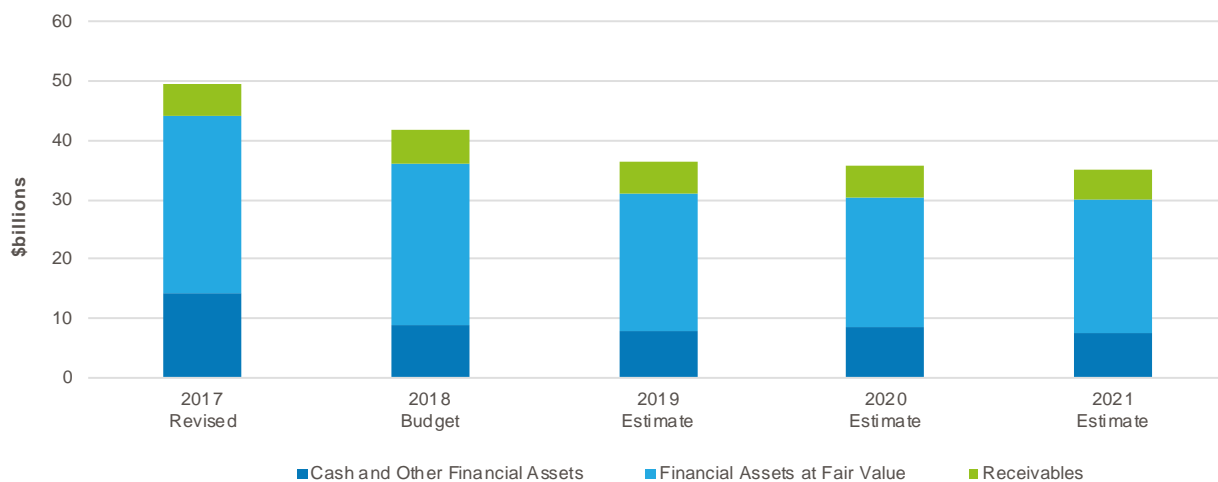
This approach makes the best use of the State's large cash holdings and delivers better returns over time within acceptable risk parameters to the State. Funds raised are invested through the NIFF until the Government requires them for critical infrastructure projects as part of the Restart NSW and Rebuilding NSW program of works.

ALCO and TCorp provide advice on the NIFF's performance and management. The NIFF's long-term investment return targets are expected to result in the fund yielding significantly higher returns than the Government's cash portfolio.

**Social and Affordable Housing Fund (SAHF)**

The Government has also established the SAHF to provide funding for social and affordable housing. About \$1.1 billion has been deposited into the SAHF and these funds will be invested by TCorp through a SAHF Investment Trust. By actively managing these funds, the volume of housing that can ultimately be provided can be increased. ALCO oversees the SAHF to ensure a careful investment approach to the risk/return trade-off, in recognition of the importance of maintaining funding certainty for new social and affordable housing stock.

Chart 7.1 Non-equity financial assets of the general government sector at 30 June



The Government also holds equity investments, predominantly in public non-financial corporations (PNFCs) and public financial corporations (PFCs). These deliver transport, housing, electricity, water and other services on behalf of the State and include the 49.6 per cent shareholdings of both Ausgrid and Endeavour Energy. The general government's equity investments are projected to be worth \$116.9 billion at June 2017. For further detail on the performance of PNFCs and PFCs, refer to Chapter 8 of this *Budget Statement*.

## Non-financial assets

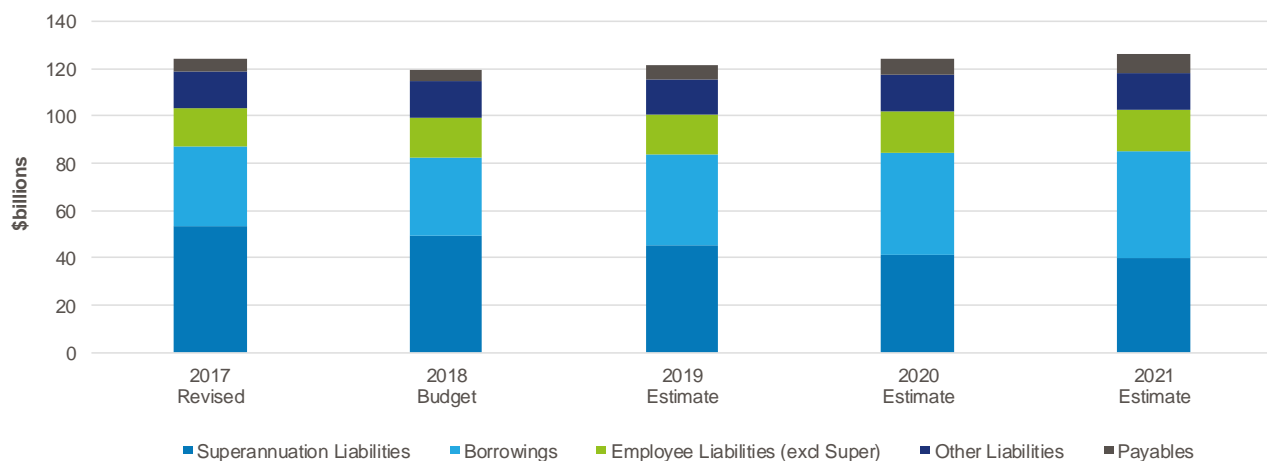
Total non-financial assets are projected to be \$182.5 billion at June 2017, increasing to \$232.8 billion by June 2021. This increase is driven by record levels of infrastructure investment in transport, health, and education, enabled by strong balance sheet management including the Government's asset recycling strategy. Further information on the Government's infrastructure program is provided in Budget Paper No. 2 *Infrastructure Statement*.

## Liabilities

The State's liabilities represent contractual obligations of the government to pay another entity and are usually incurred in the normal course of delivering government services. The Government continues to efficiently manage and service its liabilities as part of its active approach to balance sheet management, which will help reduce balance sheet risk over the coming years. This includes the Government's reforms to Insurance and Care NSW (icare) to deliver better public services through more effective administration of the State's managed fund schemes (see Chapter 8 of this *Budget Statement*).

Total liabilities are projected to be \$123.9 billion at June 2017 and \$126.3 billion by June 2021. The composition and projection of GGS liabilities are shown in Chart 7.2.

Chart 7.2 *Liabilities of the general government sector at 30 June*



Superannuation liabilities are the largest category of liabilities that the GGS holds and are expected to total \$53.7 billion by 30 June 2017. This liability is forecast to fall to \$39.8 billion by June 2021. The lower liability reflects the Government's commitment to eliminate the GGS unfunded superannuation liability by 2030, consistent with the *Fiscal Responsibility Act 2012*.

A comprehensive review of the condition and sufficiency of the defined benefit superannuation schemes is carried out by the schemes' actuary every three years. At the time of the last review in December 2015, the Government's current funding plan was assessed as being reasonable to deliver full funding of the liability by 2030. The next full triennial review is due to be completed in 2018.

There are two methods for valuing unfunded superannuation. The underlying funding of superannuation liabilities should be considered on a funding basis rather than a financial reporting basis, as the funding basis uses more relevant forecasts of superannuation fund earnings to provide a better estimate of unfunded liabilities. For funding purposes, AASB 1056 *Superannuation Entities* is used, which assumes the forecast long-term fund earnings rate as the discount rate for the superannuation liability. The liability for reporting purposes as presented in the balance sheet is calculated in accordance with AASB 119 *Employee Benefits*, and is based on Commonwealth Government 10-year bond yield forecasts. On a funding basis, the estimated superannuation liability at 30 June 2017 is \$13.5 billion.

Borrowings, through direct debt raising or leasing arrangements, form the next largest category of liabilities. The GGS is projected to hold \$32.0 billion of borrowings at June 2017, with borrowings increasing by \$13.3 billion across the forward estimates.

## Net debt

Net debt measures the Government's ability to repay its debt. Net debt is calculated as the sum of borrowings, deposits held and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

The proceeds from the successful completion of the Ausgrid, Endeavour Energy and Land and Property Information transactions has resulted in a significant improvement in GGS net debt position, projected to be - \$7.8 billion at 30 June 2017.

The government has taken a proactive approach to the retirement of debt from Ausgrid and Endeavour Energy (see Box 7.3). The retirement of Ausgrid and Endeavour Energy debt does not impact general government net debt, but does impact at the total state sector level (see Box 7.3).

### Box 7.3: Retirement of debt as a result of the electricity networks transactions

The \$9.5 billion Ausgrid debt retirement strategy was implemented before the organisation was partially leased in December 2016, and was successfully completed by April 2017. The purpose of the strategy was to proactively manage the risks associated with the retirement of Ausgrid debt, resulting in a better overall outcome for the State.

This proactive approach enabled around \$2.8 billion of Ausgrid term debt to be reallocated to other government agencies with borrowing needs. This lowered the costs associated with debt retirement by reducing the amount of debt to repurchase from the market after the partial leasing of Ausgrid.

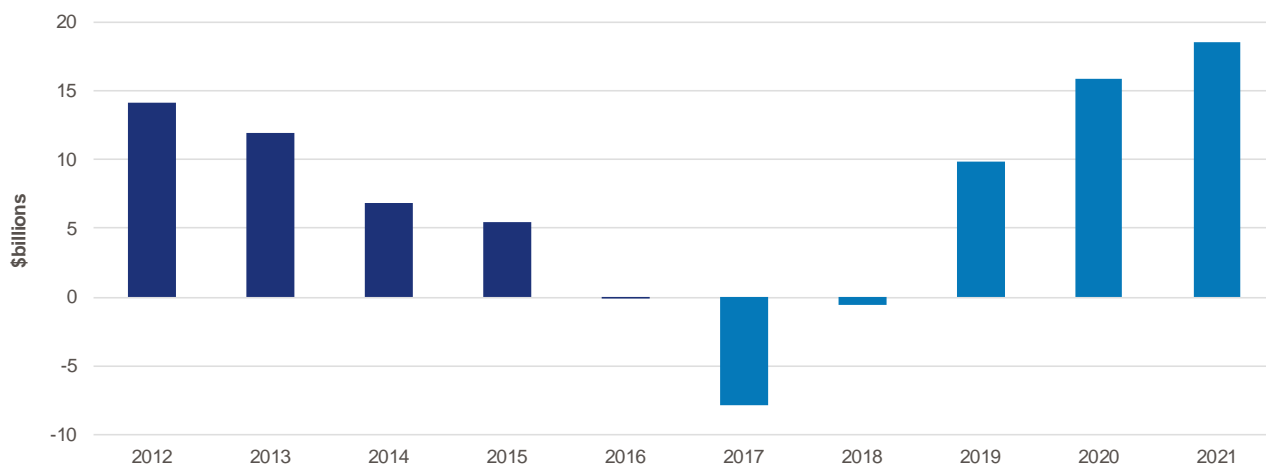
Due to the debt repayment occurring during a period of historically low interest rates, some capital losses were incurred by Ausgrid as part of the transaction. Market and interest rate risks were managed as part of the strategy, which enabled the orderly retirement of debt from the market with minimal disruption.

A similar strategy is underway for Endeavour Energy, with savings already being realised.

In this Budget, the Government is recognising the financial impact of stage 3 of WestConnex (see Box 1.5 of Budget Paper 2 – *Infrastructure Statement*). However, in line with usual budget practice, the planned sale of at least a 51.0 per cent share of Sydney Motorway Corporation will not be recognised in the budget until the transaction is complete.

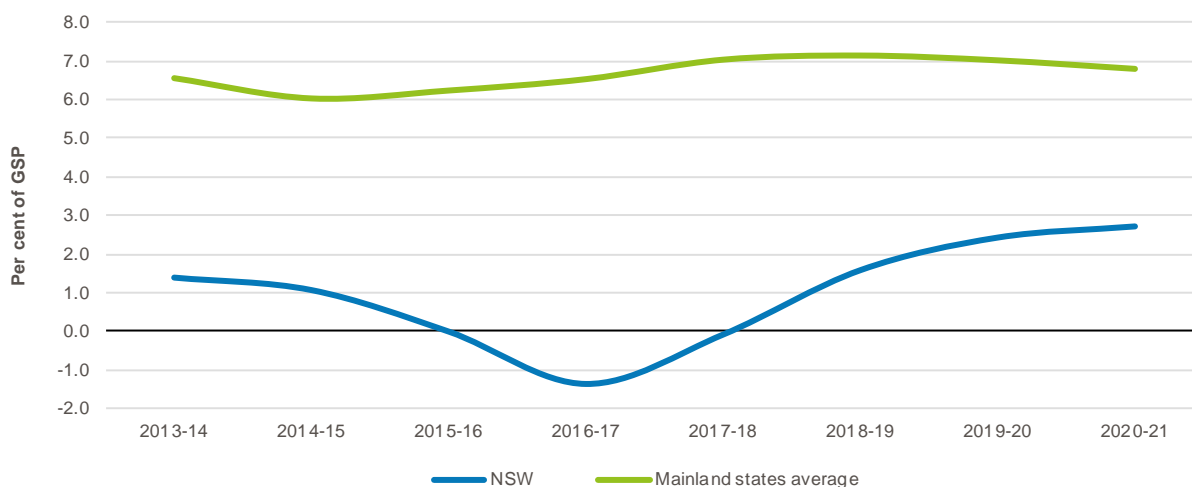
Net debt is projected to increase to \$18.6 billion by June 2021 (Chart 7.3), driven by the reinvestment of asset recycling proceeds into the State's infrastructure program.

Chart 7.3 General government net debt at 30 June



At 30 June 2017, GGS net debt is forecast to be the lowest since records began in 1996-97. The current estimate of net debt as at 30 June 2017 is projected to be -1.4 per cent of GSP, lower than the average of all mainland states (see Chart 7.4).

Chart 7.4 General government net debt as a per cent of GSP for mainland states at 30 June



Source: Latest publicly available data for each jurisdiction

Note: Net debt for Queensland has been adjusted for superannuation liabilities that are fully funded

Projections for 2020-21 have been calculated for some jurisdictions based on prior year growth where data is not yet available

**Box 7.4: Total state sector net debt**

The total state sector (TSS) comprises the general government sector (e.g. Ministry of Health), the public non-financial sector (e.g. Sydney Water Corporation) and the public financial sector (e.g. New South Wales Treasury Corporation).

Total state sector net debt is projected to be \$23.5 billion at 30 June 2017, which is lower than estimated at the 2016-17 Budget due to both the retirement of electricity network debt over the forward estimates and the receipt of proceeds from the Land and Property Information, Ausgrid and Endeavour Energy transactions (see Table 7.2).

Total state sector net debt is projected to increase to \$57.4 billion by 30 June 2021. This increase is driven by infrastructure spending by both general government agencies and public non-financial corporations.

Table 7.2 Key balance sheet aggregates of the total state sector

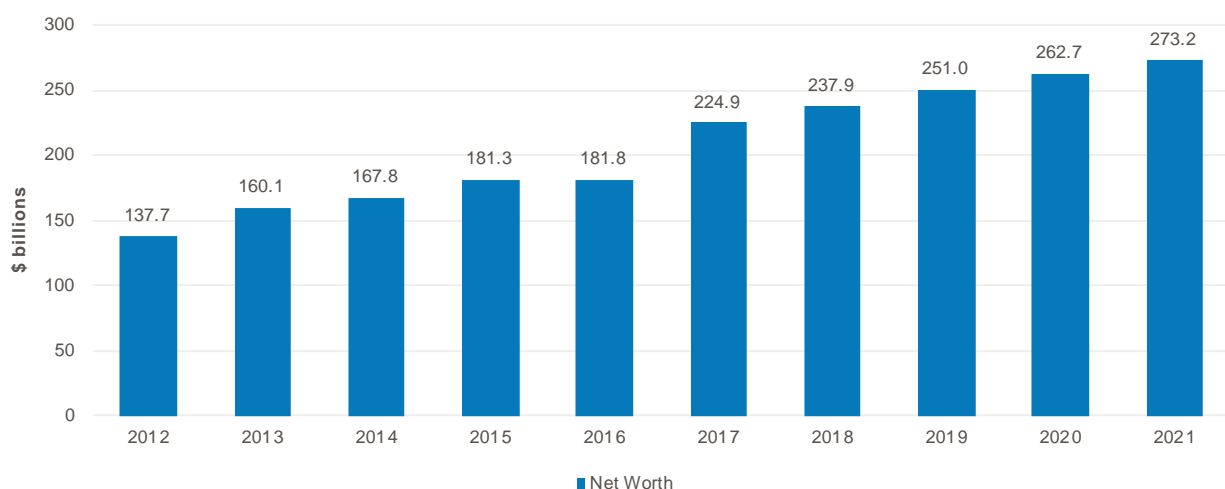
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
Total Assets (\$m)	376,944	399,691	410,055	426,722	440,208	452,666
Total Liabilities (\$m)	195,145	174,772	172,219	175,765	177,551	179,515
Net Debt (\$m)	38,053	23,459	36,945	48,383	54,047	57,446
Net Debt as a per cent of GSP	7.1	4.1	6.2	7.7	8.3	8.4

## 7.3 Net worth

Net worth reflects the financial value of the State to the people of New South Wales and comprises total assets less total liabilities.

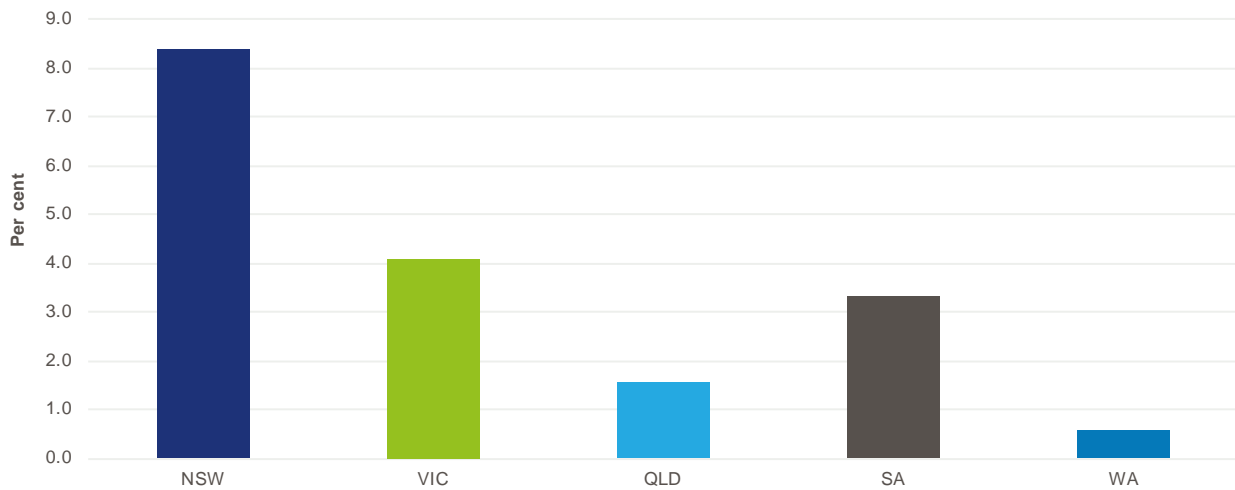
Net worth is expected to grow annually over the budget year and forward estimates by an average of 8.5 per cent, reaching \$273.2 billion dollars by June 2021 (see Chart 7.5).

Chart 7.5 Net worth at 30 June



Over the five years to June 2021, New South Wales' net worth is growing faster than any other mainland state (see Chart 7.6). This significant growth is being driven by the Government's infrastructure program with a large increase in non-financial assets over the four years to June 2021. A significant decrease in superannuation liabilities following positive forecast bond rate movements over the four years to June 2021 is also contributing to the growth in net worth. However, this is being offset to some extent by an increase in borrowings over the four years to June 2021.

*Chart 7.6 Annual average growth in general government sector net worth for mainland states from 2016 to 2021*



*Source: Latest publicly available data for each jurisdiction*

Note: Projections for 2020-21 have been calculated for some jurisdictions based on prior year growth where data is not yet available

## 8. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- The broader public sector comprises the total state government in New South Wales and includes the general government sector (GGS), the public non-financial corporations (PNFC) sector and public financial corporations (PFC) sector.
- The PNFC and PFC sector are guided by a Commercial Policy Framework (CPF), which applies the disciplines and drivers of private businesses to government businesses to support them operating effectively and in the best interest of consumers. The Government continues to review the CPF to align it with best practice.
- The non-financial public sector (which comprises the GGS and PNFC) net operating balance is forecast to be \$2.7 billion for 2016-17, \$1.3 billion more than forecast in the 2016-17 Budget. This is due to a stronger than expected result for both the GGS and PNFC sectors. Within the PNFC sector, the main drivers of the upward revision are stronger results in the property sector and increased demand and improved efficiency in water and energy sectors.
- The total dividends and tax equivalent payments received by the GGS from the PNFC and PFC sectors in 2016-17 are \$1.1 billion, which is \$67.0 million lower than estimated at the 2016-17 Budget. This is a result of lower dividends and tax receipts from the energy sector, partially offset by higher dividends and tax receipts mainly from the water sector.
- Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be \$6.0 billion, \$1.7 billion higher than forecast at the 2016-17 Budget. This is mainly due to State-owned Corporations forecasting higher dividend payments as a result of aligning with the updated Financial Distribution Policy for Government Businesses.

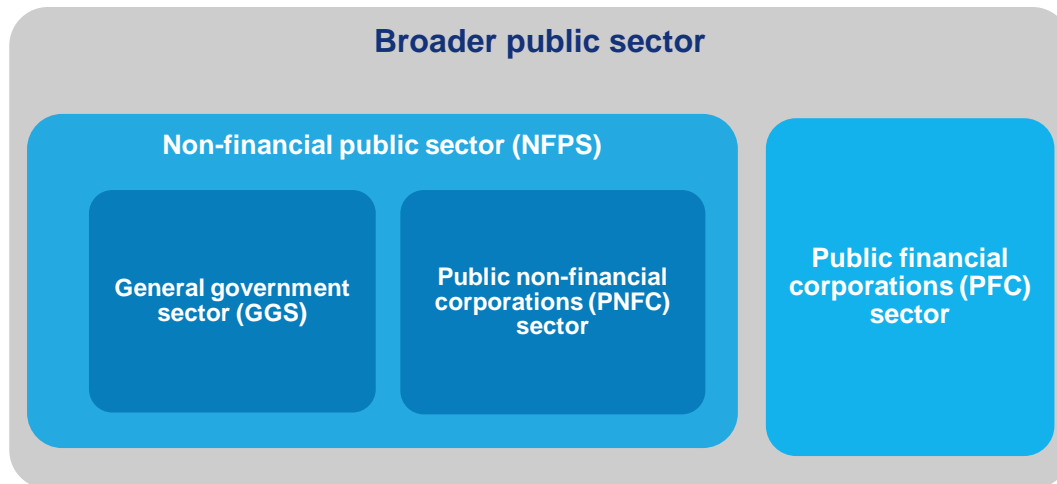
### 8.1 Introduction

The broader public sector is made up of entities within the public financial corporations (PFC) sector and non-financial public sector (NFPS). The NFPS is comprised of the general government sector (GGS) and the public non-financial corporations (PNFC) sector:

- entities within the GGS are funded mainly by taxation revenue and provide services such as health, education and emergency services
- entities within the PNFC sector operate on a more commercial basis and are able to recover most of their costs by charging consumers for services such as transport, water and electricity distribution
- the PFC sector provides financial management services to the government and insurance services to the people of New South Wales
- entities in the PNFC and PFC sectors include State Owned Corporations (SOCs) set up under the *State Owned Corporations Act 1989* to operate with a greater degree of commerciality and autonomy than entities in the GGS.

A full list of NSW public sector entities according to their classification as a GGS, PNFC or PFC entity is provided at Appendix A3 of this *Budget Statement*.





## 8.2 Reform of government businesses

### Review of the Commercial Policy Framework

The Commercial Policy Framework (CPF) is a suite of policies that set expectations for government businesses in the PNFC and PFC sectors. The CPF aims to replicate in government businesses the disciplines and drivers of efficient private sector businesses.

The Government continuously reviews and updates the CPF to ensure it reflects commercial best practice and to incorporate changes in government priorities and the regulatory environment. Treasury is currently reviewing policies designed to improve the efficiency of government businesses by:

- supporting the delivery of services at lower cost
- adopting private sector governance principles that are practical to apply
- strengthening assurance and monitoring of major capital investments
- ensuring that commercial objectives are balanced with improved customer outcomes.

The reforms to the CPF will enable government businesses to perform comparably with efficient private sector businesses, putting downward pressure on cost of living expenses and helping benefit the NSW economy.

At the same time, government businesses maintain transparency through public reporting obligations.

Changes to the CPF in 2015-16 included enhanced guidance on setting and reporting key performance indicators and changes to the capital structure and distribution policies (see Box 8.1). In 2017-18, revisions to the CPF will include implementing a stronger assurance and monitoring process for major capital investments and updating the board governance guidelines. These changes will strengthen the ability of government businesses to deliver the best outcomes for the people of New South Wales.

**Box 8.1: Capital efficiency reforms and dividends policy**

As part of the process of updating the CPF, in mid-2016 NSW Treasury released the updated Capital Structure Policy for Government Businesses and the updated Financial Distribution Policy for Government Businesses.

The new Capital Structure Policy requires businesses to move to an efficient capital structure while maintaining an investment grade credit rating (a Baa2 credit rating on the Moody's rating scale unless otherwise agreed by Treasury).

Since the release of the updated policy, SOCs have reviewed their gearing levels and capital structures. In order to move to an efficient capital structure, SOCs have committed to increase their dividend payments or return surplus capital to the State, where appropriate. For example, Water NSW will return more than \$650.0 million in surplus capital in 2017-18, and the Port Authority of NSW will increase their 2017-18 dividend payment from \$53.6 million as forecast in the 2016-17 Budget to \$200.0 million.

These changes will move a number of the price-regulated SOCs to more closely align with the regulatory levels of gearing as determined by the Independent Pricing and Regulatory Tribunal (IPART). For the non-regulated SOCs it will move the businesses to gearing levels that more closely align with comparable public and private sector businesses.

These changes to the capital efficiency of SOCs are freeing up capital for the State to reinvest for the benefit of the people of New South Wales.

The Government ensures that dividend payments and capital returns do not impact on consumer prices, capital investment or service delivery. Payment of dividends and capital returns are subject to a number of conditions including confirmation of financial capacity to pay, a satisfactory test of solvency and maintaining an investment grade credit rating. The broader CPF encourages more efficient government businesses, putting downward pressure on consumer prices.

The Government will continue to monitor and review the dividend payout ratio and capital structure of government businesses to balance the outcomes for both consumers and tax payers.

**Reforming water**

Over recent years, the Government has delivered a program of reform aimed at achieving greater efficiency in water services and improvements in customer experience.

In 2016, a realignment of functions across the Department of Primary Industries (DPI) Water and Water NSW resulted in a number of operational and field based functions moving from DPI Water to Water NSW. As a result, DPI Water is now focused on providing strategic water policy and planning advice, and developing and enhancing water regulation and reporting frameworks. This supports productive and sustainable management of the State's water resources.

Water NSW is now focused on:

- providing a single point of contact for rural water customers
- developing infrastructure solutions for water supply security and reliability
- planning, building, operating and maintaining water supply infrastructure
- promoting improvements in achievable water quality standards, and protecting public health and the environment through enhanced catchment protection practices in declared catchments.

In November 2016 the Government issued a direction to Water NSW to secure the water supply of Broken Hill through building, owning and operating a 270 kilometre pipeline from the

River Murray at Wentworth to Essential Water's filtration plant in Broken Hill. Water NSW has begun planning and procurement and is on track to deliver the pipeline by December 2018.

Sydney Water is investing \$156.0 million in its information technology project CxP. CxP will be a single enterprise solution for customer interactions that is quicker and more reliable than the current system. It will also deliver a new billing and customer management system. The new system will provide a platform for future customer service enhancements and more efficient processes.

## **Reforms in the non-regulated sector**

The businesses in the non-regulated sector have also undergone significant reforms to their operating models over recent years, driving efficiencies and savings for consumers.

In February 2017, the Forestry Corporation of New South Wales (FCNSW) acquired the Lyall estate, which comprises 7,000 hectares of pine plantation and plantable land near the timber towns of Oberon, Tumut, and Tumbarumba in regional New South Wales. This acquisition offers synergies through its proximity to FCNSW's existing plantation resources and timber processing hubs. The acquisition will help boost softwood production and drive industry growth. Substantial improvements in FCNSW's productivity since corporatisation in 2013 made the acquisition possible without requiring any additional capital from the State.

The Port Authority of New South Wales (PANSW) has committed to developing Sydney Harbour as a premier cruise destination. A Cruise Development Plan (CDP) to address infrastructure and capacity issues in Sydney Harbour and support the growth in the cruise sector is being developed by the Department of Industry in consultation with Transport for NSW (TfNSW), PANSW and the cruise industry. The Government expects to release the CDP later in the year.

An independent review of Landcom (trading as UrbanGrowth NSW) undertaken in 2016 recommended separating the business' major urban transformation projects (MUTPs) from its greenfield activities. In July 2017, oversight for the MUTPs will be transferred to the Premier and Cabinet Cluster to implement the review's recommendations, with the Bays Precinct, Parramatta North, Anzac Parade South and Central to Eveleigh projects to be transferred to the UrbanGrowth NSW Development Corporation, and the Newcastle Urban Transformation and Transport Program to be transferred to the Hunter Development Corporation. Landcom will remain as a SOC, focusing on greenfield development and housing affordability.

These changes will allow better coordination across the whole-of-government for the MUTPs while enabling Landcom to focus on its core business, including meeting the Government's target of delivering 20,000 home sites by March 2019.

The Government is also reforming the delivery of public transport services. In 2011, TfNSW was established to be responsible for delivery of transport services in New South Wales. In 2012, RailCorp was reformed and Sydney Trains and NSW Trains were established as government owned operators to deliver services under contract to TfNSW and drive customer service improvements. In the 2015-16 Budget, the Government built on these reforms and announced that the Transport Asset Holding Entity (TAHE) would be established. On 12 April 2017, a bill to make TAHE a dedicated transport asset manager was passed by Parliament. The legislation marks another important milestone in the staged approach to amending the *Transport Administration Act 1988* to deliver improved asset management and customer services.

TAHE will optimise the existing transport asset base to enable a more effective, efficient and commercial approach to the asset management.

## Reforms in the energy sector

On 24 May 2017, a Federal Court decision on the pricing regime for network distributors including Essential Energy will likely result in the Australian Energy Regulator (AER) remaking its revenue determination for Essential Energy's 2014-19 regulatory period.

The Federal Court decision comes more than two years after the AER issued Essential Energy's 2014-19 regulatory determination, which resulted in the average 2016-17 network charges for customers in the Essential Energy area being reduced by almost 26 per cent, or \$289 per year, compared to their 2014-15 network charges. There is an agreement with the regulator that charges will not increase by more than inflation for the remainder of the determination period to 2019.

Essential Energy's objective continues to be to transition to a more streamlined, cost-effective business model while delivering a safe, reliable and efficient electricity network to its customers.

Snowy Hydro Corporation has commenced a feasibility study into Snowy 2.0, a pumped hydro storage project. This study is due to be completed by the end of the 2017 calendar year.

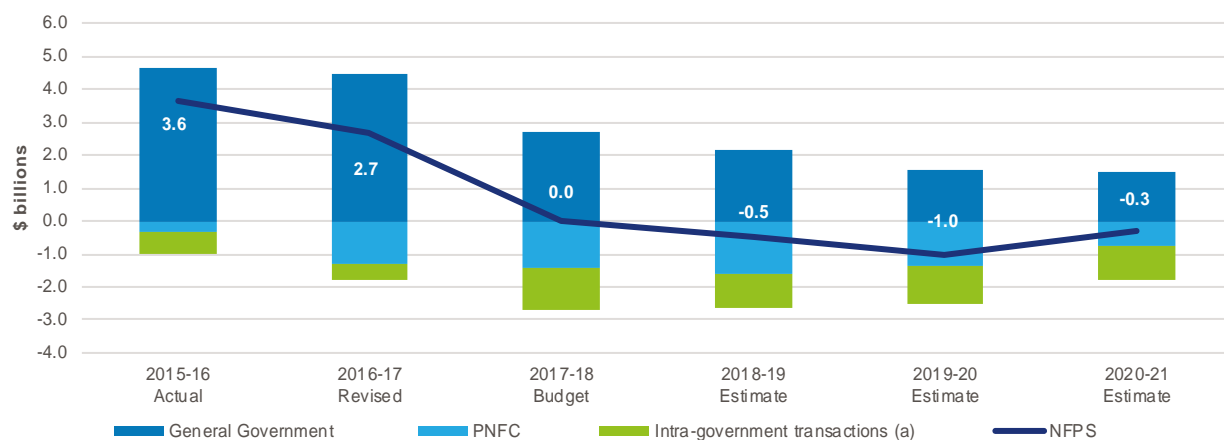
The New South Wales and Victorian governments are in discussions with the Commonwealth Government regarding the Commonwealth's possible purchase of New South Wales' 58 per cent and Victoria's 29 per cent shareholdings in Snowy Hydro Corporation.

## 8.3 Non-financial public sector

The \$2.7 billion net operating balance for the NFPS in 2016-17 is higher than forecast in the 2016-17 Budget (Chart 8.1). The upward revision is due to a stronger net operating balance for both the GGS and PNFC sectors. Within the PNFC sector, this was driven by stronger residential land sales, and increased demand and improved efficiency in water and energy, partially offset by a decline in revenues as a result of the partial long-term leases of Ausgrid and Endeavour Energy. The net operating balance for the NFPS over the forward estimates is higher relative to the 2016-17 Budget forecast, primarily driven by revenue growth exceeding expense growth in the GGS.

Further details on the performance of the GGS are set out in Chapters 5 and 6 of this *Budget Statement*.

Chart 8.1: Components of the non-financial public sector net operating balance



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

## Dividends and tax equivalent payments

Dividends received by the GGS from PNFCs and PFCs are based on the operating performance of those businesses. To ensure competitive neutrality with private sector businesses, PNFCs and PFCs also make tax equivalent payments and pay debt neutrality charges (government guarantee fees). In 2016-17, the dividend and tax equivalent payments are forecast to be \$1.1 billion, and government guarantee fees are forecast to be \$395.5 million. Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be \$6.0 billion.

Dividends and tax equivalent payments from the electricity sector over the budget and forward estimates are forecast to be \$1.2 billion lower than estimated at the 2016-17 Budget, primarily due to the asset recycling initiatives that saw the partial long-term leases of Ausgrid and Endeavour during the 2016-17 financial year. The impact of these transactions is to decrease dividends and tax equivalent payments by \$0.8 billion between 2017-18 and 2019-20.

This reduction in dividends is offset by distributions from the retained interests of Ausgrid and Endeavour Energy, which are accounted for as distributions from equity investments and so fall within the GGS.

PNFCs in the water sector have increased their dividends by \$1.5 billion between 2017-18 and 2019-20 when compared to the forecast in the 2016-17 Budget. This improvement is a result of moving to more efficient capital structures in line with the updated Capital Structure and Distributions Policies (see Box 8.1). In some cases, the move to a more efficient capital structure has allowed the water businesses to return excess capital to the State.

Dividends and tax receipts have increased from the property and resources sector mainly due to the reform of Landcom's operations, which will enable it to pay dividends over the forward estimates. Landcom had previously retained 100 per cent of earnings to fund the delivery of the MUTPs.

PANSW has increased its forecast dividends over the forward estimates to move in line with the updated Capital Structure and Distribution Policies, thereby improving capital efficiency and returns to the Government.

Table 8.1 shows the dividend and tax equivalent payments of the PNFC and PFC sectors over the period 2016-17 to 2020-21.

*Table 8.1: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations*

	2016-17	2017-18	2018-19	2019-20	2020-21
	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m
Electricity	275	47	54	75	112
Water	576	966	923	1,088	814
Property and Resources	124	328	297	305	249
Ports	8	202	36	40	36
Transport	...	...	...	...	102
Public Financial Corporations	122	77	78	86	92
<b>Total Dividends and Tax Equivalent Payments</b>	<b>1,106</b>	<b>1,620</b>	<b>1,388</b>	<b>1,594</b>	<b>1,405</b>

## Capital expenditure

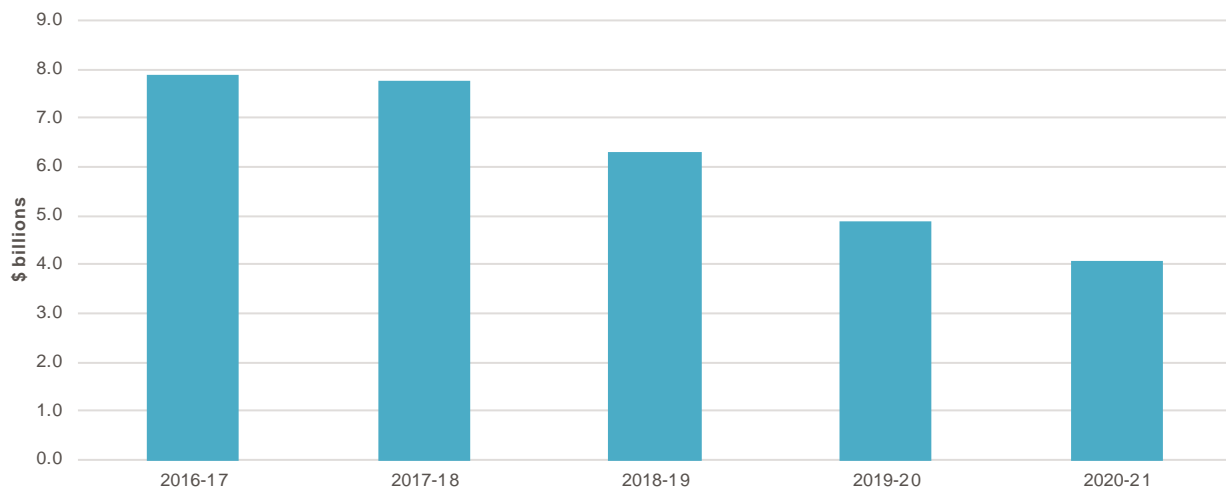
In 2016-17, capital expenditure within the PNFC sector is forecast at \$7.9 billion, \$1.4 billion lower than forecast at the 2016-17 Budget. This result was driven by the partial long-term leases of Ausgrid and Endeavour and lower capital spend by Rail Corporation New South Wales and Sydney Motorway Corporation.

Capital expenditure within the PNFC sector over the budget and forward estimates will be \$23.0 billion. This is \$5.7 billion lower than forecast in the 2016-17 Budget due to the capital expenditure programs from Ausgrid and Endeavour Energy no longer being included. These reductions are slightly offset by higher spend by Sydney Water and Water NSW.

Chart 8.2 shows capital expenditure in the PNFC sector from 2016-17 to 2020-21. Box 8.2 provides information on the Government's plan to fund the final stage of the \$16.8 billion WestConnex project.

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

Chart 8.2: Capital expenditure of the public non-financial corporations sector



Capital expenditure falls from a high of \$7.9 billion in 2016-17 to \$4.1 billion in 2020-21 reflecting completion of stages one and two of the WestConnex project and the Sydney International Convention Exhibition and Entertainment Precinct.

**Box 8.2: Funding and financing WestConnex**

WestConnex is the largest road project in Australia, providing 33 kilometres of motorway, two thirds of which will be underground. It will create 10,000 direct and indirect jobs during construction and delivery, and deliver more than \$20 billion in economic benefits to New South Wales.

On 12 May 2017, the Government announced its plan to help fund the final stage of WestConnex – the critical M4-M5 Link connecting two of Sydney’s busiest motorways and the Iron Cove Link and Rozelle Interchange – by the sale of a majority stake in Sydney Motorway Corporation (SMC), the company delivering WestConnex. The Government also announced a one month toll free period for the M4 Widening.

The Government will launch a competitive trade sale later this year, calling for expressions of interest in at least 51 per cent of SMC and its subsidiaries, which hold the toll road concessions for WestConnex. The Government expects this transaction to receive substantial interest from local and international investors. The transaction is targeted to close in mid-2018.

The transaction forms part of the Government’s core strategy to maintain strong budgets while delivering a once-in-a-generation infrastructure pipeline that creates jobs and drives economic growth.

**8.4 Public financial corporations sector**

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

TCorp is the central borrowing authority for the State, and the State’s central provider of funds management services. As a top ten Australian fund manager, TCorp currently has over \$79.3 billion in funds under management (as at 31 May 2017). This includes managing funds on behalf of icare, State Super and the NSW Infrastructure Future Fund (NIFF). TCorp’s total funds under management have increased from \$66.6 billion to \$79.3 billion over the year to 31 May 2017 largely as a result of the new NIFF investment mandate.

Strong investor demand for NSW triple-A rated securities, combined with TCorp’s economies of scale, mean that TCorp is able to achieve a low cost of borrowing for the State. TCorp has been able to achieve economies of scale through the funds amalgamation initiative, which saw the State’s core funds management activities in icare and State Super successfully amalgamated within TCorp. As part of the funds amalgamation initiative, a single custodian has been appointed to manage all financial investments managed by TCorp. In December 2016, the Government announced that JP Morgan was selected as preferred custodian of the combined investment funds for three Government agencies, TCorp, icare and State Super, achieving significant savings for the State.

icare delivers insurance and care services to the people of New South Wales through the Workers Insurance, Dust Diseases Care, Lifetime Care, Self Insurance, Building Insurers’ Guarantee and Sporting Injuries Insurance schemes. In April 2017, icare was moved to the Treasury Cluster.

As a centre of excellence for insurance and care needs, icare puts customers at the heart of its endeavours with its goal to protect, insure and care for the people, businesses and assets of New South Wales.

Since it was created in September 2015, icare has introduced a range of initiatives that have benefited the people of New South Wales. icare has:

- halved the average processing times for people who have a workplace related dust disease and met the new two day target for considering and approving claims (once processed) in 100 per cent of cases
- finalised a direct funding pilot which enabled lifetime care participants to enhance their quality of life by giving them the ability to adjust their care services to suit their lifestyle
- linked workers insurance premiums to good claims performance and in 2015-16 allocated \$188.0 million to be returned in premium discounts to employers with safety and return to work records above the NSW Workers Compensation Scheme average
- launched the icare Foundation, which will invest \$100 million over five years, in programs, research and partnerships focused on prevention and post injury care that will make a difference to the mental and physical wellbeing of our community.



## A1. STATEMENT OF FINANCES

This appendix presents the financial aggregates for the 2017-18 Budget.

Financial aggregates in this appendix are prepared in line with:

- the Uniform Presentation Framework (UPF) endorsed by the Australian Loan Council
- Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which adopts a harmonised Government Finance Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) reporting basis.

UPF Tables also include disclosures that identify 'convergence' differences as explained on pages A1-4 and A1-5.

A six-year time series is provided from 2015-16 to 2020-21 for the general government sector (GGS), public non-financial corporations (PNFC) sector, and consolidated non-financial public sector (NFPS).

The Australian Bureau of Statistics (ABS) released a revised GFS-based Government Finance Estimates publication in December 2015 that will become effective from 1 July 2017. This has resulted in some presentation differences between this publication and the 2016-17 budget publication.

The UPF is currently under review following the ABS' release of their revised GFS publication. The presentation requirements of the current UPF have been adopted in this chapter with the exception of the expenses by function tables that are now presented using the CoFOG-A hierarchy. The tables that previously showed the derivation of the GFS cash surplus/(deficit) have also been excluded as under the new GFS framework there is no longer a distinction between the AASB1049 and GFS derived cash surplus/(deficit).

An analysis of general government expenses is presented in Chapter 6: Expenditure, and looks at each element of expenses by CoFOG-A category.

Appendix A2 outlines the accounting policies and forecast assumptions adopted in the Budget. The Operating Statements as per Table A1.1, Table A1.9 and Table A1.12 quantifies the impact on the forward estimates from 2017-18 to 2020-21.

### Introduction

This appendix presents financial aggregates for the GGS, PNFC sector and NFPS. These aggregates are prepared in line with the revised UPF agreed by the Australian Loan Council in March 2008.

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

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

The UPF financial aggregates:

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

## Uniform Presentation Framework

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

### Framework

The UPF tables are in line with AASB 1049 which:

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

Due to differences in reporting classifications, GFS financial aggregates released by the ABS will differ from UPF aggregates. These ‘convergence’ differences are not generally material for New South Wales, apart from GFS’s exclusion of deferred tax, settlement provisions and obligation payments. For more information on other differences, see the primary financial statements later in this appendix. For details and amounts of the key 2015-16 convergence differences, see pages 7-135 to 7-140 of the *2015-16 Report on State Finances*.

### Historical Series

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

### Fiscal measures

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

- net operating balance
- net lending/borrowing (fiscal balance)

<sup>1</sup> The complete UPF manual is available on the Commonwealth Treasury website [www.treasury.gov.au](http://www.treasury.gov.au). Extracts from the manual are included in this appendix to explain key concepts while the glossary to this budget paper also includes key UPF terms.

- net worth
- change in net worth (comprehensive result)
- net debt
- net financial worth
- net financial liabilities
- cash surplus/(deficit).

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

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

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

## Primary Financial Statements

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### UPF Presentation

Public sector estimates and outcomes are presented on an accrual accounting basis in three AASB 1049 based primary statements: the operating statement, including other economic flows; the balance sheet; and the cash flow statement. AASB 1049 adopts GFS principles where this does not conflict with GAAP. Details of key convergence differences between GFS and GAAP are explained in this appendix. The following statements, along with the Loan Council Allocation statement, form the UPF's core reporting requirements. Appendix A2 sets out the significant accounting policies and forecast assumptions adopted by New South Wales.

### Operating Statement

The operating statement:

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

The operating statement also reports three major fiscal measures:

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

### **Convergence differences in the Operating Statement**

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

- the harmonised aggregates exclude selected Commonwealth Government transfer payment revenues and expenses that pass through the State's accounts. The ABS requires such payments to be grossed up in GFS reports. However, they are excluded from the AASB 1049 UPF reports as the NSW Government has no control over them. For information on the gross value of these grants see footnotes to the grants revenue and expense Table A1.5
- grants are recognised when the State gains control over the assets. Control is normally obtained when the cash is received. For example, the Commonwealth Government gave the State a \$960.0 million grant in June 2014 for road works to be carried out over several years. Under AASB 1049, this revenue was recognised in 2013-14 when the cash was received. However, in GFS reports, this revenue is recognised to match the timing of expenditure over the period 2014-15 to 2019-20. This GFS treatment is in line with an ABS direction
- dividends paid by the PNFC and PFC sectors to the GGS are recognised as an expense in GFS (in the PNFC and PFC sector operating statements), but they are treated as an equity transaction for AASB 1049
- GFS may treat a transaction as a repayment of equity in circumstances where accounting standards would record a dividend payment
- a liability is recognised in the UPF balance sheet for prepaid licence concession receipts. Income is subsequently recognised from amortising the prepaid licence over the concession period. GFS treats this as a sale of a non-produced intangible asset in the period that the prepayment is received.

### **Balance Sheet**

The balance sheet:

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

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

### **Convergence differences in the Balance Sheet**

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

- allowance for doubtful debts is recognised and reported in the UPF balance sheet, but is excluded from the GFS balance sheet, as GFS does not recognise an economic event has occurred
- a prepaid income liability is recognised in the UPF balance sheets for unamortised prepaid licences. This liability is excluded from the GFS balance sheet, which treats the prepaid income as an upfront sale of a non-produced intangible asset
- GFS balance sheets exclude deferred tax assets and deferred tax liabilities, but they are reported in accounting balance sheets. The convergence difference only affects GGS, PNFC and PFC sector balance sheets, as the assets and liabilities are eliminated for the consolidated non-financial public sector and Total Public Sector balance sheets
- GFS balance sheets also do not recognise other settlement provisions and obligation payments as there is no present counterparty to the transactions
- net financial worth and net financial liabilities aggregates are affected by the differing treatments for prepayments. Prepayments are treated in GFS as a receivable (financial asset), but in the UPF they are classified as a non-financial asset under AASB 1049. While this difference affects net financial liabilities and net financial worth, it does not affect net debt and net worth aggregates.
- the revised ABS GFS Manual presents debt in a matrix format, with no single net debt aggregate identified. In this publication net debt is reported in accordance with the current UPF as the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements
- by definition, GFS net worth for the PNFC and PFC sectors will always be zero, as owner's equity is classified as equivalent to a liability. However, under the UPF, liabilities exclude owner's equity.

### **Cash Flow Statement**

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

This statement requires cash flows to be categorised into:

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

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

The cash flow statement reports two fiscal measures:

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

New South Wales uses the AASB 1049 cash result as its headline cash result.

## **Institutional sectors**

Appendix A3 lists NSW-controlled entities. The NSW-controlled entities have been classified according to their government sector. These sectors are defined in the ABS GFS manual.

## **Emerging Issues**

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### **Market/non-market agency classification**

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

Applying the market/non-market definition may result in some public sector agencies moving between the public corporations and general government sectors.

### **Revised GFS Manual**

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

The revised Australian GFS Manual was released in December 2015 and will take effect from 1 July 2017. The publication of GFS data under the revised ABS GFS manual will begin from the September quarter 2017 and in the Annual GFS publications from 2017-18.

### **Revised Uniform Presentation Framework (UPF)**

A revised framework has been circulated amongst the jurisdictions and discussion is currently included on the agenda for meetings of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). This review was prompted by the release of the revised Australian GFS Manual.

The requirements of the current UPF have been adopted in this chapter where this presentation remains consistent with AASB1049 and the revised Australian GFS Manual. The following changes proposed in the revised UPF have been adopted in this publication:

- The expenses by function tables are presented using the Classification of the Functions of Government – Australia (CoFOG-A) hierarchy rather than Government Purpose Classification (GPC).

- The derivation of the GFS cash surplus/ (deficit) tables have been excluded as there is no longer a distinction between the AASB1049 and GFS derived cash surplus/(deficit) under the revised GFS. This is due to the inclusion of finance leases and other similar financing arrangements in the calculation of the GFS cash surplus/ (deficit).

## Uniform Presentation Tables

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

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

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

## Statement of Finances

Table A1.1: General government sector operating statement

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>						
Taxation	29,088	30,430	31,560	32,646	34,250	35,617
Grants and Subsidies						
- Commonwealth General Purpose	17,637	17,208	17,592	17,637	17,593	18,286
- Commonwealth Specific Purpose Payments	8,623	9,117	9,824	9,749	10,276	10,818
- Commonwealth National Partnership Payments	2,622	4,183	3,470	2,493	1,746	1,166
- Other Commonwealth Payments	290	243	251	245	256	269
- Other Grants and Subsidies	907	998	723	849	1,157	1,023
Sale of Goods and Services	8,390	8,475	8,976	9,181	9,009	8,570
Interest	784	830	413	328	335	334
Dividend and Income Tax Equivalents from Other Sectors	1,280	1,106	1,620	1,388	1,594	1,405
Other Dividends and Distributions	673	1,062	1,016	1,252	1,283	1,399
Fines, Regulatory Fees and Other	4,238	4,356	4,439	4,456	4,971	4,883
<b>Total Revenue from Transactions</b>	<b>74,532</b>	<b>78,008</b>	<b>79,885</b>	<b>80,224</b>	<b>82,471</b>	<b>83,770</b>
<b>Expenses from Transactions</b>						
Employee	29,607	30,605	31,483	33,718	35,195	35,927
Superannuation						
- Superannuation Interest Cost	1,504	1,326	1,465	1,468	1,458	1,430
- Other Superannuation	2,936	3,101	3,009	2,785	2,813	2,850
Depreciation and Amortisation	4,394	4,632	4,937	5,175	5,558	5,775
Interest	2,209	2,117	2,094	2,165	2,526	2,586
Other Operating	17,173	18,524	19,627	18,837	19,060	19,091
Grants, Subsidies and Other Transfer Expenses	12,046	13,232	14,571	13,949	14,330	14,612
<b>Total Expenses from Transactions</b>	<b>69,867</b>	<b>73,537</b>	<b>77,186</b>	<b>78,098</b>	<b>80,939</b>	<b>82,270</b>
Transactions from Discontinuing Operations	...	...	...	...	...	...
<b>BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]</b>	<b>4,664</b>	<b>4,472</b>	<b>2,698</b>	<b>2,126</b>	<b>1,532</b>	<b>1,500</b>



Table A1.1: General government sector operating statement (cont)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Other Economic Flows - Included in the Operating Result</b>						
Gain/(Loss) from Other Liabilities	(1,042)	474	159	155	154	(8)
Other Net Gains/(Losses)	(127)	565	236	417	494	506
Share of Earnings from Associates (excluding Dividends)	11	50	6	52	46	92
Dividends from Asset Sale Proceeds	0	115	193	...	...	...
Allowance for Impairment of Receivables	(67)	(45)	(38)	(37)	(38)	(38)
Deferred Income Tax from Other Sectors	(431)	(25)	(11)	(6)	2	12
Others	6	6	81	81	81	81
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>(1,649)</b>	<b>1,140</b>	<b>627</b>	<b>661</b>	<b>739</b>	<b>645</b>
<b>Operating Result</b>	<b>3,015</b>	<b>5,611</b>	<b>3,326</b>	<b>2,787</b>	<b>2,271</b>	<b>2,146</b>
<b>Other Economic Flows - Other Comprehensive Income</b>						
<b>Items that will not be Reclassified to Operating Result</b>	<b>(11,782)</b>	<b>17,543</b>	<b>8,453</b>	<b>8,538</b>	<b>8,108</b>	<b>5,779</b>
Revaluations	2,810	4,514	4,054	4,176	4,027	4,067
Share of Earnings from Associates from Revaluations	(1)	0	...	...	...	...
Superannuation Actuarial Gain/(Loss)	(14,331)	14,584	4,316	4,293	3,976	1,592
Deferred Tax Adjustment through Equity	(260)	(1,555)	83	68	105	119
<b>Items that may be Reclassified Subsequently to Operating Result</b>	<b>9,252</b>	<b>19,907</b>	<b>1,160</b>	<b>1,797</b>	<b>1,314</b>	<b>2,741</b>
Net Gain/(Loss) on Equity Investments in Other Sectors	9,360	20,240	1,194	1,933	1,494	2,742
Net Gain/(Loss) on Financial Instruments at Fair Value	(8)	...	0	0	...	...
Other	(99)	(333)	(33)	(136)	(179)	0
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>(2,530)</b>	<b>37,450</b>	<b>9,613</b>	<b>10,335</b>	<b>9,422</b>	<b>8,520</b>
<b>Comprehensive Result - Total Change in Net Worth<sup>(a)</sup></b>	<b>485</b>	<b>43,061</b>	<b>12,939</b>	<b>13,122</b>	<b>11,693</b>	<b>10,665</b>
<b>Key Fiscal Aggregates</b>						
<b>Comprehensive Result - Total Change in Net Worth<sup>(a)</sup></b>	<b>485</b>	<b>43,061</b>	<b>12,939</b>	<b>13,122</b>	<b>11,693</b>	<b>10,665</b>
Less: Net Other Economic Flows	4,179	(38,589)	(10,240)	(10,996)	(10,161)	(9,165)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>4,664</b>	<b>4,472</b>	<b>2,698</b>	<b>2,126</b>	<b>1,532</b>	<b>1,500</b>
<b>Less: Net Acquisition of Non-Financial Assets</b>						
Purchases of Non-Financial Assets	9,033	10,742	14,325	13,014	10,488	7,714
Sales of Non-Financial Assets	(892)	(3,715)	(526)	(587)	(274)	(152)
Less: Depreciation	(4,394)	(4,632)	(4,937)	(5,175)	(5,558)	(5,775)
Plus: Change in Inventories	24	(12)	(22)	(13)	4	9
Plus: Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	318	201	190	3,477	219	225
- Other	183	119	116	93	395	429
<b>Equals: Total Net Acquisition of Non-Financial Assets</b>	<b>4,273</b>	<b>2,703</b>	<b>9,146</b>	<b>10,808</b>	<b>5,274</b>	<b>2,451</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>392</b>	<b>1,769</b>	<b>(6,447)</b>	<b>(8,682)</b>	<b>(3,742)</b>	<b>(950)</b>
<b>OTHER FISCAL AGGREGATES</b>						
Capital Expenditure <sup>(b)</sup>	<b>9,351</b>	<b>10,943</b>	<b>14,515</b>	<b>16,490</b>	<b>10,707</b>	<b>7,938</b>

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

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

## Statement of Finances

Table A1.2: General government sector balance sheet

	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and Cash Equivalents	5,260	5,576	2,494	2,887	2,957	2,112
Receivables	5,569	5,372	5,544	5,105	5,119	5,208
Tax Equivalents Receivable	104	93	109	87	82	89
Investments, Loans and Placements						
Financial Assets at Fair Value	10,545	29,669	27,254	23,183	22,027	22,334
Other Financial Assets	16,018	5,497	2,972	1,635	1,773	1,447
Advances Paid	1,064	1,001	1,054	1,136	1,269	1,460
Deferred Tax Equivalent Assets	3,919	2,155	2,216	2,272	2,371	2,495
Equity						
Investments in Other Public Sector Entities	97,750	106,711	109,535	113,699	117,317	121,509
Investments in Associates	3,783	9,592	9,438	9,454	9,365	9,241
Other Equity Investments	605	644	674	710	749	791
<b>Total Financial Assets</b>	<b>144,618</b>	<b>166,309</b>	<b>161,289</b>	<b>160,168</b>	<b>163,030</b>	<b>166,684</b>
<b>Non- Financial Assets</b>						
Inventories	263	278	263	250	254	263
Forestry Stock and Other Biological Assets	11	11	11	11	11	11
Assets Classified as Held for Sale	432	322	228	80	55	61
Property, Plant and Equipment						
Land and Buildings	70,617	72,405	77,158	80,077	82,450	84,681
Plant and Equipment	11,407	12,315	12,599	12,667	12,629	12,723
Infrastructure Systems	82,389	89,072	96,240	110,367	116,657	120,164
Intangibles	3,093	3,359	3,495	3,264	2,964	2,626
Other Non-Financial Assets	3,447	4,783	6,242	5,252	8,459	12,271
<b>Total Non- Financial Assets</b>	<b>171,660</b>	<b>182,545</b>	<b>196,235</b>	<b>211,968</b>	<b>223,479</b>	<b>232,799</b>
<b>Total Assets</b>	<b>316,278</b>	<b>348,855</b>	<b>357,525</b>	<b>372,135</b>	<b>386,509</b>	<b>399,484</b>
<b>Liabilities</b>						
Deposits Held	126	116	104	92	98	104
Payables	5,517	5,102	5,309	5,534	6,815	8,583
Tax Equivalents Payable	3	2	3	2	2	2
Borrowings and Derivatives at Fair Value	8	1,026	5	4	3	3
Borrowings at Amortised Cost	31,839	31,995	32,566	38,042	43,245	45,310
Advanced Received	857	819	578	567	531	519
Employee Provisions	16,797	16,705	16,806	17,002	17,209	17,522
Superannuation Provision <sup>(a)</sup>	67,862	53,711	49,491	45,341	41,443	39,757
Deferred Tax Equivalent Provision	337	106	105	104	102	102
Other Provisions	8,411	8,724	8,620	8,516	8,610	8,703
Other Liabilities	2,720	5,633	6,079	5,952	5,776	5,714
<b>Total Liabilities</b>	<b>134,478</b>	<b>123,938</b>	<b>119,665</b>	<b>121,157</b>	<b>123,835</b>	<b>126,317</b>
<b>NET ASSETS</b>	<b>181,799</b>	<b>224,917</b>	<b>237,859</b>	<b>250,978</b>	<b>262,674</b>	<b>273,166</b>
<b>NET WORTH</b>						
Accumulated Funds	7,091	38,788	44,106	48,972	52,927	55,048
Reserves	174,708	186,129	193,754	202,006	209,748	218,119
<b>TOTAL NET WORTH</b>	<b>181,799</b>	<b>224,917</b>	<b>237,859</b>	<b>250,978</b>	<b>262,674</b>	<b>273,166</b>
<b>OTHER FISCAL AGGREGATES</b>						
<b>Net Debt<sup>(b)</sup></b>	<b>(57)</b>	<b>(7,788)</b>	<b>(521)</b>	<b>9,864</b>	<b>15,850</b>	<b>18,583</b>
<b>Net Financial Liabilities<sup>(c)</sup></b>	<b>87,611</b>	<b>64,339</b>	<b>67,910</b>	<b>74,688</b>	<b>78,121</b>	<b>81,142</b>
<b>Net Financial Worth<sup>(d)</sup></b>	<b>10,139</b>	<b>42,372</b>	<b>41,624</b>	<b>39,011</b>	<b>39,196</b>	<b>40,367</b>

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total financial liabilities.

Table A1.3: General government sector cash flow statement

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cash Receipts from Operating Activities</b>						
Taxes Received	29,133	30,815	31,538	32,635	34,238	35,614
Receipts from Sales of Goods and Services	7,634	8,805	9,743	9,484	9,195	8,796
Grant and Subsidies Received	30,215	31,743	31,860	30,974	31,029	31,557
Interest Receipts	561	741	404	261	222	184
Dividends and Income Tax Equivalents	2,581	1,440	1,037	1,696	1,427	1,274
Other Receipts	8,165	8,035	8,822	8,789	8,945	8,638
<b>Total Cash Receipts from Operating Activities</b>	<b>78,289</b>	<b>81,579</b>	<b>83,403</b>	<b>83,839</b>	<b>85,056</b>	<b>86,063</b>
<b>Cash Payments from Operating Activities</b>						
Payments for Employees	(29,232)	(30,107)	(31,401)	(33,352)	(34,782)	(35,623)
Payments for Superannuation	(3,892)	(4,056)	(4,518)	(4,242)	(4,327)	(4,500)
Payments for Goods and Services	(16,290)	(19,990)	(20,478)	(20,119)	(20,477)	(20,905)
Grants and Subsidies Paid	(10,788)	(11,688)	(12,943)	(12,218)	(12,623)	(12,881)
Interest Paid	(1,692)	(1,612)	(1,518)	(1,554)	(1,842)	(1,936)
Other Payments	(5,302)	(4,700)	(5,315)	(5,271)	(4,934)	(4,642)
<b>Total Cash Payments from Operating Activities</b>	<b>(67,196)</b>	<b>(72,153)</b>	<b>(76,174)</b>	<b>(76,757)</b>	<b>(78,985)</b>	<b>(80,488)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>11,092</b>	<b>9,426</b>	<b>7,229</b>	<b>7,082</b>	<b>6,071</b>	<b>5,575</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>						
Sales of Non-Financial Assets	903	854	601	661	348	221
Purchases of Non-Financial Assets	(8,900)	(10,864)	(14,358)	(13,103)	(10,882)	(7,801)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(7,997)</b>	<b>(10,011)</b>	<b>(13,757)</b>	<b>(12,442)</b>	<b>(10,534)</b>	<b>(7,580)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>						
Receipts	248	8,192	818	234	21	81
Payments	(3,617)	(2,888)	(2,535)	(2,529)	(2,268)	(1,690)
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>(3,369)</b>	<b>5,304</b>	<b>(1,717)</b>	<b>(2,295)</b>	<b>(2,247)</b>	<b>(1,609)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>						
Receipts from Sale/Maturity of Investments	15,799	23,144	11,527	7,557	2,996	1,997
Payments for the Purchase of Investments	(22,199)	(28,184)	(5,856)	(1,449)	(1,283)	(1,236)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(6,400)</b>	<b>(5,040)</b>	<b>5,671</b>	<b>6,107</b>	<b>1,713</b>	<b>761</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(17,766)</b>	<b>(9,746)</b>	<b>(9,803)</b>	<b>(8,629)</b>	<b>(11,067)</b>	<b>(8,428)</b>
<b>Cash Flows from Financing Activities</b>						
Advances Received	39	12	12	24	11	4
Advances Repaid	(158)	(60)	(58)	(73)	(75)	(73)
Proceeds from Borrowings	435	1,298	1,002	2,581	5,611	2,371
Repayment of Borrowings	(503)	(449)	(1,699)	(657)	(702)	(592)
Deposits Received - Net	0	(10)	(12)	(12)	6	6
Other Financing Payments (net)	(322)	(147)	230	67	200	270
<b>Net Cash Flows from Financing Activities</b>	<b>(508)</b>	<b>644</b>	<b>(525)</b>	<b>1,930</b>	<b>5,050</b>	<b>1,983</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(7,182)</b>	<b>323</b>	<b>(3,098)</b>	<b>383</b>	<b>54</b>	<b>(871)</b>
<b>Derivation of Cash Result</b>						
Net Cash Flows From Operating Activities	11,092	9,426	7,229	7,082	6,071	5,575
Net Cash Flows from Investments in Non-Financial Assets	(7,997)	(10,011)	(13,757)	(12,442)	(10,534)	(7,580)
<b>Cash Surplus/(Deficit)</b>	<b>3,095</b>	<b>(585)</b>	<b>(6,527)</b>	<b>(5,359)</b>	<b>(4,463)</b>	<b>(2,005)</b>

## Statement of Finances

Table A1.4: General government sector taxes

	2015-16 Actual \$m	2016-17 Revised \$m	2017-18 Budget \$m
Taxes on Employers' Payroll and Labour Force	<b>8,096</b>	<b>8,383</b>	<b>8,784</b>
Taxes on Property			
Land Taxes	2,747	3,235	3,685
Other	143	170	166
Total Taxes on Property	<b>2,890</b>	<b>3,406</b>	<b>3,851</b>
Taxes on the Provision of Goods and Services			
Excises and Levies	...	...	...
Taxes on Gambling	2,251	2,258	2,334
Taxes on Insurance	2,283	2,279	2,437
Taxes on Financial & Capital Transactions	9,581	10,058	10,018
Total Taxes on the Provision of Goods and Services	<b>14,115</b>	<b>14,596</b>	<b>14,789</b>
Taxes on Use of Goods and Performance of Activities			
Motor Vehicle Taxes	3,242	3,361	3,518
Franchise Taxes	1	5	13
Other	744	680	605
Total Taxes on Use of Goods and Performance of Activities	<b>3,987</b>	<b>4,046</b>	<b>4,135</b>
<b>Total Taxation Revenue</b>	<b>29,088</b>	<b>30,430</b>	<b>31,560</b>

Table A1.5: General government sector grant revenue and expense<sup>(a)</sup>

	2015-16 Actual \$m	2016-17 Revised \$m	2017-18 Budget \$m
<b>Current Grants and Subsidies Revenue</b>			
Current Grants from the Commonwealth <sup>(a)</sup>			
General Purpose Grants	17,637	17,208	17,592
Specific Purpose Payments	8,623	9,117	9,824
National Partnership Payments	1,007	847	646
Total	<b>27,268</b>	<b>27,172</b>	<b>28,062</b>
Other Grants and Subsidies	1,193	1,224	886
<b>Total Current Grants and Subsidies Revenue</b>	<b>28,460</b>	<b>28,396</b>	<b>28,948</b>
<b>Capital Grants and Subsidies Revenue</b>			
Capital Grants from the Commonwealth <sup>(a)</sup>			
General Purpose Grants	...	...	...
Specific Purpose Payments	...	...	...
National Partnership Payments	1,615	3,336	2,824
Total	<b>1,615</b>	<b>3,336</b>	<b>2,824</b>
Other Grants and Subsidies	5	17	87
<b>Total Capital Grants and Subsidies Revenue</b>	<b>1,619</b>	<b>3,353</b>	<b>2,912</b>
<b>Total Grant Revenue</b>	<b>30,080</b>	<b>31,749</b>	<b>31,860</b>
<b>Current Grant, Subsidies, and Transfer Payments Expense to:</b>			
State/Territory Government	...	7	...
Local Government <sup>(a)</sup>	157	828	950
Private and Not-for-Profit Sector <sup>(a)</sup>	8,015	7,717	8,068
Other Sectors of Government	3,102	3,836	4,341
<b>Total Current Grants, Subsidies, and Transfer Payments Expense</b>	<b>11,274</b>	<b>12,388</b>	<b>13,359</b>
<b>Capital Grant, Subsidies, and Transfer Payments Expense to:</b>			
State/Territory Government	...	...	...
Local Government <sup>(a)</sup>	267	247	287
Private and Not-for-Profit Sector <sup>(a)</sup>	307	332	378
Other Sectors of Government	197	265	547
<b>Total Capital Grants, Subsidies, and Transfer Payments Expense</b>	<b>772</b>	<b>844</b>	<b>1,212</b>
<b>Total Grant Expense</b>	<b>12,046</b>	<b>13,232</b>	<b>14,571</b>

Note:

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

<b>Transfer Receipts</b>			
Current Transfer Receipts for Specific Purposes	4,085	4,655	4,018
Capital Transfer Receipts for Specific Purposes	...	...	...
<b>Total Receipts</b>	<b>4,085</b>	<b>4,655</b>	<b>4,018</b>
<b>Current Transfer Payments to</b>			
Local Government	712	1,080	368
Private and Not-for Profit Sector	3,373	3,574	3,650
<b>Capital Transfer Payments to</b>			
Local Government	...	...	...
Private and Not-for Profit Sector	...	...	...
<b>Total Payments</b>	<b>4,085</b>	<b>4,655</b>	<b>4,018</b>

## Statement of Finances

Table A1.6: General government sector dividend and income tax equivalent income

	2015-16 Actual \$m	2016-17 Revised \$m	2017-18 Budget \$m
Dividend and Income Tax Revenue from the PNFC Sector	1,227	982	1,543
Dividend and Income Tax Revenue from the PFC Sector	52	124	77
Other Dividend Income	673	1,062	1,016
<b>Total Dividend and Income Tax Equivalent Income</b>	<b>1,953</b>	<b>2,168</b>	<b>2,636</b>

Table A1.7: General government sector expenses by function<sup>(a)</sup>

	2016-17 Revised \$m	2017-18 Budget <sup>(b)</sup> \$m
General Public Services	9,656	9,512
Public Order and Safety	6,754	6,974
Economic Affairs	3,142	2,310
Environmental Protection	1,200	1,271
Housing and Community Amenities	820	1,211
Health	19,808	20,569
Recreation, Culture and Religion	1,066	1,229
Education	14,360	15,659
Social Protection	6,232	7,092
Transport	10,499	11,361
<b>Total Expenses</b>	<b>73,537</b>	<b>77,186</b>

(a) 2015-16 Actuals are not able to be recast to CoFOG-A presentation and this data is not required to be presented under the UPF.

(b) 2017-18 includes \$100.0 million Advance to the Treasurer, which will be allocated across functions as the funds are expended on recurrent in the Budget Year.

Table A1.8: General government sector purchases of non-financial assets by function<sup>(a)</sup>

	2016-17 Revised	2017-18 Budget
	\$m	\$m
General Public Services	393	402
Public Order and Safety	832	2,000
Economic Affairs	93	211
Environmental Protection	4	12
Housing and Community Amenities	48	163
Health	1,330	1,548
Recreation, Culture and Religion	197	225
Education	552	942
Social Protection	187	205
Transport	7,105	8,618
<b>Total Purchases of Non-Financial Assets</b>	<b>10,742</b>	<b>14,325</b>
<b>Assets Acquired under Finance Leases</b>		
Transport	201	190
<b>Total Assets Acquired under Finance Leases</b>	<b>201</b>	<b>190</b>
<b>Total Capital Expenditure</b>	<b>10,943</b>	<b>14,515</b>

- (a) 2015-16 Actuals are not able to be recast to CoFOG-A presentation and this data is not required to be presented under the UPF.  
(b) 2017-18 includes \$20.0 million Advance to the Treasurer, which will be allocated across functions as the funds are expended on capital in the Budget Year.

## Statement of Finances

Table A1.9: Public non-financial corporations sector operating statement

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>						
- Other Commonwealth Payments	10	0	0	0	0	0
- Other Grants and Subsidies	2,769	2,862	3,073	2,866	3,083	3,499
Sale of Goods and Services	11,599	7,696	8,188	8,133	8,332	8,591
Interest	109	105	82	81	76	68
Fines, Regulatory Fees and Other	971	788	735	761	709	725
<b>Total Revenue from Transactions</b>	<b>15,458</b>	<b>11,452</b>	<b>12,078</b>	<b>11,841</b>	<b>12,201</b>	<b>12,883</b>
<b>Expenses from Transactions</b>						
Employee	3,357	2,899	3,001	2,989	2,973	2,982
Superannuation						
- Superannuation Interest Cost	61	56	55	53	50	46
- Other Superannuation	290	178	176	170	165	162
Depreciation and Amortisation	3,158	2,608	2,766	2,948	3,259	3,435
Interest	1,595	1,082	1,167	1,263	1,331	1,344
Income Tax Expense	472	329	339	305	334	278
Other Operating	6,555	5,623	5,869	5,583	5,304	5,305
Grants, Subsidies and Other Transfer Expenses	374	149	147	123	121	70
<b>Total Expenses from Transactions</b>	<b>15,861</b>	<b>12,924</b>	<b>13,520</b>	<b>13,434</b>	<b>13,537</b>	<b>13,623</b>
Transactions from Discontinuing Operations <sup>(a)</sup>	95	171	...	...	...	...
<b>NET OPERATING BALANCE - SURPLUS AFTER TAX</b>	<b>(307)</b>	<b>(1,301)</b>	<b>(1,442)</b>	<b>(1,593)</b>	<b>(1,336)</b>	<b>(740)</b>



Table A1.9: Public non-financial corporations sector operating statement (cont)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Other Economic Flows - Included in the Operating Result</b>						
Gain/(Loss) from Other Liabilities	22	2	...	...	...	...
Other Net Gains/(Losses)	3,477	7,176	411	145	14	(337)
Allowance for Impairment of Receivables	(4)	(0)	(2)	(2)	(2)	(2)
Deferred Income Tax	(32)	(19)	14	10	2	(8)
Discontinuing Operations - Other Economic Flows	9	(527)	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>3,471</b>	<b>6,631</b>	<b>423</b>	<b>152</b>	<b>13</b>	<b>(348)</b>
<b>Operating Result</b>	<b>3,164</b>	<b>5,330</b>	<b>(1,019)</b>	<b>(1,441)</b>	<b>(1,322)</b>	<b>(1,088)</b>
<b>Other Economic Flows - Other Comprehensive Income</b>						
<b>Items that will not be Reclassified to Operating Result</b>	<b>7,082</b>	<b>12,309</b>	<b>2,443</b>	<b>3,290</b>	<b>2,772</b>	<b>4,368</b>
Revaluations	8,080	9,852	2,299	3,082	2,615	4,388
Superannuation Actuarial Gain/(Loss)	(1,258)	902	292	276	262	99
Deferred Tax Adjustment through Equity	260	1,554	(148)	(68)	(105)	(119)
<b>Items that may be Reclassified Subsequently to Operating Result</b>	<b>3,793</b>	<b>(500)</b>	<b>(1,977)</b>	<b>(1,026)</b>	<b>(1,223)</b>	<b>(1,275)</b>
Net Gain/(Loss) on Equity Investments	...	...	...	...	...	...
Net Gain/(Loss) on Financial Instruments at Fair Value	(99)	74	1	1	0	0
Other	3,892	(574)	(1,978)	(1,027)	(1,223)	(1,275)
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>10,875</b>	<b>11,809</b>	<b>466</b>	<b>2,264</b>	<b>1,549</b>	<b>3,093</b>
<b>Comprehensive Result - Total Change in Net Worth<sup>(b)</sup></b>	<b>14,039</b>	<b>17,139</b>	<b>(553)</b>	<b>823</b>	<b>227</b>	<b>2,005</b>
<b>Key Fiscal Aggregates</b>						
<b>Comprehensive Result - Total Change in Net Worth<sup>(b)</sup></b>	<b>14,039</b>	<b>17,139</b>	<b>(553)</b>	<b>823</b>	<b>227</b>	<b>2,005</b>
Less: Net Other Economic Flows	(14,346)	(18,440)	(889)	(2,416)	(1,562)	(2,745)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>(307)</b>	<b>(1,301)</b>	<b>(1,442)</b>	<b>(1,593)</b>	<b>(1,336)</b>	<b>(740)</b>
<b>Less: Net Acquisition of Non-Financial Assets</b>						
Purchases of Non-Financial Assets	6,547	7,885	7,748	6,211	4,882	4,065
Sales of Non-Financial Assets	(732)	(600)	(931)	(600)	(699)	(601)
Less: Depreciation	(3,158)	(2,608)	(2,766)	(2,948)	(3,259)	(3,435)
Plus: Change in Inventories	(72)	(111)	(155)	73	23	157
Plus: Other Movements in Non-Financial Assets						
- Assets Acquired Using Finance Leases	276	...	11	110	...	...
- Other	446	272	225	282	286	293
<b>Equals: Total Net Acquisition of Non-Financial Assets</b>	<b>3,308</b>	<b>4,838</b>	<b>4,132</b>	<b>3,129</b>	<b>1,234</b>	<b>480</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>(3,615)</b>	<b>(6,139)</b>	<b>(5,574)</b>	<b>(4,722)</b>	<b>(2,570)</b>	<b>(1,220)</b>
<b>OTHER FISCAL AGGREGATES</b>						
Capital Expenditure <sup>(c)</sup>	6,823	7,885	7,759	6,321	4,882	4,065
Dividends Accrued <sup>(d)</sup>	717	434	954	605	674	683

(a) Discontinuing operations for 2015-16 includes TransGrid and Delta Coast (Vales Point). Discontinuing operations for 2016-17 includes Ausgrid and Endeavour Energy.

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

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

(d) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

## Statement of Finances

Table A1.10: Public non-financial corporations sector balance sheet

	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,598	2,827	2,742	2,466	2,453	2,530
Receivables	1,757	1,056	1,004	1,019	1,044	1,064
Tax Equivalents Receivable	3	2	3	2	2	2
Investments, Loans and Placements						
Financial Assets at Fair Value	17	14	14	14	13	13
Other Financial Assets	1,130	1,020	961	917	854	860
Advances Paid	0	...	...	...	...	...
Deferred Tax Equivalent Assets	330	106	105	104	102	102
Equity						
Other Equity Investments	...	...	...	...	...	...
<b>Total Financial Assets</b>	<b>5,837</b>	<b>5,025</b>	<b>4,828</b>	<b>4,521</b>	<b>4,469</b>	<b>4,571</b>
<b>Non- Financial Assets</b>						
Inventories	699	523	332	332	333	477
Forestry Stock and Other Biological Assets	945	992	992	992	992	1,017
Assets Classified as Held for Sale	176	86	52	53	53	54
Investment Properties	507	566	447	458	470	482
Property, Plant and Equipment						
Land and Buildings	64,889	69,887	71,219	73,383	74,752	76,279
Plant and Equipment	5,842	5,691	6,217	6,625	6,993	7,548
Infrastructure Systems	69,065	56,635	61,369	64,768	66,680	69,025
Intangibles	1,040	884	999	1,033	1,024	1,019
Other Non-Financial Assets	188	133	146	151	157	164
<b>Total Non- Financial Assets</b>	<b>143,350</b>	<b>135,398</b>	<b>141,774</b>	<b>147,796</b>	<b>151,454</b>	<b>156,065</b>
<b>Total Assets</b>	<b>149,187</b>	<b>140,423</b>	<b>146,602</b>	<b>152,316</b>	<b>155,924</b>	<b>160,635</b>
<b>Liabilities</b>						
Deposits Held	34	15	13	13	13	14
Payables	2,546	2,149	2,134	2,016	2,008	2,021
Tax Equivalents Payable	89	87	102	81	75	82
Borrowings and Derivatives at Fair Value	138	783	2,329	3,114	3,306	3,306
Borrowings at Amortised Cost	32,630	21,784	24,613	27,034	28,306	29,559
Advanced Received	404	389	374	358	343	328
Employee Provisions	1,732	1,103	1,132	1,131	1,125	1,117
Superannuation Provision <sup>(a)</sup>	3,297	2,282	2,027	1,786	1,549	1,467
Deferred Tax Equivalent Provision	3,919	2,155	2,216	2,272	2,371	2,495
Other Provisions	1,710	1,116	1,464	1,249	1,236	1,172
Other Liabilities	501	404	320	282	248	242
<b>Total Liabilities</b>	<b>46,998</b>	<b>32,268</b>	<b>36,725</b>	<b>39,337</b>	<b>40,581</b>	<b>41,801</b>
<b>NET ASSETS</b>	<b>102,189</b>	<b>108,155</b>	<b>109,878</b>	<b>112,979</b>	<b>115,343</b>	<b>118,834</b>
<b>NET WORTH</b>						
Accumulated Funds	37,035	36,256	33,637	31,585	29,544	27,540
Reserves	65,154	71,900	76,241	81,394	85,798	91,294
<b>TOTAL NET WORTH</b>	<b>102,189</b>	<b>108,155</b>	<b>109,878</b>	<b>112,979</b>	<b>115,343</b>	<b>118,834</b>
<b>OTHER FISCAL AGGREGATES</b>						
<b>Net Debt<sup>(b)</sup></b>	<b>29,460</b>	<b>19,110</b>	<b>23,612</b>	<b>27,124</b>	<b>28,647</b>	<b>29,803</b>
<b>Net Financial Liabilities<sup>(c)</sup></b>	<b>41,162</b>	<b>27,243</b>	<b>31,897</b>	<b>34,817</b>	<b>36,112</b>	<b>37,231</b>
<b>Net Financial Worth<sup>(d)</sup></b>	<b>(41,162)</b>	<b>(27,243)</b>	<b>(31,897)</b>	<b>(34,817)</b>	<b>(36,112)</b>	<b>(37,231)</b>

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total financial liabilities.

Table A1.11: Public non-financial corporations sector cash flow statement

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cash Receipts from Operating Activities</b>						
Receipts from Sales of Goods and Services	11,917	10,413	8,786	8,464	8,595	8,609
Grant and Subsidies Received	2,774	2,849	3,058	2,851	3,067	3,483
Interest Receipts	103	81	76	62	57	61
Other Receipts	1,961	1,888	1,027	1,055	1,002	1,023
<b>Total Cash Receipts from Operating Activities</b>	<b>16,754</b>	<b>15,232</b>	<b>12,947</b>	<b>12,431</b>	<b>12,721</b>	<b>13,175</b>
<b>Cash Payments from Operating Activities</b>						
Payments for Employees	(3,520)	(3,150)	(3,096)	(3,113)	(3,103)	(3,115)
Payments for Superannuation	(756)	(414)	(194)	(188)	(189)	(191)
Payments for Goods and Services	(5,358)	(6,462)	(5,777)	(5,410)	(5,287)	(5,436)
Grants and Subsidies Paid	(314)	(147)	(75)	(123)	(121)	(70)
Interest Paid	(1,766)	(1,689)	(973)	(1,084)	(1,171)	(1,206)
Other Payments	(1,582)	(1,356)	(671)	(590)	(581)	(563)
<b>Total Cash Payments from Operating Activities</b>	<b>(13,296)</b>	<b>(13,218)</b>	<b>(10,787)</b>	<b>(10,508)</b>	<b>(10,453)</b>	<b>(10,581)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>3,459</b>	<b>2,014</b>	<b>2,161</b>	<b>1,923</b>	<b>2,268</b>	<b>2,594</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>						
Sales of Non-Financial Assets	731	601	931	600	699	601
Purchases of Non-Financial Assets	(6,620)	(6,531)	(7,798)	(6,310)	(4,917)	(4,097)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(5,889)</b>	<b>(5,930)</b>	<b>(6,867)</b>	<b>(5,710)</b>	<b>(4,218)</b>	<b>(3,497)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>						
Receipts	3,568	15,217	...	...	...	...
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>3,568</b>	<b>15,217</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>						
Receipts from Sale/Maturity of Investments	(80)	146	83	112	117	63
Payments for Purchase of Investments	(123)	(137)	(37)	(49)	(50)	(51)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(203)</b>	<b>9</b>	<b>46</b>	<b>63</b>	<b>67</b>	<b>12</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(2,524)</b>	<b>9,296</b>	<b>(6,821)</b>	<b>(5,647)</b>	<b>(4,151)</b>	<b>(3,485)</b>
<b>Cash Flows from Financing Activities</b>						
Advances Received	3,691	2,740	2,459	2,361	2,191	1,494
Advances Repaid	(44)	(30)	(31)	(31)	(31)	(31)
Proceeds from Borrowings	7,714	2,418	4,303	4,082	1,559	1,193
Repayment of Borrowings	(8,905)	(14,861)	(973)	(1,178)	(299)	(138)
Dividends Paid	(1,595)	(873)	(784)	(1,454)	(1,205)	(1,271)
Deposits Received (net)	(62)	(19)	(1)	0	0	0
Other Financing Payments	(541)	(470)	(398)	(332)	(345)	(279)
<b>Net Cash Flows from Financing Activities</b>	<b>257</b>	<b>(11,094)</b>	<b>4,575</b>	<b>3,448</b>	<b>1,870</b>	<b>968</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>1,191</b>	<b>216</b>	<b>(85)</b>	<b>(276)</b>	<b>(13)</b>	<b>77</b>
<b>Derivation of Cash Result</b>						
Net Cash Flows from Operating Activities	3,459	2,014	2,161	1,923	2,268	2,594
Net Cash Flows from Investments in Non-Financial Assets	(5,889)	(5,930)	(6,867)	(5,710)	(4,218)	(3,497)
Dividends Paid	(1,595)	(873)	(784)	(1,454)	(1,205)	(1,271)
<b>Cash Surplus/(Deficit)</b>	<b>(4,025)</b>	<b>(4,789)</b>	<b>(5,490)</b>	<b>(5,242)</b>	<b>(3,155)</b>	<b>(2,174)</b>

## Statement of Finances

Table A1.12: Non-financial public sector operating statement

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Revenue from Transactions</b>						
Taxation	28,304	29,846	31,086	32,119	33,680	35,027
Grants and Subsidies						
- Commonwealth General Purpose	17,637	17,208	17,592	17,637	17,593	18,286
- Commonwealth Specific Purpose Payments	8,623	9,117	9,824	9,749	10,276	10,818
- Commonwealth National Partnership Payments	2,622	4,183	3,470	2,493	1,746	1,166
- Other Commonwealth Payments	300	243	251	245	256	269
- Other Grants and Subsidies	585	746	654	821	981	965
Sale of Goods and Services	18,490	13,279	13,402	13,761	14,245	14,749
Interest	784	841	423	345	348	338
Dividend and Income Tax Equivalents from Other Sectors	52	122	77	78	86	92
Other Dividends and Distributions	673	1,062	1,016	1,252	1,283	1,399
Fines, Regulatory Fees and Other	5,166	5,073	5,107	5,158	5,618	5,544
<b>Total Revenue from Transactions</b>	<b>83,237</b>	<b>81,719</b>	<b>82,902</b>	<b>83,657</b>	<b>86,113</b>	<b>88,653</b>
<b>Expenses from Transactions</b>						
Employee	32,334	32,882	33,863	36,095	37,555	38,285
Superannuation						
- Superannuation Interest Cost	1,565	1,381	1,520	1,521	1,507	1,476
- Other Superannuation	3,225	3,278	3,185	2,955	2,978	3,012
Depreciation and Amortisation	7,551	7,240	7,703	8,123	8,816	9,210
Interest	3,695	3,105	3,188	3,364	3,794	3,866
Other Operating	22,086	21,431	21,876	20,955	21,312	22,021
Grants, Subsidies and Other Transfer Expenses	9,295	10,249	11,543	11,147	11,159	11,091
<b>Total Expenses from Transactions</b>	<b>79,752</b>	<b>79,567</b>	<b>82,878</b>	<b>84,159</b>	<b>87,122</b>	<b>88,961</b>
Transactions from Discontinuing Operations <sup>(a)</sup>	155	518	...	...	...	...
<b>NET OPERATING BALANCE - SURPLUS/(DEFICIT)</b>	<b>3,640</b>	<b>2,670</b>	<b>23</b>	<b>(502)</b>	<b>(1,009)</b>	<b>(309)</b>

Table A1.12: Non-financial public sector operating statement (cont)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Other Economic Flows - Included in the Operating Result</b>						
Gain/(Loss) from Other Liabilities	(1,020)	476	159	155	154	(8)
Other Net Gains/(Losses)	3,350	7,741	647	562	508	169
Share of Earnings from Associates (excluding Dividends)	11	50	6	52	46	92
Allowance for Impairment of Receivables	(71)	(45)	(40)	(40)	(40)	(40)
Others	6	6	81	81	81	81
Discontinuing Operations - Other Economic Flows	(313)	(692)	...	...	...	...
<b>Other Economic Flows - included in Operating Result</b>	<b>1,962</b>	<b>7,535</b>	<b>854</b>	<b>810</b>	<b>748</b>	<b>294</b>
<b>Operating Result</b>	<b>5,602</b>	<b>10,206</b>	<b>877</b>	<b>307</b>	<b>(261)</b>	<b>(14)</b>
<b>Other Economic Flows - Other Comprehensive Income</b>						
<b>Items that will not be Reclassified to Operating Result</b>	<b>(4,700)</b>	<b>29,881</b>	<b>10,927</b>	<b>11,861</b>	<b>10,915</b>	<b>10,183</b>
Revaluations	10,890	14,395	6,384	7,291	6,676	8,492
Share of Earnings from Associates from Revaluations	(1)	0	...	...	...	...
Superannuation Actuarial Gain/(Loss)	(15,589)	15,487	4,608	4,569	4,238	1,691
Deferred Tax Adjustment through Equity	0	(1)	(65)	0	0	0
<b>Items that may be Reclassified Subsequently to Operating Result</b>	<b>6,834</b>	<b>9,218</b>	<b>826</b>	<b>2,806</b>	<b>2,294</b>	<b>3,531</b>
Net Gain/(Loss) on Equity Investments in Other Sectors	6,760	8,216	2,694	4,264	3,915	2,659
Net Gain/(Loss) on Financial Instruments at Fair Value	(107)	74	0	0	0	0
Other	181	928	(1,868)	(1,459)	(1,621)	871
<b>Other Economic Flows - Other Comprehensive Income</b>	<b>2,134</b>	<b>39,098</b>	<b>11,753</b>	<b>14,666</b>	<b>13,209</b>	<b>13,714</b>
<b>Comprehensive Result - Total Change in Net Worth<sup>(b)</sup></b>	<b>7,736</b>	<b>49,304</b>	<b>12,631</b>	<b>14,973</b>	<b>12,948</b>	<b>13,699</b>
<b>Key Fiscal Aggregates</b>						
<b>Comprehensive Result - Total Change in Net Worth<sup>(b)</sup></b>	<b>7,736</b>	<b>49,304</b>	<b>12,631</b>	<b>14,973</b>	<b>12,948</b>	<b>13,699</b>
Less: Net Other Economic Flows	(4,096)	(46,634)	(12,607)	(15,476)	(13,958)	(14,008)
<b>Equals: Budget Result - Net Operating Balance</b>	<b>3,640</b>	<b>2,670</b>	<b>23</b>	<b>(502)</b>	<b>(1,009)</b>	<b>(309)</b>
<b>Less: Net Acquisition of Non-Financials Assets</b>						
Purchases of Non-Financials Assets	15,581	18,627	22,074	19,225	15,370	11,779
Sales of Non-Financial Assets	(1,625)	(4,311)	(1,435)	(1,187)	(973)	(753)
Less: Depreciation	(7,551)	(7,240)	(7,703)	(8,123)	(8,816)	(9,210)
Plus: Change in Inventories	(48)	(123)	(177)	60	27	166
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Finance Leases	594	201	200	3,587	219	225
- Other	616	370	294	332	636	676
Equals: Total Net Acquisition of Non-Financial Assets	<b>7,567</b>	<b>7,524</b>	<b>13,252</b>	<b>13,894</b>	<b>6,463</b>	<b>2,883</b>
<b>Equals: Net Lending/(Borrowing) [Fiscal Balance]</b>	<b>(3,927)</b>	<b>(4,854)</b>	<b>(13,229)</b>	<b>(14,396)</b>	<b>(7,473)</b>	<b>(3,192)</b>
<b>OTHER FISCAL AGGREGATES</b>						
Capital Expenditure <sup>(c)</sup>	16,175	18,828	22,274	22,812	15,589	12,004
Dividends Accrued	...	...	200	200	200	200

(a) Discontinuing operations for 2015-16 includes TransGrid and Delta Coast (Vales Point). Discontinuing operations for 2016-17 includes Ausgrid and Endeavour Energy.

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

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

## Statement of Finances

Table A1.13: Non-financial public sector balance sheet

	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>						
<b>Financial Assets</b>						
Cash and Cash Equivalents	7,859	8,403	5,236	5,353	5,411	4,642
Receivables	5,299	5,069	4,789	4,323	4,637	4,725
Tax Equivalents Receivable	15	6	6	7	7	7
Investments, Loans and Placements						
Financial Assets at Fair Value	10,562	29,630	27,215	23,144	21,988	22,295
Other Financial Assets	16,671	6,054	3,499	2,117	2,197	1,884
Advances Paid	659	612	680	778	925	1,132
Deferred Tax Equivalent Assets	1	0	0	0	0	0
Equity						
Investments in Other Public Sector Entities	(2,540)	1,459	2,708	3,866	5,167	5,870
Investments in Associates	3,783	9,592	9,438	9,454	9,365	9,241
Other Equity Investments	605	644	674	710	749	791
<b>Total Financial Assets</b>	<b>42,914</b>	<b>61,468</b>	<b>54,245</b>	<b>49,752</b>	<b>50,447</b>	<b>50,587</b>
<b>Non- Financial Assets</b>						
Inventories	963	801	595	582	587	740
Forestry Stock and Other Biological Assets	956	1,003	1,003	1,003	1,003	1,028
Assets Classified as Held for Sale	607	408	280	133	109	114
Investment Properties	507	566	447	458	470	480
Property, Plant and Equipment						
Land and Buildings	135,506	142,636	148,407	153,492	157,237	160,999
Plant and Equipment	17,249	18,006	18,817	19,292	19,622	20,271
Infrastructure Systems	151,454	145,707	157,609	175,135	183,336	189,189
Intangibles	4,133	4,243	4,494	4,297	3,987	3,645
Other Non-Financial Assets	3,620	4,563	6,347	5,360	8,571	12,388
<b>Total Non- Financial Assets</b>	<b>314,996</b>	<b>317,933</b>	<b>337,999</b>	<b>359,753</b>	<b>374,923</b>	<b>388,854</b>
<b>Total Assets</b>	<b>357,910</b>	<b>379,401</b>	<b>392,244</b>	<b>409,505</b>	<b>425,371</b>	<b>439,441</b>
<b>Liabilities</b>						
Deposits Held	159	130	117	106	112	117
Payables	7,166	6,792	7,033	6,756	8,369	10,138
Borrowings and Derivatives at Fair Value	146	1,756	2,281	3,065	3,256	3,256
Borrowings at Amortised Cost	63,992	53,316	56,745	64,642	71,120	74,446
Advanced Received	857	819	578	567	531	519
Employee Provisions	18,492	17,792	17,921	18,117	18,318	18,623
Superannuation Provision <sup>(a)</sup>	71,159	55,994	51,518	47,127	42,993	41,225
Deferred Tax Equivalent Provision	7	...	...	...	...	...
Other Provisions	9,019	9,014	8,805	8,827	8,839	8,856
Other Liabilities	3,215	5,967	6,332	6,170	5,962	5,897
<b>Total Liabilities</b>	<b>174,213</b>	<b>151,578</b>	<b>151,332</b>	<b>155,378</b>	<b>159,501</b>	<b>163,077</b>
<b>NET ASSETS</b>	<b>183,698</b>	<b>227,822</b>	<b>240,913</b>	<b>254,127</b>	<b>265,870</b>	<b>276,364</b>
<b>NET WORTH</b>						
Accumulated Funds	44,126	75,017	78,307	80,591	82,713	80,977
Reserves	139,572	152,805	162,605	173,536	183,157	195,387
<b>TOTAL NET WORTH</b>	<b>183,698</b>	<b>227,822</b>	<b>240,913</b>	<b>254,127</b>	<b>265,870</b>	<b>276,364</b>
<b>OTHER FISCAL AGGREGATES</b>						
<b>Net Debt<sup>(b)</sup></b>	<b>29,403</b>	<b>11,322</b>	<b>23,092</b>	<b>36,988</b>	<b>44,497</b>	<b>48,386</b>
<b>Net Financial Liabilities<sup>(c)</sup></b>	<b>128,758</b>	<b>91,570</b>	<b>99,795</b>	<b>109,492</b>	<b>114,221</b>	<b>118,360</b>
<b>Net Financial Worth<sup>(d)</sup></b>	<b>(131,298)</b>	<b>(90,111)</b>	<b>(97,087)</b>	<b>(105,626)</b>	<b>(109,053)</b>	<b>(112,490)</b>

(a) Superannuation liabilities are reported net of prepaid superannuation contribution assets.

(b) Net debt comprises the sum of deposits held, borrowings and advances received, minus the sum of cash and cash equivalents, investments, loans and placements and advances paid.

(c) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.

(d) Net financial worth equals total financial assets minus total liabilities.

Table A1.14: Non-financial public sector cash flow statement

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual	Revised	Budget	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cash Receipts from Operating Activities</b>						
Taxes Received	28,340	29,891	31,072	32,117	33,673	35,024
Receipts from Sales of Goods and Services	16,522	14,318	12,571	12,759	12,577	13,996
Grant and Subsidies Received	29,883	31,486	31,760	30,920	30,826	31,472
Interest Receipts	582	741	422	266	238	199
Dividends and Income Tax Equivalents	105	72	103	77	80	88
Other Receipts	10,117	9,950	9,842	9,836	9,944	9,658
<b>Total Cash Receipts from Operating Activities</b>	<b>85,548</b>	<b>86,457</b>	<b>85,770</b>	<b>85,974</b>	<b>87,338</b>	<b>90,438</b>
<b>Cash Payments from Operating Activities</b>						
Payments for Employees	(31,939)	(32,497)	(33,754)	(35,731)	(37,150)	(37,992)
Payments for Superannuation	(4,648)	(4,470)	(4,712)	(4,430)	(4,516)	(4,692)
Payments for Goods and Services	(18,676)	(21,481)	(20,596)	(20,581)	(20,751)	(23,123)
Grants and Subsidies Paid	(7,977)	(8,727)	(9,842)	(9,416)	(9,453)	(9,360)
Interest Paid	(3,376)	(3,221)	(2,433)	(2,580)	(2,972)	(3,095)
Other Payments	(6,852)	(5,982)	(5,978)	(5,849)	(5,504)	(5,192)
<b>Total Cash Payments from Operating Activities</b>	<b>(73,467)</b>	<b>(76,377)</b>	<b>(77,315)</b>	<b>(78,588)</b>	<b>(80,346)</b>	<b>(83,455)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>12,081</b>	<b>10,079</b>	<b>8,455</b>	<b>7,386</b>	<b>6,992</b>	<b>6,983</b>
<b>Net Cash Flows from Investments in Non-Financial Assets</b>						
Sales of Non-Financial Assets	1,634	1,451	1,510	1,261	1,048	821
Purchases of Non-Financial Assets	(15,566)	(17,395)	(22,256)	(22,831)	(15,953)	(11,906)
<b>Net Cash Flows from Investments in Non-Financial Assets</b>	<b>(13,932)</b>	<b>(15,945)</b>	<b>(20,746)</b>	<b>(21,569)</b>	<b>(14,906)</b>	<b>(11,084)</b>
<b>Cash Flows from Investments in Financial Assets for Policy Purposes</b>						
Receipts	3,816	23,237	(94)	234	21	81
Payments	(1,756)	(1,144)	(320)	(280)	(127)	(613)
<b>Net Cash Flows from Investments in Financial Assets for Policy Purposes</b>	<b>2,060</b>	<b>22,093</b>	<b>(414)</b>	<b>(46)</b>	<b>(107)</b>	<b>(532)</b>
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>						
Receipts from Sale/Maturity of Investments	15,765	23,237	11,662	10,887	2,783	2,068
Payments for Purchase of Investments	(22,322)	(28,294)	(5,857)	(1,450)	(1,284)	(1,237)
<b>Net Cash Flows from Investments in Financial Assets for Liquidity Purposes</b>	<b>(6,557)</b>	<b>(5,057)</b>	<b>5,805</b>	<b>9,436</b>	<b>1,499</b>	<b>831</b>
<b>Net Cash Flows from Investing Activities</b>	<b>(18,429)</b>	<b>1,091</b>	<b>(15,355)</b>	<b>(12,179)</b>	<b>(13,513)</b>	<b>(10,785)</b>
<b>Cash Flows from Financing Activities</b>						
Advances Received	1,825	1,132	1,019	170	305	339
Advances Repaid	(158)	(60)	(58)	(73)	(75)	(73)
Proceeds from Borrowings	8,144	3,717	5,306	6,662	7,170	3,563
Repayment of Borrowings	(9,403)	(15,289)	(1,740)	(1,748)	(840)	(730)
Dividends Paid	0	0	(100)	(100)	(100)	(245)
Deposits Received (net)	(63)	(29)	(13)	(12)	6	6
Other Financing Receipts/ (Payments)	12	(102)	(696)	0	96	149
<b>Net Cash Flows from Financing Activities</b>	<b>357</b>	<b>(10,631)</b>	<b>3,717</b>	<b>4,900</b>	<b>6,562</b>	<b>3,009</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(5,991)</b>	<b>539</b>	<b>(3,183)</b>	<b>107</b>	<b>41</b>	<b>(794)</b>
<b>Derivation of Cash Result</b>						
Net Cash Flows from Operating Activities	12,081	10,079	8,455	7,386	6,992	6,983
Net Cash Flows from Investments in Non-Financial Assets	(13,932)	(15,945)	(20,746)	(21,569)	(14,906)	(11,084)
Dividends Paid	0	0	(100)	(100)	(100)	(245)
<b>Cash Surplus/(Deficit)</b>	<b>(1,851)</b>	<b>(5,866)</b>	<b>(12,391)</b>	<b>(14,283)</b>	<b>(8,014)</b>	<b>(4,346)</b>

## Loan Council Allocation

The Commonwealth, State and Territory governments nominate a Loan Council Allocation (LCA) each year. The LCA measures each jurisdiction's net call on financial markets in a given financial year to meet its budget objectives. The NSW LCA for 2017-18 was approved at the Australian Loan Council meeting on 24 March 2017.

The 2017-18 LCA allocation was based on the 2016-17 Half-Yearly Review, with the revised LCA Estimate based on the 2017-18 Budget estimates. The revised estimates take into account fiscal and economic developments, the application of new governance arrangements and proposed new policy measures.

The 2017-18 estimated LCA is a deficit of \$14.9 billion compared with the original deficit allocation of \$14.2 billion. The variance of \$0.7 billion is within the Loan Council's tolerance limit of \$1.8 billion (calculated as 2 per cent of cash receipts from operating activities for the non-financial public sector).

The variance in the NSW 2017-18 LCA, between the original 2017-18 allocation and Budget time estimate, is mainly attributable to increased capital investment on roads.

Table A1.15: Loan Council Allocation estimates

	2017-18 Loan Council Allocation	2017-18 Budget-time Estimate
	\$m	\$m
General Government Sector Cash Deficit/(Surplus)	6,181	6,527
Public Non-Financial Corporations Sector Cash Deficit/(Surplus)	5,590	5,490
<b>Non-Financial Public Sector Cash Deficit/(Surplus) <sup>(a)</sup></b>	<b>11,771</b>	<b>12,391</b>
Minus: Net Cash Flows From Investments in Financial Assets For Policy Purposes <sup>(b)</sup>	(331)	(414)
Plus: Memorandum Items <sup>(c)</sup>	2,066	2,066
<b>Loan Council Allocation</b>	<b>14,168</b>	<b>14,871</b>

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

(b) This item is the negative of net advances paid under a cash accounting framework.

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

## Public Private Partnerships

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

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

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



**Contracts expected to be entered in 2017-18**

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

Expected Government Contingent Liability	Nil
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## A2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

### Scope of the Estimated Financial Statements

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The budget papers present the Estimated Financial Statements of the general government sector (GGS), including revised estimates for the current year ending 30 June 2017, and estimates for the budget year ending 30 June 2018 and the three forward years ending 30 June 2019, 2020 and 2021.

These comprise the GGS operating statement, GGS balance sheet, GGS cash flow statement, and derivation of ABS-GFS GGS cash surplus / (deficit). These are prepared in accordance with this Statement of Significant Accounting Policies and Forecast Assumptions.

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

The Estimated Financial Statements are prepared for the NSW GGS, which is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (cat. No. 5514)* (ABS-GFS Manual) as amended from time to time.

The GGS comprises government agencies controlled by the State that:

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

The scope of the GGS is outlined in Appendix A3 of this *Budget Statement*.

### Basis of preparation

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

They have been prepared in these budget papers to reflect existing operations and the impact of new policy decisions taken by the NSW Government (where their financial effect can be reliably measured). The figures for the 2016-17 Budget have been presented consistent with the chart of accounts in the new Prime system, leading to some presentational differences. The 2016-17 revised budget is based on actual results for the 10 months period ending 30 April 2017, and updated year end projections provided by agencies. They have also been prepared to take into account other economic and financial data available to Treasury up to 15 June 2017, including Commonwealth Government funding decisions announced in the 2017-18 Commonwealth Government Budget.

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

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

## Accounting policies

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

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

The Estimated Financial Statements adopt the accounting policies expected to be used in preparing general purpose financial statements for 2016-17. The policies are not materially different from those applied in the *Total State Sector Accounts 2015-16*. Note 1 of the *Total State Sector Accounts 2015-16* sets out the significant accounting policies, including the principles of consolidation, significant accounting judgements and estimates, and the recognition and measurement policies for revenue, expenses, other economic flows, assets and liabilities.

## Change in accounting policies

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There are no significant changes to AAS or accounting policies adopted in 2016-17 that would significantly impact on the State's financial estimates.

## Presentation of the Estimated Financial Statements

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The Estimated Financial Statements follow the presentation requirements for GGS reporting contained in AASB 1049.

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

- the statement of comprehensive income (referred to as the operating statement) classifies income and expenses as either transactions or other economic flows to be consistent with GFS principles, applied from a GAAP perspective.

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

In the operating statement:

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

Further, AASB 1049 requires:

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

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

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

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

Tables may not add in all instances due to rounding to the nearest million dollars.

### **Presentation changes**

There have been no presentation changes since the release of the 2016-17 Budget Papers, except as discussed above in respect of the new Prime system. The presentation of information in the financial estimates remains consistent with GAAP and GFS presentation requirements.

### **Definitions**

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

### **Material economic and other assumptions**

The Estimated Financial Statements have been prepared using the material economic and other assumptions as set out in Table A2.1.

## Statement of Significant Accounting Policies and Forecast Assumptions

Table A2.1: Key economic performance assumptions<sup>(a)</sup>

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Outcomes	Forecasts	Forecasts	Forecasts	Projections	Projections
New South Wales population (persons) <sup>(b)</sup>	7,727,000	7,848,000	7,973,000	8,098,000	8,221,000	8,340,000
Nominal gross state product (\$million)	538,500	569,900	597,600	624,400	654,100	685,200
Real gross state product (per cent)	3.5	2¾	3	2¾	2¾	2½
Real state final demand (per cent)	4.4	3¾	3½	2¾	-	-
Employment (per cent)	3.8	¾	1¾	1¾	1½	1¼
Unemployment rate (per cent) <sup>(c)</sup>	5.4	5	5	5	4¾	4¾
Sydney consumer price index (per cent) <sup>(d)</sup>	1.5	2	2¼	2¼	2½	2½
Wage price index (per cent) <sup>(e)</sup>	2.1	2	2¼	2½	2¾	3
Nominal gross state product (per cent)	4.9	5¾	4¾	4½	4¾	4¾

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

(b) As at 30 June each year

(c) Year average, per cent

(d) 2016-17 to 2020-21 includes ¼ percentage point from tobacco excise increases.

(e) Weighted private and public sector wages

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

## Summary of other key assumptions

The following section outlines the other key assumptions used in the preparation of the Estimated Financial Statements. The summary takes into account materiality in relation to the 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

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 guarantee fees take into account an assessment of the level of debt of 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 and escalation factors relevant to each type of grant.

The Goods and Services Tax (GST) grants are forecast based on estimates of the national GST pool by the Commonwealth Government. For 2017-18, the GST forecast is based on the assessed relativity for New South Wales in 2017-18 and the Commonwealth Government's population projections. The assessed relativity is based on the three-year average of actual data (2013-14, 2014-15 and 2015-16) as published by the Commonwealth Grants Commission.

Beyond 2017-18, the State's share is based on NSW's forecast relativities and the Commonwealth's GST pool and population projections. The forecast per capita annual relativities are based on the forecast fiscal capacity of New South Wales compared to other States and Territories.

### **Sale of goods and services**

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

### **Dividend and income tax equivalents from other sectors**

Dividend and income tax equivalent revenue from other sectors are estimated by PNFC and PFC sectors based on expected profitability and the agreed dividend policy at the time of the Budget.

### **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, regulatory fees, contributions and royalty revenue for which estimates are based on assessments of coal volumes and prices and the Australian dollar exchange rate. Other revenue forecasts are adjusted for indexation where appropriate.

### **Expenses from transactions**

To improve the accuracy of expenses and related estimates consistent with longstanding practice and reflecting historic trends, the budget includes adjustments:

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

## Employee expenses

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

## Superannuation expense (and liabilities)

Superannuation expense comprises:

- for the defined contribution plan, the forecast accrued contribution for the period, and
- for defined benefit plans, the forecast service cost and the net interest expense. This excludes the re-measurements, (i.e. actuarial gains and losses, and return on plan assets excluding the gross interest income) which are classified as 'other economic flows – other comprehensive income'.

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

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

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

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 A2.2: Superannuation Assumptions – Pooled Fund / State Super Schemes

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

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

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

## **Depreciation and amortisation**

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

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

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

## **Interest expense**

The forecasts for interest expense are based on:

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

## **Other operating expenses**

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

## **Grants and subsidies expense**

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

## **Other economic flows**

### **Revaluations**

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



**Superannuation actuarial gains / losses**

The forecast actuarial 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 owners are based on Treasury's *Commercial Policy Framework*.

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

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

**Assets****Land and buildings, plant and equipment and infrastructure systems**

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

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

**Liabilities****Borrowings**

Estimates for borrowings are based on current debt levels, amortisation of any premiums or discounts, and the cash flows expected to be required to fund future government activities.

**Employee provisions**

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

**Superannuation provisions**

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

**Other provisions**

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

## A3. CLASSIFICATION OF AGENCIES

The financial activities of all governments are measured using the government finance statistics (GFS) framework.<sup>1</sup> All entities controlled by governments are classified into sectors according to the nature of their activities and funding arrangements.

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

- general government sector
- public non-financial corporations
- public financial corporations.

Together, these sectors make up the total state sector. This is not a GFS term, but it is used to describe the scope of all government activities representing the total state.

The nature of each sector as it relates to NSW Government entities is as follows:

General government sector	<p>The general government sector represents the scope of the Budget. Agencies in this sector generally operate under the Financial Management Framework and carry out policy, regulatory and service delivery functions. This sector includes agencies such as the Ministry of Health, Department of Education, NSW Police Force, Rental Bond Board and Independent Pricing and Regulatory Tribunal.</p> <p>'General government sector' is defined under GFS as the institutional sector comprising all government units and non-profit institutions controlled by the Government</p>
Public non-financial corporations sector	<p>Agencies in this sector are either commercial or non-commercial.</p> <p>Commercial enterprises generally operate under the Commercial Policy Framework, which aims to replicate disciplines and incentives that drive the efficient commercial practices of private sector businesses. They deliver services to a customer base from which they receive their income. They generally pay dividends and tax-equivalent payments to the general government sector. These agencies include State-owned Corporations such as energy distribution corporations and the Sydney Water and Hunter Water Corporations.</p> <p>Non-commercial enterprises address important social objectives and levy charges for services to client groups on a subsidised basis. This includes the New South Wales Land and Housing Corporation, which receives substantial grants from the general government sector to provide these services.</p> <p>'Public non-financial corporations sector' is defined under GFS as resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services.</p>
Public financial corporations sector	<p>These agencies are involved in financial services and generally operate under the Commercial Policy Framework. They include the New South Wales Treasury Corporation and Insurance and Care NSW.</p> <p>'Public financial corporations sector' is defined under GFS as resident government controlled operations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services.</p>

<sup>1</sup> Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2015 Cat No. 5514.0, ABS, Canberra.

## Classification of Agencies

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

Table A3.1: Classification of agencies by sector

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Aboriginal Housing Office	.		
Alpha Distribution Ministerial Holding Corporation ( <i>established 1 December 2016</i> )	.		
Art Gallery of New South Wales Trust	.		
Audit Office of New South Wales	.		
Australian Museum	.		
Barangaroo Delivery Authority	.		
Building Insurers' Guarantee Corporation	.		
Centennial Park and Moore Park Trust	.		
Cobbora Holding Company Pty Ltd		.	
Crown Finance Entity	.		
Crown Solicitor's Office	.		
Delta Electricity ( <i>disposed of on 22 November 2016</i> )		.	
Department of Education	.		
Department of Family and Community Services	.		
Department of Finance, Services and Innovation	.		
Department of Industry ( <i>renamed from Department of Industry, Skills and Regional Development on 30 January 2017</i> )	.		
Department of Justice	.		
Department of Planning and Environment	.		
Department of Premier and Cabinet	.		
Destination NSW	.		
Electricity Assets Ministerial Holding Corporation	.		
Electricity Retained Interest Corporation (ERIC-A) ( <i>established 1 December 2016</i> )	.		
Electricity Retained Interest Corporation (ERIC-E) ( <i>established 14 June 2017</i> )	.		
Electricity Transmission Ministerial Holding Corporation	.		
Endeavour Energy ( <i>abolished 14 June 2017 following the sale and long term lease of Endeavour Assets</i> )		.	
Epsilon Distribution Ministerial Holding Corporation ( <i>established 14 June 2017</i> )	.		
Environment Protection Authority	.		
Environmental Trust	.		
Essential Energy		.	
Fair Trading Administration Corporation			.
Fire and Rescue NSW	.		
First Australian Mortgage Acceptance Corporation (FANMAC) Trusts			.
Forestry Corporation of New South Wales		.	

<sup>2</sup> This reflects the structure of the NSW Public Sector to take effect from 1 July 2017 consistent with recent Administrative Arrangements orders. For more information on any machinery of government changes see 'About this Budget Paper' in Budget Paper No. 3.

Table A3.1: Classification of agencies by sector (cont)

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Health Care Complaints Commission	.		
Historic Houses Trust of New South Wales	.		
Home Purchase Assistance Fund	.		
Hunter Development Corporation	.		
Hunter Water Corporation		.	
Independent Commission Against Corruption	.		
Independent Liquor and Gaming Authority	.		
Independent Pricing and Regulatory Tribunal	.		
Independent Transport Safety Regulator ( <i>disposed of as at 31 March 2017 and transferred to Transport for NSW</i> )	.		
Information and Privacy Commission	.		
Infrastructure NSW	.		
Insurance and Care NSW			.
Judicial Commission of New South Wales	.		
Landcom (trading as UrbanGrowth NSW)		.	
Legal Aid Commission of New South Wales	.		
Liability Management Ministerial Corporation	.		
Lifetime Care and Support Authority of New South Wales			.
Local Land Services	.		
Long Service Corporation	.		
Luna Park Reserve Trust	.		
Mental Health Commission of New South Wales	.		
Ministry of Health	.		
Motor Accidents Authority of New South Wales	.		
Multicultural NSW	.		
Museum of Applied Arts and Sciences	.		
Natural Resources Commission	.		
New South Wales Crime Commission	.		
New South Wales Electoral Commission	.		
New South Wales Government Telecommunications Authority	.		
New South Wales Land and Housing Corporation		.	
New South Wales Rural Assistance Authority	.		
New South Wales Treasury Corporation			.
Newcastle Port Corporation		.	
NSW Education Standards Authority ( <i>renamed from Board of Studies, Teaching and Educational Standards on 1 January 2017</i> )	.		
NSW Food Authority	.		
NSW Police Force	.		
NSW Self Insurance Corporation	.		
NSW Trains		.	
NSW Trustee and Guardian	.		
Office of Environment and Heritage	.		
Office of Local Government	.		
Office of Sport	.		
Office of the Children's Guardian	.		
Office of the Director of Public Prosecutions	.		
Office of the Law Enforcement Conduct Commission ( <i>established 1 February 2017</i> )	.		
Office of the NSW Rural Fire Service	.		
Office of the NSW State Emergency Service	.		

## Classification of Agencies

Table A3.1: Classification of agencies by sector (cont)

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Office of Transport Safety Investigations	.		
Ombudsman's Office	.		
Parliamentary Counsel's Office	.		
Place Management NSW ( <i>renamed from Sydney Harbour Foreshore Authority on 25 October 2016</i> )		.	
Police Integrity Commission ( <i>to be abolished and replaced with the Law Enforcement Conduct Commission from 1 July 2017</i> )	.		
Ports Assets Ministerial Holding Corporation	.		
Property NSW ( <i>renamed from Government Property NSW on 1 January 2017</i> )	.		
Public Service Commission	.		
Rail Corporation New South Wales ( <i>began transformation into the Transport Asset Holding Entity from 1 July 2015. Legislation creating the entity commenced 5 April 2017</i> )		.	
Rental Bond Board	.		
Roads and Maritime Services	.		
Royal Botanic Gardens and Domain Trust	.		
Service NSW	.		
State Insurance Regulatory Authority	.		
State Library of New South Wales	.		
State Records Authority of New South Wales	.		
State Sporting Venues Authority		.	
State Transit Authority of New South Wales		.	
Sydney Cricket and Sports Ground Trust		.	
Sydney Ferries		.	
Sydney Motorway Corporation		.	
Sydney Olympic Park Authority	.		
Sydney Opera House Trust		.	
Sydney Trains		.	
Sydney Water Corporation		.	
TAFE Commission	.		
Teacher Housing Authority of New South Wales		.	
The Legislature	.		
The Treasury	.		
Transport for NSW	.		
UrbanGrowth NSW Development Corporation	.		
Venues NSW		.	
Waste Assets Management Corporation		.	
Water Administration Ministerial Corporation	.		
Water NSW		.	
WCX M4 Corporation Pty Ltd		.	
WCX M5 Corporation Pty Ltd		.	
Western Sydney Parklands Trust	.		
Workers' Compensation (Dust Diseases) Authority	.		
Zoological Parks Board of New South Wales		.	

## A4. 2016-17 BUDGET – OUTCOME AND SUMMARY OF VARIATIONS

### Budget outcome for 2016-17

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The Budget result for 2016-17 is estimated to be a surplus of \$4.5 billion compared with an original budget surplus of \$3.7 billion.

Total revenue is estimated to be \$78.0 billion which is \$0.8 billion or 1.0 per cent higher than the original budget estimate of \$77.2 billion.

Total expenses are estimated to be \$73.5 billion, in line with the original budget estimate of the same amount.

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

## 2016-17 Budget – Outcome and Summary of Variations

Table A4.1: Summary of variations

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	\$m	\$m	\$m	
<b>REVENUE FROM TRANSACTIONS</b>				
<b>Taxation</b>				
Stamp Duty	10,587	11,436	849	Continued strength of the property market supported by historically low interest rates, strong population growth, and one-off revenue from the long-term lease of Ausgrid and Endeavour Energy.
Land Tax	3,136	3,235	99	Growth in land values supported by the three year averages used for land valuation assessments.
Gambling and Betting	2,268	2,258	(11)	Aggregated net minor variances.
Motor Vehicle Taxes	2,512	2,508	(4)	Small variances in motor vehicle registrations and weight tax.
Other Duties and Taxes	11,274	10,993	(281)	Largely reduction to government guarantee fees following the long term lease of Ausgrid.
<b>Total Taxation</b>	<b>29,777</b>	<b>30,430</b>	<b>653</b>	
<b>Commonwealth Grants</b>				
<b>General Purpose Grants</b>				
GST Revenue Grants	17,634	17,186	(449)	Downward revision to the GST pool resulting in lower GST revenue in 2016-17.
Other General Purpose Grants	29	22	(7)	Variance to the Snowy Hydro Limited tax compensation.
<b>Total General Purpose Grants</b>	<b>17,663</b>	<b>17,208</b>	<b>(455)</b>	
<b>National Agreements</b>				
Other National Agreements	9,069	9,117	48	Aggregated net minor variances.
<b>Total National Agreements</b>	<b>9,069</b>	<b>9,117</b>	<b>48</b>	
<b>National Partnership Payments</b>				
Transport for NSW	2,851	2,367	(484)	Reprofiling of Commonwealth Government transport contributions primarily to 2018-19. Decreases in 2016-17 are mainly due to delays in expenditure on Pacific Highway.
Department of Industry	279	240	(39)	Reduction due to the transfer out of the Water Transformation Project to Water NSW.
Other National Partnership Payments	1,565	1,576	11	Aggregated net minor variances.
<b>Total National Partnership Payments</b>	<b>4,696</b>	<b>4,183</b>	<b>(512)</b>	
<b>Other Commonwealth Payments</b>	<b>190</b>	<b>243</b>	<b>53</b>	Aggregated minor variances.
<b>Other Grants and Subsidies</b>				
Department of Justice	0	29	29	Reclassification from other revenue to grants.
Department of Education	410	438	28	Higher school generated revenue from community sources.
Other Grants and Subsidies	311	531	220	Aggregated net variances.
<b>Total Other Grants and Subsidies</b>	<b>721</b>	<b>998</b>	<b>278</b>	
<b>Total Grants and Subsidies</b>	<b>32,338</b>	<b>31,749</b>	<b>(589)</b>	



Table A4.1: Summary of variations (cont)

Category/Agency	Budget \$m	Revised \$m	Variation \$m	Comment on Major Variations
<b>Sales of Goods and Services</b>				
Transport for NSW	2,604	2,378	(226)	Reduction in fees for service following the reprofiling of rail capital projects, primarily More Trains, More Services.
Roads & Maritime Services	497	564	67	Increase due to the introduction of the new regulatory component of the heavy vehicle registration fees, which are collected by RMS for the National Heavy Vehicle Regulator.
Health	2,629	2,709	80	Additional revenue from the Commonwealth Government for drug treatments for Hepatitis C and other high cost drugs.
Department of Education	116	140	24	Higher fees for services and publication sales.
TAFE	433	449	16	Increase in student fees for the Smart and Skilled program reflecting an increase in enrolments.
Department of Planning and Environment	47	65	18	Higher development assessment revenues and higher planning reform fee revenue.
Department of Justice	220	245	25	Higher corrective services industry revenue, higher rental property income and liquor license fees.
Other	1,649	1,926	277	Aggregated net variances.
<b>Total Sales of Goods and Services</b>	<b>8,195</b>	<b>8,475</b>	<b>281</b>	
<b>Interest Revenue</b>				
Crown Finance Entity	616	551	(65)	Lower interest due to the investment of Restart Funds in the NSW Infrastructure Future Fund (NIFF).
Other	299	280	(19)	Aggregated net minor variances.
<b>Total Interest Revenue</b>	<b>914</b>	<b>830</b>	<b>(84)</b>	
Dividends from the PNFC Sector	678	474	(204)	Reduced dividends as outlined in chapter 7.
Dividends from the PFC Sector	55	80	25	Higher dividends following a temporary reduction to the dividend payout ratio following capital restructuring.
Income Tax Equivalents from the PNFC Sector	416	508	92	Higher income tax equivalents due to higher than expected profits.
Income Tax Equivalents from the PFC Sector	24	44	21	Higher income tax equivalents due to higher than expected profits.
<b>Dividend and Income Tax Equivalent Income from Other Sectors</b>	<b>1,173</b>	<b>1,106</b>	<b>(67)</b>	
<b>Other Dividends and Distributions</b>				
NSW Self Insurance Corporation	294	604	310	Revised expected investment distributions due to financial market performance to date, but remains subject to impacts of future market fluctuations.
Electricity Retained Interest Corporation	0	160	160	Forecast earnings from equity investments.
Crown Finance Entity	125	233	109	Higher returns following the investment of Restart NSW funds into the NSW Infrastructure Future Fund (NIFF) with higher returns.
Other	22	65	43	Aggregated net minor variances.
<b>Total Other Dividends and Distributions</b>	<b>440</b>	<b>1,062</b>	<b>621</b>	

## 2016-17 Budget – Outcome and Summary of Variations

Table A4.1: Summary of variations (cont)

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	\$m	\$m	\$m	
<b>Fines, Regulatory Fees and Other Revenue</b>				
Mining Royalties	1,257	1,558	301	Stronger coal prices partly offset by a higher than expected Australian-US dollar exchange rate and lower exports.
Health	376	314	(62)	Reduction in grants received from private sector and other general revenues.
Department of Justice	82	14	(68)	Centralised Monitoring System (CMS) licence fee transferred to other agency.
Roads and Maritime	176	148	(28)	Drivers licence fees below expectation due to lower than expected take up of 10 year licences in 2016-17.
Department of Industry	94	77	(17)	Reduction in grants received from the private sector and other general revenues due to reprofiling of activity.
Other	2,355	2,245	(110)	Aggregated net minor variances.
<b>Total Fines, Regulatory Fees and Other Revenue</b>	<b>4,340</b>	<b>4,356</b>	<b>16</b>	
<b>TOTAL REVENUES</b>	<b>77,178</b>	<b>78,008</b>	<b>831</b>	
<b>EXPENSES FROM TRANSACTIONS</b>				
<b>Employee</b>				
Roads & Maritime Services	(318)	(193)	125	Lower capitalisation of employee expenses from the revised capital works program.
Transport for NSW	1,577	1,652	75	Reclassification of expenses relating to fee for service activities.
Crown Finance Entity	978	1,039	61	Higher long service leave expense due to a lower discount rate.
Ministry of Health	10,964	10,988	24	Increase mainly related to dental activity program commensurate with Commonwealth dental funding.
NSW Police Force	2,101	2,122	20	Increase in average staffing cost.
Other	14,783	14,998	215	Aggregated net variances.
<b>Total Employee</b>	<b>30,085</b>	<b>30,605</b>	<b>520</b>	
<b>Superannuation</b>				
Crown Finance Entity	1,401	1,315	(86)	Due to changes in discount rate and expected returns on plan assets.
Other	34	10	(24)	Aggregated net minor variances.
<b>Total Superannuation Interest Cost</b>	<b>1,436</b>	<b>1,326</b>	<b>(110)</b>	
<b>Other Superannuation</b>				
Crown Finance Entity	607	652	46	Upward revision due to Government bond rates impacting current year service costs for the defined benefit superannuation schemes.
Other	2,398	2,448	50	Aggregated net minor variances.
<b>Total Other Superannuation</b>	<b>3,005</b>	<b>3,101</b>	<b>95</b>	
<b>Depreciation and Amortisation</b>				
Other	4,608	4,632	24	Aggregated net minor variances.
<b>Total Depreciation and Amortisation</b>	<b>4,608</b>	<b>4,632</b>	<b>24</b>	

## 2016-17 Budget – Outcome and Summary of Variations

Table A4.1: Summary of variations (cont)

Category/Agency	Budget \$m	Revised \$m	Variation \$m	Comment on Major Variations
<b>Interest Expenses</b>				
Crown Finance Entity	1,411	1,373	(37)	Lower interest costs from a lengthening of the Crown debt portfolio.
Other	754	743	(11)	Aggregated net minor variances.
<b>Total Interest Expenses</b>	<b>2,165</b>	<b>2,117</b>	<b>(48)</b>	
<b>Other Operating</b>				
Transport for NSW	3,492	3,109	(383)	Reclassification to employee expenses relating to fee for service activities and reprofiling of rail capital projects, primarily More Trains, More Services program.
Department of Industry	737	546	(191)	Reprofiling of activity including changes resulting from Administrative Arrangements Order 2017 and change to approach to water funding made by the Commonwealth Government.
Health	5,703	5,865	162	Higher Hepatitis C and high cost drugs expenditure funded by the Commonwealth Government.
Department of Family & Community Services	341	255	(86)	Mix of reallocation of expenditure to other expenses and grants, and some under-expenditure across other programs
TAFE Commission	471	390	(80)	Timing adjustment to the planned implementation schedule for the TAFE modernisation program.
Roads and Maritime	874	992	118	Additional maintenance expenditure to repair State roads damaged by natural disaster wet weather events, legacy costs relating to motor registries.
Crown Finance Entity	606	965	358	Increase in expenditure on land remediation works, consultants fees relating to transactions and other operating expenses.
Other	6,701	6,403	(298)	Aggregated net variances and catch up of TMF Hindsight payments.
<b>Total Other Operating</b>	<b>18,924</b>	<b>18,524</b>	<b>(400)</b>	
<b>Grants, Subsidies and Other Transfer Expenses</b>				
Roads & Maritime Services	423	466	43	Increase in grants to local government to repair local roads damaged by natural disaster wet weather events recovered from the Natural Disaster Fund.
Department of Finance, Services and Innovation	410	257	(154)	Lower take up of payroll tax rebate scheme than expected due to a decline in the number of repeat clients and improved compliance measures.
Office of Local Government	260	150	(110)	Lower grants to local authorities following the decision not to proceed with council mergers.
Department of Family & Community Services	4,009	4,085	76	Reallocation from other operating expenses for a range of programs.
Transport for NSW	2,354	2,462	108	Increase in projected grants for restructuring projects.
Other	5,783	5,813	30	Aggregated net minor variances.
<b>Grants, Subsidies and Other Transfer Expenses</b>	<b>13,240</b>	<b>13,232</b>	<b>(8)</b>	
<b>Total Expenses From Transactions</b>	<b>73,464</b>	<b>73,537</b>	<b>73</b>	
<b>BUDGET RESULT - SURPLUS/(DEFICIT)</b>	<b>3,714</b>	<b>4,472</b>	<b>758</b>	

## 2016-17 Budget – Outcome and Summary of Variations

Table A4.1: Summary of variations (cont)

Category/Agency	Budget	Revised	Variation	Comment on Major Variations
	\$m	\$m	\$m	
<b>Capital Expenditure</b>				
Department of Justice	1,186	513	(673)	Reprofiling of prison related programs.
Roads & Maritime Services	4,908	4,372	(536)	Reprofiling of the Pacific Highway, WestConnex and other capital projects.
Department of Industry	218	47	(171)	Reprofiling due to a water project transferred to other agencies.
Health	1,457	1,330	(127)	Reprofiling of health related projects.
Department of Education	554	482	(71)	Reprofiling of school projects.
NSW Police Force	218	182	(35)	Reprofiling due to timing of planning and approval process across a range of projects.
Transport for NSW	2,423	2,895	471	Reprofiling of capital expenditure on various transport related projects, primarily bring forward for Sydney Metro City & Southwest.
Other	1,566	1,121	(445)	Aggregated net variances.
<b>Total Capital Expenditure</b>	<b>12,531</b>	<b>10,943</b>	<b>(1,588)</b>	
<b>OTHER KEY FISCAL AGGREGATES</b>				
<b>Sales of Non-Financial Assets</b>				
Land and Property Information transaction	89	2,703	2,614	Proceeds from LPI concession agreement.
Roads and Maritime Services	26	361	335	Proceeds from the sale of land.
Other	548	651	102	Aggregated net minor variances.
<b>Total Sales of Non-Financial Assets</b>	<b>664</b>	<b>3,715</b>	<b>3,051</b>	
<b>Depreciation</b>				
Other	4,608	4,632	24	Aggregated net minor variances.
<b>Total Depreciation</b>	<b>4,608</b>	<b>4,632</b>	<b>24</b>	
<b>Change in Inventories</b>	<b>8</b>	<b>12</b>	<b>5</b>	
<b>Other Movements in Non-Financial Assets</b>				
Other	106	119	13	Aggregated net minor variances.
<b>Other Movements in Non-Financial Assets</b>	<b>106</b>	<b>119</b>	<b>13</b>	
<b>NET LENDING</b>	<b>(3,644)</b>	<b>1,769</b>	<b>5,413</b>	

## A5. TAX EXPENDITURE AND CONCESSIONAL CHARGES STATEMENT

Favourable tax treatment or lower fees or service charges may be granted to certain individuals, groups or organisations to support policy objectives. This tax expenditure and concessional charges statement recognises that such special treatment is economically equivalent to increasing expenses, and has the same effect on the budget outcome.

Tax expenditure estimates measure the additional tax that would have been payable if 'benchmark' (or standard) tax structures had been applied to all taxpayers and economic behaviour had remained unchanged. Tax expenditures arise from deviations from the benchmarks, and include specific tax exemptions, allowances and deductions, reduced tax rates, deferral of tax liabilities and tax credits.

Concessional charges are included for government agencies that provide goods and services to certain users at a lower fee or charge than to the wider community, in pursuit of economic or social policy goals. The provision of these concessions may be supported directly from the Budget, or indirectly through a reduction in agency obligations to make dividend or other payments, or in a reduction in agency retained earnings. These concessions have a budget cost, regardless of whether they are the subject of a specific intra-government transfer.

Judgement is required in delineating the 'concessional' and 'structural' features of a particular tax or service delivery scheme. The approach adopted is to treat the general application of a tiered tax schedule or charging regime as a structural element of the benchmark, rather than a concession to those paying less than the highest marginal rate of tax. Similarly, providing lower public transport fares for all children is included in the benchmark rather than as a concession. However, subsidised travel for eligible school children and senior citizens is treated as a concession. Provisions to prevent double taxation or to otherwise support the conceptual structure of the tax rather than provide a benefit to a particular group of taxpayers are generally excluded.

Caution should be exercised when using these estimates. They may not be comparable to estimates in other jurisdictions, which may use different definitions of the 'structural' and 'concessional' elements of taxes and charges. Similarly, changes to the benchmark definition and the classification of concessions may limit the comparability of some estimates to those in earlier budgets. The estimates do not measure the amount of revenue that could be expected if the relevant concessional treatment were abolished, nor do they provide a reliable indication of the economic costs and benefits. This is because the concessions themselves influence behaviour patterns and levels of activity, which could be quite different in their absence.

## Overview of the estimates

Tax expenditures and concessional charges are listed in the following pages and, where possible, an estimate of the costs associated with each of the major items is provided to assist comparison with the budgetary cost of direct outlays.

In 2017-18, total measured tax expenditures and concessions provided by the NSW Government are expected to amount to \$8.0 billion, or 10.0 per cent of total NSW revenue.

### Tax expenditures

Table A5.1 provides a summary of the major tax expenditures (those valued at \$1.0 million or greater) for each of the main revenue heads. The estimates are for the financial years 2015-16, 2016-17, and 2017-18, except for land tax, which uses calendar years 2016, 2017, and 2018. The total value of major quantifiable tax expenditures is an estimated \$5.8 billion or 18.3 per cent of tax revenue in 2017-18.

Table A5.1: Major tax expenditures by type

Tax	2015-16		2016-17		2017-18	
	Tax Exp. \$m	Tax Exp. as % of tax revenue collected	Tax Exp. \$m	Tax Exp. as % of tax revenue collected	Tax Exp. \$m	Tax Exp. as % of tax revenue collected
Transfer Duty	330	3.7	328	3.4	502	5.2
General and Life Insurance Duty	937	99.8	980	102.5	1,060	114.3
Payroll Tax	1,562	19.7	1,583	19.2	1,649	19.1
Land Tax	775	28.2	890	27.5	991	26.9
Taxes on Motor Vehicles	544	16.9	569	17.1	602	17.4
Gambling and Betting Taxes	868	38.6	889	39.4	917	39.3
Parking Space Levy	64	61.5	66	63.5	67	63.2
<b>Total</b>	<b>5,080</b>	<b>17.5</b>	<b>5,305</b>	<b>17.4</b>	<b>5,788</b>	<b>18.3</b>

### Changes to the estimates

The estimates in Table A5.1 include new policy measures affecting transfer duty concessions for first home buyers and insurance taxes. These new measures are outlined in Chapter 5. Estimates relating to mortgage duty and marketable securities duty are no longer included, as these taxes were abolished from 1 July 2016.

### Concessions

Table A5.2 classifies by function the major concessions provided by the NSW Government. The total value of major concessions, which accrue primarily to pensioners, older Australians and school students, is estimated at \$2.2 billion in 2017-18.

Table A5.2: Concessions by function

Function	2015-16 \$m	2016-17 \$m	2017-18 \$m
Public Order and Safety	10	11	11
Education	681	699	720
Health	239	234	247
Social Protection	516	504	501
Recreation, Culture and Religion	5	5	5
Economic Affairs	9	9	9
Transport	658	650	676
Environmental Protection	10	11	14
<b>Total</b>	<b>2,128</b>	<b>2,123</b>	<b>2,183</b>

Education concessions, the major component of which is the school student transport scheme, account for around a third of the total estimated cost of concessions. Transport concessions, the major component of which is to pensioners, seniors and welfare beneficiaries, also account for close to a third of the total.

Social protection concessions account for around one quarter of the total cost of concessions. These concessions mostly relate to concessional charges and rebates to low income households and pensioner concession card holders for utilities and council rates.

## Detailed estimates of tax expenditures

### Transfer duty (including 'landholder' duty)

The benchmark tax base includes all transfers of dutiable property as defined in Chapter 2 of the Duties Act, including NSW land, land use entitlements, transferable floor space, and partnership interests. Indirect acquisition of land under Chapter 4 of the Duties Act (landholder duty) is also included.

The benchmark tax structure comprises a tiered rate scale with marginal tax rates varying from 1.25 to 5.5 per cent over six steps. A premium marginal rate of 7 per cent applies for residential property valued above \$3.0 million.

## Tax Expenditure and Concessional Charges Statement

Table A5.3: Transfer duty – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Charitable/non-profit organisations/clubs</b>			
An exemption is granted for transactions of charitable or benevolent organisations, as set out in Section 275 of the <i>Duties Act 1997</i> .	33	22	28
<b>Government</b>			
Councils and county councils			
The transfer of property to a council or county council is exempt under the <i>Local Government Act 1993</i> .	23	13	14
<b>Individuals/families</b>			
First Home Buyer concessions and exemptions			
Exemptions and concessions are provided to eligible first home buyers for the construction or purchase of a newly built home. From 1 July 2017, exemptions or concessions will be available for the purchase of both new and existing homes up to a value of \$800,000, or vacant land for homebuilding up to \$450,000.	94	90	276
Transfer of residences between spouses or de facto partners			
An exemption is granted, subject to the property being their principal place of residence and jointly held after transfer.	30	31	32
Transfers of matrimonial property consequent upon divorce			
An exemption is provided for transfers of property in the break-up of marriage, de facto or domestic relationships under the <i>Family Law Act 1975 (Cth)</i> .	103	108	110
<b>Rural</b>			
Intergenerational rural transfers			
An exemption is granted for transfers of rural land used for primary production between generations, or between siblings, to facilitate younger family members taking over family farms.	36	61	39
Concession for Primary Producers			
An exemption is provided for acquisition of an interest in a primary producer that is not 'land rich', as set out in Section 163D of the <i>Duties Act 1997</i> .	9	1	1
<b>Other</b>			
Other Legislation			
An exemption is granted in other legislation for certain transfers of dutiable property.	2	2	2



## Transfer duty – other major tax expenditures (> \$1 million)<sup>1</sup>

- Only nominal duty is charged on transfers of property to a beneficiary entitled to it under the will of a deceased person
- For 'off the plan' purchases, duty may be deferred until completion of the sale or 12 months after the contract, whichever occurs first. This concession is not available to foreign persons and, from 1 July 2017, it will no longer be available for investors.

## Transfer duty – minor tax expenditures (< \$1 million)

The following are exempt from transfer duty:

- approved equity release schemes for aged home owners
- certain purchases of manufactured relocatable homes (caravans)
- call option assignments, subject to certain conditions
- transfer of a liquor licence in certain circumstances under the *Liquor Act 2007*
- transfer of property related to a joint government enterprise that has the function of allocating funds for water savings projects
- purchase of a principal place of residence by tenants of Housing NSW, the Community Housing Program administered by Housing NSW and the Aboriginal Housing Office
- transfers where public hospitals are the liable party
- transfers of properties gifted to a special disability trust
- instruments executed by or on behalf of a council or county council under the *Local Government Act 1993*, not connected with a trading undertaking
- transfers for the purpose of amalgamation or de-amalgamation of clubs under the *Registered Clubs Act 1976*
- instruments executed by or on behalf of agencies within the meaning of the *Convention on the Privileges and Immunities of the Specialised Agencies* approved by the General Assembly of the United Nations in 1947
- transfers between associations of employees or employers registered under the *Workplace Relations Act 1996 (Cth)* for the purpose of amalgamation
- transfer of property to the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- transfers of property between licensed insurers, and between the WorkCover Authority and licensed insurers, under the *Workers Compensation Act 1987*.

Concessional duty is charged in relation to:

- acquisitions in unit trust schemes, private companies or listed companies with land holdings in New South Wales of \$2,000,000 or more, where the acquisition is for the purpose of securing financial accommodation
- buy-back arrangements of widely held unit trust schemes for the purpose of re-issuing or re-offering the units for sale, subject to certain criteria
- amalgamations of certain Western Lands leases under the *Western Lands Act 1901* where transfer duty has been paid on the transfer of other such leases in the previous 3 years.

<sup>1</sup> Items listed under the 'other major tax expenditures' headings are those where the value of the tax expenditure is estimated to be more than \$1 million in at least one year, but there is insufficient data available on which to base a reliable estimate.

## General insurance duty

The benchmark tax base for general insurance is all premiums paid for insurance policies, excluding life insurance and insurance covering property of the Crown in right of New South Wales. The benchmark tax rate is 9 per cent of the premium paid.

Table A5.4: General insurance duty – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Business</b>			
Exemption for WorkCover premiums	249	256	262
Marine and cargo insurance An exemption is provided for marine insurance covering hulls of commercial ships and the cargo carried by land, sea or by air.	8	8	8
Small business exemptions From 1 July 2017, an insurance duty exemption is provided to small businesses for commercial vehicles, professional indemnity, and product and public liability.	...	...	42
<b>Individuals/families</b>			
Concessional rates for Type B general insurance, as identified in Section 233 of the <i>Duties Act 1997</i> A concessional rate of 5 per cent applies to certain categories of general insurance, including motor vehicle (excluding compulsory third party), aviation, disability income, occupational indemnity and hospital and ancillary health benefits (where not covered by private health insurer).	250	255	267
Compulsory third party motor vehicle insurance An exemption is provided for third party motor vehicle personal injury insurance (green slip), as per the <i>Motor Accidents Act 1988</i> and the <i>Motor Accidents Compensation Act 1999</i> .	224	248	259

### General insurance duty – other major tax expenditures (> \$1 million)

An exemption is provided for:

- insurance for non-commercial ventures of local councils
- medical benefits insurance
- from 1 July 2017, lenders mortgage insurance
- from 1 July 2017, crop and livestock insurance.

### General insurance duty – minor tax expenditures (< \$1 million)

The following are exempt:

- insurance by non-profit organisations with the main aim being a charitable, benevolent, philanthropic, or patriotic purpose
- societies or institutions whose resources are used wholly or predominantly for the relief of poverty, the promotion of education, or any purpose directly or indirectly connected with defence or the amelioration of the condition of past or present members of the naval, military or air forces of the Commonwealth or their dependants or any other patriotic objects

- insurance by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- insurance covering mortgages or pools of mortgages acquired for issuing mortgage backed securities
- separate policies covering loss by fire of tools, implements of work or labour used by any working mechanic, artificer, handcrafter or labourer
- redundancy insurance in respect of a housing loan that does not exceed \$124,000
- reinsurance.

## Life insurance duty

For temporary or term life insurance policies, life insurance riders, and trauma or disability insurance policies, the benchmark tax base is the first year's premium on the policies and the benchmark rate is 5 per cent. For group term insurance policies, duty of 5 per cent of the premium payable in any succeeding year in respect of any additional life covered by the policy is also charged.

The benchmark tax base for all other life insurance policies is the total sum insured. The benchmark tax rate is \$1 on the first \$2,000 and 20 cents for every additional \$200 or part thereof.

Table A5.5: Life insurance duty – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Individuals/families</b>			
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	182	188	196
Annuities			
An exemption is granted to annuities.	24	25	26

## Motor vehicle stamp duty

The benchmark tax base is the value of all purchases and transfers of motor vehicles. The benchmark tax rate for passenger vehicles is \$3 per \$100, or part thereof, for vehicles valued up to \$45,000, and \$1,350 plus \$5 per \$100 above \$45,000, for higher valued vehicles.

Table A5.6: Motor vehicle stamp duty – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Business</b>			
New demonstrator motor vehicle An exemption is granted to licensed motor dealers and wholesalers under the <i>Motor Dealers Act 1974</i> .	84	100	103
<b>Individuals/families</b>			
Caravans and camper trailers An exemption is provided for transfers of registration of caravans and camper trailers.	27	30	31
Transfers on divorce or breakdown of a de facto relationship An exemption is granted for the transfer of registration to one of the parties to a divorce or separation in a de facto relationship.	3	3	3
Transfer of ownership of a deceased registered owner An exemption is granted for the transfer of registration to a nominated legal personal representative or to the person beneficially entitled to the vehicle in the estate.	8	9	9
<b>Government/public amenities</b>			
Local councils An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	11	9	9
<b>Pensioners/concession card holders/disadvantaged</b>			
War veterans and impaired members of the Defence Force An exemption is granted to veterans who are eligible for a totally and permanently incapacitated (TPI), extreme disablement adjustment or intermediate service pension or 70 per cent or more of the general disability pension, and to current or former members of the Defence Force with a disability, assessed as 50 or more impairment points, who have received compensation or a special rate disability pension.	2	2	2

## Motor vehicle stamp duty – minor tax expenditures (< \$1 million)

The following are exempt:

- applications to register a heavy vehicle trailer, not previously registered under the Commonwealth or another Australian jurisdiction
- applications to register a heavy vehicle trailer, previously registered in the name of the applicant under the Commonwealth or another Australian jurisdiction
- all vehicles registered by non-profit charitable, benevolent, philanthropic or patriotic organisations
- vehicles specially constructed for ambulance or mine rescue work

- vehicles weighing less than 250kg used for transporting invalids
- vehicles registered by a Livestock Health and Pest Authority (now administered by Local Land Services), established under the *Rural Lands Protection Act 1998*
- vehicles registered by the NSW Aboriginal Land Council or Local Aboriginal Land Councils
- motor vehicles registered conditionally under the *Road Transport Act 2013*.

A concessional rate of duty applies to vehicles modified for use by disabled persons.

## Payroll tax

The payroll tax benchmark is aggregate annual gross remuneration in excess of \$750,000 paid by a single or group taxpayer. The benchmark tax rate is 5.45 per cent.

Table A5.7: Payroll tax – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Business</b>			
Apprentices			
A full exemption/rebate applies to wages paid to apprentices or to employees in an approved non-profit group apprenticeship scheme.	55	51	53
Trainees			
A full exemption/rebate is provided for wages paid to trainees or to employees in an approved non-profit group traineeship scheme.	37	34	35
Maternity Leave			
An exemption is granted for maternity leave payments for a period of up to 14 weeks, or its equivalent at a reduced rate of pay.	25	25	26
Redundancy payments			
An exemption is provided for the Commonwealth tax-free part of a genuine redundancy or approved early retirement scheme payment.	8	8	8
<b>Charitable/non-profit organisations/clubs</b>			
Charitable institutions			
An exemption is granted to non-profit charitable, benevolent, patriotic or philanthropic organisations for wages paid to employees engaged exclusively in the normal work of these institutions.	280	285	297
Not-for-profit private hospitals			
An exemption is granted to non-profit private hospitals for wages paid to persons engaged exclusively in work of a kind ordinarily performed by a hospital.	18	19	19
<b>Government/public amenities</b>			
Public hospitals, Local Health Districts and Ambulance Service of NSW			
An exemption is granted for wages paid to persons engaged exclusively in the normal work of these organisations.	655	667	695
Home Care Service			
An exemption is granted to employees of the Home Care Service.	6	7	7

## Tax Expenditure and Concessional Charges Statement

Table A5.7: Payroll tax – major tax expenditures (cont)

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Local councils</b> An exemption is granted to councils, county councils and their wholly owned subsidiaries, except for wages paid in connection with certain activities, such as the supply of electricity, gas, water or sewerage services, or the conduct of parking stations, hostels or coal mines. A full list of exclusions can be found in the <i>Payroll Tax Act 2007</i> .	215	219	228
<b>Schools and colleges</b> An exemption is granted to not-for-profit schools and colleges (other than technical schools, technical colleges or those carried on by or on behalf of the State of NSW) which provide education at or below, but not above, the secondary level of education.	229	234	245
<b>Religious institutions</b> An exemption is granted for wages paid to persons engaged exclusively in work of a kind ordinarily performed by religious bodies.	34	34	36

**Payroll tax – minor tax expenditures (< \$1 million)**

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Forces
- wages paid to persons employed under the Community Development Employment Project administered by Aboriginal and Torres Strait Islander Corporations
- wages paid by the Australian-American Fulbright Commission
- wages paid by the Commonwealth War Graves Commission
- wages paid to members of the official staff by a consular or other non-diplomatic representative of another country or by a Trade Commissioner representing in Australia any other part of the Commonwealth of Nations
- wages paid for a joint government enterprise that has the function of allocating funds for water saving projects
- wages paid by the Governor of a State
- wages paid to employees while the employees are providing volunteer assistance to the State Emergency Services or Rural Fire Brigades (but not in respect of wages paid or payable as recreation leave, annual leave, long service leave or sick leave)
- adoption leave payments for a period of up to 14 weeks
- paternity leave payments for a period of up to 14 weeks.

## Land tax

The benchmark tax base is the average of the last three years unimproved land value of all land owned, on 31 December of the previous year, that is above the indexed threshold for that year (as defined in the *Land Tax Management Act 1956*), excluding land used for owner-occupied residences, or by the Commonwealth or NSW Governments.

The benchmark tax rate for the 2017 land tax year is \$100 plus 1.6 per cent of the land value between the thresholds of \$549,000 and \$3,357,000, and 2 per cent thereafter.

Table A5.8: Land tax – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Business</b>			
Racing clubs			
An exemption is granted for land owned by or held in trust for any club for promoting or controlling horse racing, trotting or greyhound racing which is used primarily for the purposes of their meetings.	10	12	13
Employer and employee organisations			
An exemption is granted for land owned by or held in trust for employer and employee organisations for that part not used for a commercial activity open to members of the public.	3	4	4
Co-operatives			
An exemption is granted for land owned by a co-operative under the <i>Co-operatives National Law (NSW)</i> .	12	13	15
Child care centres and schools			
An exemption is granted for land used as a residential child care centre licensed under the <i>Children and Young Persons (Care and Protection) Act 1998</i> or a school registered under the <i>Education Act 1990</i> .	5	6	6
<b>Government/public amenities</b>			
An exemption is provided for land for:			
• Cemeteries and crematoriums	18	21	23
• Public and private hospitals (including nursing homes) and Local Health Districts.	23	27	30
<b>Individuals/families</b>			
Early payment discount			
A discount of 1.5 per cent is available where the full amount of land tax is paid within 30 days of issue of the notice of assessment.	26	30	33
<b>Pensioners/concession card holders/disadvantaged</b>			
Retirement villages			
An exemption is granted for land used as retirement villages, and residential parks predominantly occupied by retired persons.	132	151	169
Boarding houses for low-income persons			
An exemption is granted for land used for boarding houses for which the rent charged is less than the amount prescribed by the guidelines.	9	11	12

Table A5.8: Land tax – major tax expenditures (cont)

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Religious institutions</b>			
Religious societies An exemption is provided for land owned by or in trust for a religious society carried on solely for religious, charitable or educational purposes.	16	19	21
<b>Rural</b>			
Land used for primary production An exemption is granted for land used for primary production. To qualify, land in urban zones must be used for primary production for the purpose of profit on a continuous or repetitive basis.	521	596	665

### Land tax – other major tax expenditures (> \$1 million)

The following are exempt:

- land owned by or in trust for any club or body of persons which is used primarily for the purpose of a game or sport and not for the pecuniary profit of the members
- buildings (or part thereof) occupied by a society, club or association and not carried on for pecuniary profit of members
- land owned by or in trust for an entity which is used solely for charitable or educational purposes and not for the pecuniary profit of members
- a society registered under the *Friendly Societies (NSW) Code*
- Sydney Light Rail
- public gardens, recreation grounds or reserves
- land owned and used by a local council
- public authorities representing the Crown
- New South Wales State and local Aboriginal Land Councils
- fire brigades, ambulances or mines rescue stations
- religious societies' places of worship and residences of clergy, ministers or orders of the society
- land used to hold agricultural shows, which is owned by, or held in trust for, a society established for the purpose of holding, promoting and funding such shows.

### Land tax – minor tax expenditures (< \$1 million)

The following are exempt:

- low cost accommodation within 5 km of Sydney GPO
- Primary Products Marketing Boards, Local Land Services and Agricultural Industry Service committees
- temporary absences from a home, including circumstances where a home has been destroyed due to fire, storm, earthquake, accidental or malicious damage
- community land development



- land subject to a conservation agreement in perpetuity under the *National Parks and Wildlife Act 1974* or a trust registered under the *Nature Conservation Trust Act 2001*
- land owned, held in trust or leased by the Nature Conservation Trust of NSW, or land subject to a permanent conservation or trust agreement
- land that is the subject of a biobanking agreement
- land owned by a joint government enterprise that has the function of allocating funds for water saving projects
- land used solely as a police station
- land owned by RSL (NSW Branch), being Anzac House
- principal place of residence of a person with a disability, in a Special Disability Trust.

A concession is provided for unoccupied flood liable land.

## Vehicle weight tax

The benchmark tax base is all vehicles (except Commonwealth vehicles) intended for on-road use. The benchmark tax rates, which vary by vehicle type, weight, usage and other factors, are updated annually by Roads and Maritime Services. For example, from 1 January 2017, charges for cars, station wagons and trucks up to 4.5 tonnes Gross Vehicle Mass are based on a 12 step graduated weight scale, ranging from:

- \$207 (0 - 975kg) to \$1,154 (4,325 - 4,500kgs) for private use vehicles
- \$336 (0 - 975kg) to \$2,183 (4,325 - 4,500kgs) for business use vehicles.

Table A5.9: Vehicle weight tax – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Business</b>			
General purpose plant			
Concessions are provided for machines that cannot carry any load other than tools and accessories necessary for the operation of the vehicle.	29	31	33
<b>Government/public amenities</b>			
Roadwork equipment			
An exemption is granted for any motor vehicle, plough, bulldozer, mechanical scoop or shovel, road grader, road roller or similar machinery owned by a local council that is used for the purposes of road repair, maintenance or construction, removal of garbage or night soil, bushfire fighting or civil defence work, or for any roller, lawn mower or similar machinery used solely or principally for the rolling or maintenance of tennis courts, cricket pitches, lawns or pathways.	6	6	7
Commonwealth Government vehicles			
Any vehicle leased to a Commonwealth Authority is exempt from tax under Section 16 (2) (d) of <i>Commonwealth Vehicles (Registration and Exemption from Taxation) Act 1997 (Cth)</i> .	1	1	1
Concessions provided under Sections 16 and 17 of the <i>Motor Vehicles Taxation Act 1988</i> including vehicles specially constructed for the work of conveying sick or injured persons or to carry out mine rescue, and agricultural vehicles that do not travel on a road.	2	2	2

Table A5.9: Vehicle weight tax – major tax expenditures (cont)

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders/disadvantaged</b>			
Selected social security recipients			
An exemption is granted for any motor vehicle used substantially for non-business purposes owned by holders of Pensioner Concession Cards, Department of Veterans' Affairs (DVA) Totally and Permanently Incapacitated Cards or DVA Gold War Widows Cards.	287	291	313
<b>Rural</b>			
Primary producers			
Primary producer concessions include, for motor vehicles not greater than 4.5 tonnes of gross vehicle mass, private rates rather than business rates for cars and station wagons and 55 per cent of business rates for trucks, tractors and trailers.	29	29	30

### Vehicle weight tax – minor tax expenditures (< \$1 million)

The following are exempt:

- motor vehicles (not government owned) used principally as an ambulance
- motor vehicles (not government owned) used by the State Emergency Service
- motor vehicles on which a trader's plate is being used in accordance with the *Road Transport (Vehicle Registration) Act 1997* or the regulations under that Act
- motor vehicles owned by Aboriginal Land Councils
- motor vehicles of consular employees and trade missions.

Concessions are provided as follows:

- a concessional rate of 55 per cent of business rates (or 30 per cent if outside the Sydney metropolitan area, Newcastle or Wollongong districts) is applied to any motor vehicle that is used solely or principally as a tow truck with a crane and hook
- a concessional rate of 88 per cent is provided for mobile cranes used for private use
- a concessional rate of tax is applied to any motor vehicle that is owned by a Livestock Health and Pest Authority (now administered by Local Land Services) and is used solely for carrying out the functions of the board
- a concessional rebate of \$100 from vehicle registration is given to first and second year apprentices registered with the NSW Department of Education.

### Motor vehicle registration fees

The benchmark tax base is all vehicles intended for private on-road use. From 1 July 2016, the standard registration fee for light vehicles (up to 4.5 tonnes Gross Vehicle Mass) is \$64 per annum but a range of other charges are levied for temporary or conditional registration, for registration transfer or cancellation, for special permits and on heavy vehicles.

Table A5.10: Motor vehicle registration fees – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders/disadvantaged</b>			
Selected social security recipients			
An exemption is granted to holders of Pensioner Concession Cards, DVA Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards (subject to income and disability pension rate thresholds) for a single vehicle used substantially for social or domestic purposes.	55	56	59

### Motor vehicle registration fees – minor tax expenditures (< \$1 million)

- An exemption is provided for Mobile Disability Conveyance.

### Gambling and betting taxes

The benchmark for gaming machines in hotels and registered clubs is defined to be the rates of taxation applying to hotels, which vary based on a progressive rate scale depending on the level of annual profits from gaming machines.

Table A5.11: Gambling and betting taxes – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Charitable/non-profit organisations/clubs</b>			
Club gaming machines			
Poker machines installed in clubs registered under the <i>Registered Clubs Act 1976</i> are taxed at lower rates than poker machines installed in hotels.	868	889	917

### Gambling and betting taxes – minor tax expenditures (< \$1 million)

- A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

### Parking space levy

The benchmark is the number of off-street parking spaces in Category 1 areas (City of Sydney, North Sydney and Milsons Point business districts) or Category 2 areas (Chatswood, Parramatta, St Leonards and Bondi Junction business districts).

The benchmark levy is indexed annually to movements in the Sydney CPI, over the year to the previous March quarter. For 2015-16, the levy was \$2,310 per space in Category 1 areas and \$820 per space in Category 2 areas. For 2016-17, the benchmark levy is \$2,350 per space in Category 1 areas and \$840 per space in Category 2 areas.

## Tax Expenditure and Concessional Charges Statement

Table A5.12: Parking space levy – major tax expenditures

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Business</b>			
General exemptions and concessions for Category 1 and 2 areas An exemption is granted for certain parking spaces for bicycles and motor cycles, residents of the same or adjoining premises, use under the mobility parking scheme, loading and unloading of goods or passengers, cranes and other plant, overnight parking of emergency service vehicles, private vehicles parked on land owned by councils, religious organisations or bodies, charities or benevolent institutions, persons providing services on a casual basis, unused casual parking or unleased tenant parking.	53	55	56
Additional exempt parking spaces in Category 2 areas An exemption is granted for spaces for customers attached to retail outlets, hotels, motels, clubs, restaurants, medical centres, car hire and sales, repair and wash establishments and funeral parlours.	11	11	11

## Detailed estimates of concessions

Details of concessions by function are shown below for major concessions worth \$1.0 million or more.

Table A5.13: Public order and safety – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders/disadvantaged</b>			
Court interpreting and translation services Multicultural NSW provides translation and interpreting services in NSW courts.	4	5	5
Court fee concessions Court fees may be reduced or waived, subject to guidelines issued by the Attorney General, in circumstances where a person's capacity to pay may otherwise limit his or her access to justice.	3	3	3
<b>Government/public amenities</b>			
Concessions for NSW Hallmark Events The NSW Police Force does not charge for all additional police costs associated with crowd control and traffic management services for designated "NSW State Hallmark Events" such as the Royal Easter Show.	3	3	3

## Public order and safety – minor concessions (< \$1 million)

- The NSW Police Force does not charge for additional policing services for minor sporting events and agricultural shows in the northern, southern or western region, or for some or all of the additional policing services provided for non-commercial events run by charities and not-for-profit organisations meeting appropriate criteria.

Table A5.14: Education – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Students</b>			
<b>School Student Transport Scheme</b>			
The School Student Transport Scheme provides subsidised travel to and from school for eligible students on government and private bus, rail, and ferry services, long distance coaches and in private vehicles where no public transport services exist.	598	615	635
<b>Jobs of Tomorrow (STEM) Scholarships</b>			
Students training in science, technology, engineering or maths-related courses through Smart and Skilled are eligible for a \$1000 scholarship.	...	6	6
<b>Pensioners/concession card holders/disadvantaged</b>			
<b>Smart and Skilled – VET concessions and exemptions</b>			
Fee concessions are available to Commonwealth welfare beneficiaries and people with a disability, as well as their dependents and partners, undertaking Certificate IV and below qualifications. Fee exemptions are available to students with a disability, as well as their dependents and partners, for their first qualification in a calendar year. Fee exemptions are also available to Aboriginal students.	71	66	67
<b>Smart and Skilled Fee-free scholarships</b>			
Concession-eligible 15-30 year olds are entitled to one fee-free scholarship per year and two fee-free scholarships over four years. In 2016 scholarships were extended to individuals aged 15-17 who are in out-of-home care and individuals aged 18-30 who have previously been in out-of-home care.	12	12	12

Table A5.15: Health – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders/disadvantaged</b>			
<b>Ambulance service for concessional patients</b>			
Free ambulance transport is provided to holders of Pensioner, Health Care, or Department of Veterans' Affairs concession cards.	205	197	197
<b>Outpatient Pharmaceutical Scheme for concessional patients</b>			
Pharmaceuticals are provided to concessional patients at a discounted price or free of charge once the safety net threshold is reached.	19	21	22
<b>Concessional car parking fees</b>			
Car parking concessions are provided to certain categories of patients, and their carers, which recognise regular or long term hospitalisation and treatment.	...	...	11
<b>Life Support and Medical Energy Rebates Scheme</b>			
A rebate is provided for energy costs for eligible recipients and costs associated with certain life support systems.	8	9	9
<b>Customer Assistance Policy</b>			
Assistance is provided for households that use air conditioning to assist with medically diagnosed inability to manage body temperature.	2	2	3

## Tax Expenditure and Concessional Charges Statement

Table A5.15: Health – major concessions (cont)

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Spectacles Program</b>			
The Department of Family and Community Services assists those who are most vulnerable and disadvantaged in the community to acquire spectacles and other vision aids such as contact lenses.	5	5	5

Table A5.16: Transport – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders/disadvantaged</b>			
<b>Public transport concessions</b>			
Pensioners, seniors, welfare beneficiaries and students travel for less than full fare on bus, rail, taxi and ferry services (excluding School Student Transport Scheme).	532	547	569
<b>Home and Community Care Program &amp; Community Transport Program</b>			
Transport for NSW provides community transport services to frail aged and younger people with disabilities, and their carers, under the Home and Community Care Transport Sub-program. Transport for NSW also provides subsidised transport for people with special needs due to physical conditions, significant social disadvantages or geographical isolation under the Community Transport Program.	78	77	81
<b>Driver's licence fee exemption</b>			
Roads and Maritime Services provide a driver's licence fee exemption to holders of Pensioner Concession Cards, DVA Totally and Permanently Incapacitated Cards and DVA Gold War Widows Cards, subject to income and disability rate thresholds, where the vehicle owned by the licence holder is used substantially for social and domestic purposes.	48	26	26

Table A5.17: Social protection – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Charitable/non-profit organisations/clubs</b>			
<b>Crown land rent concessions</b>			
Rent concessions to various Crown land tenure holders in circumstances where individuals or organisations experience difficulty making payments by the due date.	19	14	14
<b>Exempt properties water rate concession</b>			
A partial discount is provided on Sydney Water Corporation and Hunter Water Corporation charges to owners of properties used for non-profit provision of community services and amenities (principally councils, religious bodies and charities):			
• Sydney Water Corporation	24	17	18
• Hunter Water Corporation.	2	2	2

Table A5.17: Social protection – major concessions (cont)

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders/disadvantaged</b>			
Low Income Household Rebate			
Energy bill rebates are available to customers who hold eligible concession cards.	193	193	193
Pensioner water rate concession			
Funding is provided to Sydney Water Corporation and Hunter Water Corporation to provide Pensioner Concession Card holders, who are direct customers, with a rebate for their water and sewerage charges.			
<ul style="list-style-type: none"> <li>Sydney Water pensioners receive a 100 per cent discount on the fixed water service charge, an 80 per cent discount on the wastewater service charge, and a 50 per cent discount on the stormwater service charge.</li> </ul>	142	131	129
<ul style="list-style-type: none"> <li>Hunter Water pensioners receive a rebate on the water, sewerage and stormwater service charge. Environmental levy charges are also waived.</li> </ul>	12	13	14
Local council rates concession			
Local council rates are reduced for holders of Pensioner Concession Cards.	78	78	79
<b>Individuals/families</b>			
Energy Accounts Payment Assistance			
Energy bill rebates are available to assist people experiencing a short term financial crisis or emergency to pay their electricity or gas bill.	16	17	17
Family Energy Rebate			
Energy bill rebates are available to families who have received the Family Tax Benefit.	10	8	8
Gas Rebate			
A rebate is provided to eligible households to assist with gas bills.	19	30	26
Hardship and Low Income Schemes			
Funding is provided to Sydney Water Corporation to provide concessions through hardship and low income schemes for customers in financial hardship.	1	1	1

**Social protection – minor concessions (< \$1 million)**

- Essential Energy provides an offset to the cost of concessions on water charges given to eligible customers.
- WaterNSW grants exemptions from fixed availability charges to a number of customers, which include pensioners, schools and charities.

Table A5.18: Economic affairs – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Pensioners/concession card holders</b>			
Fishing licence concession			
Recreational fishing licence concessions are provided to eligible persons.	9	9	9

**Economic affairs – minor concessions (< \$1 million)**

- Forestry Corporation of NSW provides discounts to charities seeking permits for non-profit events and provides discounts to pensioners for firewood.

Table A5.19: Recreation, culture and religion – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Seniors/children/disadvantaged/special groups</b>			
Recreational vessel registration and boat driving licence Roads and Maritime Services provide a 50 per cent concession on recreational vessel registration and recreational boating licences to holders of Pensioner Concession Cards and Repatriation Health Cards.	3	3	3
Zoo admissions The Taronga Conservation Society Australia provides discounted entry to its zoological parks (including Taronga Zoo in Sydney and the Taronga Western Plains Zoo in Dubbo) for Concession Card holders, tertiary education students and school students.	2	2	2

**Recreation, culture and religion – minor concessions (< \$1 million)**

- The Sydney Living Museum offers concessional admission charges to unemployed, children, pensioners, seniors and students. The Sydney Living Museum provides bus subsidies to regional schools for museum visits and a sleep over program for regional and rural school students.
- The Australian Museum offers free admission to children aged 16 years or under and reduced admission charges to seniors, pensioners and the unemployed.
- The Sydney Opera House provides concessional charges on guided tours for children, pensioners, seniors, students and school group tours. Concession tickets are available to many Sydney Opera House productions for Australian pensioners/seniors, full time students and children.
- The Sydney Opera House provides a supported venue hire rate to select charitable organisations, community groups or arts organisations that the Opera House supports or has an existing relationship with, on a case-by-case basis.
- The Sydney Opera House, through the Access Program, provides accessible performances and programs for people with disabilities, including free tailored excursions and tours, performing arts workshops and supported music programs.
- The Museum of Applied Arts and Sciences provides concessional admission charges for children, students, seniors and the unemployed. Country residents are entitled to a concession on the Museum's household membership. Concessional rates for venue hire apply to community or charitable groups.
- Roads and Maritime Services offers a concession on private mooring licences to holders of Pensioner Concession Cards and Repatriation Health Cards.



Table A5.20: Environmental protection – major concessions

	2015-16 \$m	2016-17 \$m	2017-18 \$m
<b>Seniors/children/disadvantaged/special groups</b>			
Entry to national parks			
Holders of Pensioner Concession Cards, seniors, volunteers and community groups receive free or discounted entry to National Parks.	10	11	14

**Housing and community amenities – minor concessions (< \$1 million)**

- Sydney Water Corporation provides discounted septic pump-out fees to residences in the Blue Mountains that are residential-zoned but not connected to the sewerage network.

## B. FISCAL RISKS AND BUDGET SENSITIVITIES

The 2017-18 Budget is prepared, in part, on forecasts and assumptions that are subject to variation. This appendix identifies the risks inherent in the budget and presents the budget result impact of various sensitivities as a result of changes in select variables. Each sensitivity estimate adopts the same forecasts and assumptions used in preparing this Budget, for all variables other than that being tested.

The summary of key sensitivities should be used as a 'rule of thumb' estimated impact from a change in the variable presented. Unless otherwise specified, the sensitivities assume a 1 per cent change to the relevant factor each year.

Throughout this appendix, a positive value improves the budget result, whereas a negative value weakens the budget result.

### Revenue risks and sensitivities

#### State taxation revenue

The Government collects taxation revenue from a range of sources, including land tax, payroll tax and transfer duties on property sales. The amount of revenue generated from these taxes is dependent on a number of economic variables such as wage inflation, employment growth rates, and growth in property sales – any change in these variables may result in changes to the actual taxation revenue collected.

Table B.1: Revenue sensitivities – state taxation revenues

Revenue source and assumptions	2017-18	2018-19	2019-20	2020-21	2017-18 Sensitivities
	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	
<b>State tax revenues</b>					
<u>Factors affecting state tax revenues</u>					<b>+ 1% movement in factor</b>
Dwelling sales	72	76	81	84	
Employment	96	101	106	111	
Compensation of employees	96	101	106	111	

The Government's collection of transfer duty from the sale of property is sensitive to changes in the price or volume of property transfers. Higher property prices or increased property transfer volumes will increase transfer duty revenue.

Another source of taxation revenue is receipts from payroll tax. This is sensitive to variations in the level of employment and the level of wages in the economy. If employment increases or the level of wages across New South Wales rise more than expected, excluding the public sector, this could result in increased payroll tax revenue each year.

## Commonwealth grants and GST revenue

The Commonwealth Government provides grants to New South Wales in the form of GST revenue, National Agreement and National Partnership payments.

GST revenue received by New South Wales is dependent on the amount of GST revenue collected nationally (the pool size), the State's share of this revenue (its relativity) and its population size. Changes to the GST pool or the relativities are a risk to State revenue. Strong revenue performance in New South Wales coupled with weaker performance in other states could put further downward pressure on the NSW relativity and GST distribution.

Table B.2: Revenue sensitivities – GST

Revenue source and assumptions	2017-18	2018-19	2019-20	2020-21	2017-18 Sensitivities
	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	
<b>Good and Services Tax Revenue <sup>(a)</sup></b>					
<u>Factors affecting NSW GST revenue</u>					
NSW population	119	119	119	123	<b>+ 1% movement in factor</b>
GST pool size	176	176	176	182	
NSW relativity	...	176	176	182	

(a) The GST pool is currently estimated at \$62.3 billion in 2017-18. The NSW adjusted population share (population multiplied by relativity) is estimated to be 28.2 per cent in 2017-18. State GST relativities for 2017-18 have already been determined by the Commonwealth Treasurer and will not change, so no sensitivity is calculated.

If the population increases, GST receipts will increase whilst the cost of services also increases as more people place a greater demand on government services. An increase in the total GST pool will increase the GST receipts New South Wales receives. An increase in the NSW relativity factor will increase the share of GST revenue that New South Wales receives relative to other States.

Changes to National Agreement and National Partnership payments can impact revenue, expenses and the budget result, however, as this funding can be volatile it is difficult to forecast budget sensitivity. Volatility can arise from new programs and projected infrastructure projects, the termination of existing agreements, and re-profiling in the timing of payments to the State.

## Royalties

A royalty is the amount charged by the State for the transfer of the right to extract a mineral resource. The primary source of royalties within New South Wales is from the sale of coal, which is charged as a percentage of the value of production. Mining royalties are affected by three factors:

- coal export volumes - an increase in coal export volumes increases the quantity of coal on which royalties are charged and so increases royalty income
- coal export prices - an increase in the coal export price increases the value of coal on which royalties are charged and so increases royalty income
- changes in the exchange rate - an appreciation of the Australian-US exchange rate reduces the Australian dollar value of coal exports, putting downward pressure on royalties.

Table B.3: Revenue sensitivities - royalties

Revenue source and assumptions	2017-18	2018-19	2019-20	2020-21	2017-18 Sensitivities
	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	
<b>Royalties<sup>(a)</sup></b>					
<u>Factors affecting NSW Royalties</u>					
Change in coal export volumes (Mt)	15	14	13	13	<b>+ 1% movement in factor</b>
Change in coal export prices (\$US)	15	14	14	14	
Change in Australian-US dollar exchange rate	(15)	(14)	(13)	(14)	

(a) Royalty sensitivities do not include changes to non-coal revenue or to the composition rates of coal production.

## Expense risks and sensitivities

### General risks

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

Furthermore, actual growth in demand for government services may exceed current projections. This presents a further risk to expenses as increased staffing may be required to maintain the quality of the Government's services.

The Government also incurs other operating expenses, which capture the non-labour costs of delivering services to customers in New South Wales. These include repair, maintenance and the depreciation of assets. The cost of maintaining the State's assets would change if there were substantial changes in the size and growth of the State's asset base. Expenses could also be impacted if the assets' useful lives or level of depreciation were to materially change.

Table B.4: Expense sensitivities

Expense source and assumptions	2017-18	2018-19	2019-20	2020-21	2017-18 Sensitivities
	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	
<b>Expenses</b>					
<u>Factors affecting expenses</u>					
Change in public sector wages and salaries	(315)	(337)	(352)	(359)	<b>+ 1% movement in factor</b>
Change in prices of goods and services	(196)	(188)	(191)	(191)	
<b>Government services demand growth</b>					
<u>Factors affecting expenses</u>					
Change in health and transport expense funding	(34)	(34)	(36)	(37)	<b>+ 0.1% movement in factor</b>

To facilitate the provision of essential community services, the public sector purchases goods and services. A component of this is public sector wages. Upward pressure on wages such as a legislated increase in wages policy or a policy decision to increase the size of the workforce could worsen the budget result.

An increase in the prices of goods and services, namely inflation, in New South Wales has a two-fold effect on the budget result. Inflation will directly increase the amount of tax and own source revenue collected and hence increase revenues, but will also increase the cost of goods and services expenditure. The aggregate impact is predicted to worsen the budget result.

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

## Investment returns and borrowing costs

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

## Liability risks and sensitivities

### Superannuation liabilities

Liabilities for superannuation and long service leave are forecast based on a wide range of parameters. These include assumptions around salary growth, inflation, investment returns and discount rates. A change in any of these parameters may affect the actual liabilities of superannuation and long service leave. The long service leave liability is also subject to variations in the rate of employee retention.

Table B.5: Superannuation liabilities

Net financial liabilities (NFL) source and assumptions	2017-18	2018-19	2019-20	2020-21	2017-18 Sensitivities
	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	
<b>Superannuation liabilities</b>					
<u>Factors affecting superannuation liabilities</u>					
Change in public sector wages and salaries	(170)	(320)	(440)	(550)	<b>+ 1% movement in factor</b>
Change in Sydney CPI	(650)	(1,350)	(1,950)	(2,750)	
Change in investment return <sup>(a)</sup>	350	730	1,120	1,550	
Change in discount rate <sup>(b)</sup>	9,700	...	...	...	
<u>Factors affecting superannuation liabilities</u>					
Change in public sector wages and salaries	160	300	410	510	<b>- 1% movement in factor</b>
Change in Sydney CPI	620	1,300	1,870	2,650	
Change in investment return <sup>(a)</sup>	(350)	(720)	(1,100)	(1,500)	
Change in discount rate <sup>(b)</sup>	(11,100)	...	...	...	

(a) A positive effect (e.g. improved investment returns) reduces NFL (improves the financial position), while a negative effect (e.g. higher public sector wages) increases NFL (weakens the financial position).

(b) Effect of a 1 percentage point increase in the indicated factor (discount rate, interest rate or rate of return).

An increase in public sector wages or an increase in CPI, as described in the previous section, will increase superannuation entitlements of those employees on a defined benefits scheme still in the workforce and increase the superannuation liability of the Government. An increase in the investment return will increase the proportion of the defined benefit that is funded and will hence improve the budget result. For an explanation of the unfunded superannuation liability, refer to Chapter 7 of this *Budget Statement*.

## Specific fiscal risks

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### **Federal financial relations and taxation reform**

Future reform to the roles and responsibilities for expenditure between the Commonwealth Government and the states, and changes to revenue bases could have significant fiscal implications for New South Wales. The Government will continue to pursue and secure sustainable federal financial arrangements to enable the State to meet its service delivery responsibilities.

## C. HISTORICAL FISCAL INDICATORS

This Appendix reports the key fiscal indicators for the general government and total state sectors from 1996-97. Data are presented in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, consistent with the financial statements presented in Appendix A1 Statement of Finances.

The below tables are contained in this Appendix.

Table C.1 General Government Sector Operating Statement Aggregates

Table C.2 General Government Sector Balance Sheet and Financing Indicators

Table C.3 Total State Sector Operating Statement Aggregates

Table C.4 Total State Sector Balance Sheet and Financing Indicators

Table C.5 New South Wales Credit Metrics

Historical data from 2008-09 are consistent with data published in annual Outcomes Reports and Total State Sector Accounts. As Outcomes Reports and Total State Sector Accounts prior to 2008-09 were prepared in accordance with Government Finance Statistics, historical data prior to 2008-09 reflect data that have been backcast to be consistent with AASB 1049. The historical series have also been adjusted from 2005-06 to incorporate the retrospective application of amended AASB 119 *Employee Benefits* and the recognition of a share of assets and liabilities of Law Courts Limited and Murray-Darling Basin Authority in accordance with AASB 11 *Joint Arrangements*.

Table C.1: General Government Sector Operating Statement Aggregates

	Taxation Revenue			Total Revenue			Expenses			Net Operating Balance		Gross Capital Expenditure		Net Lending/ (Borrowing)		GSP <sup>(d)</sup> (current prices)
	\$m	Per cent of GSP	Per cent growth - nominal	\$m	Per cent of GSP	Per cent growth - nominal	\$m	Per cent of GSP	Per cent growth - nominal	\$m	Per cent of GSP	\$m	Per cent of GSP	\$m	Per cent of GSP	\$m
1996-97	11,724	5.8	n.a.	26,089	12.8	n.a.	25,278	12.4	n.a.	811	0.4	2,607	1.3	(581)	(0.3)	203,428
1997-98	12,897	6.0	10.0	27,335	12.7	4.8	26,017	12.1	2.9	1,317	0.6	2,736	1.3	(420)	(0.2)	214,695
1998-99	14,115	6.2	9.4	28,950	12.8	5.9	27,900	12.3	7.2	1,050	0.5	3,002	1.3	(123)	(0.1)	226,441
1999-00	15,185	6.3	7.6	30,556	12.6	5.5	28,530	11.8	2.3	2,026	0.8	2,733	1.1	1,345	0.6	241,679
2000-01	13,337	5.2	(12.2)	32,091	12.6	5.0	30,584	12.0	7.2	1,507	0.6	2,859	1.1	545	0.2	255,166
2001-02	13,210	5.0	(1.0)	33,843	12.8	5.5	32,263	12.2	5.5	1,580	0.6	3,102	1.2	588	0.2	264,592
2002-03	14,146	5.1	7.1	36,070	12.9	6.6	34,315	12.3	6.4	1,755	0.6	3,349	1.2	464	0.2	279,119
2003-04	15,018	5.0	6.2	37,657	12.5	4.4	36,502	12.2	6.4	1,155	0.4	3,332	1.1	44	0.0	300,102
2004-05	15,300	4.8	1.9	39,085	12.4	3.8	38,844	12.3	6.4	241	0.1	3,343	1.1	(660)	(0.2)	315,881
2005-06	15,902	4.8	3.9	42,652	12.8	9.1	41,472	12.5	6.8	1,180	0.4	3,949	1.2	(317)	(0.1)	332,374
2006-07	17,697	5.0	11.3	44,720	12.7	4.8	44,651	12.6	7.7	69	0.0	4,295	1.2	(1,775)	(0.5)	352,995
2007-08	18,554	4.9	4.8	47,449	12.6	6.1	47,298	12.6	5.9	151	0.0	4,689	1.2	(1,798)	(0.5)	376,630
2008-09	17,885	4.5	(3.6)	49,684	12.6	4.7	51,258	13.0	8.4	(1,574)	(0.4)	5,264	1.3	(3,940)	(1.0)	394,513
2009-10	19,129	4.6	7.0	56,344	13.6	13.4	56,453	13.7	10.1	(109)	(0.0)	7,286	1.8	(3,736)	(0.9)	413,303
2010-11	20,395	4.6	6.6	57,168	12.9	1.5	57,015	12.8	1.0	153	0.0	7,046	1.6	(4,097)	(0.9)	444,477
2011-12	20,660	4.4	1.3	59,003	12.7	3.2	59,604	12.8	4.5	(551)	(0.1)	5,881	1.3	(3,255)	(0.7)	464,772
2012-13	21,980	4.6	6.4	60,130	12.5	1.9	61,891	12.9	3.8	(1,731)	(0.4)	7,872	1.6	(4,138)	(0.9)	479,854
2013-14	24,295	4.9	10.5	66,005	13.3	9.8	64,757	13.1	4.6	1,247	0.3	8,546	1.7	(1,236)	(0.2)	495,303
2014-15	26,067	5.1	7.3	69,617	13.6	5.5	66,736	13.0	3.1	2,881	0.6	9,484	1.8	(126)	(0.0)	513,529
2015-16 <sup>(a)</sup>	29,088	5.4	11.6	74,532	13.8	7.1	69,867	13.0	4.7	4,664	0.9	9,351	1.7	392	0.1	538,513
2016-17 <sup>(b)</sup>	30,430	5.3	4.6	78,008	13.7	4.7	73,537	12.9	5.3	4,472	0.8	10,943	1.9	1,769	0.3	569,900
2017-18 <sup>(c)</sup>	31,560	5.3	3.7	79,885	13.4	2.4	77,186	12.9	5.0	2,698	0.5	14,515	2.4	(6,447)	(1.1)	597,600
2018-19 <sup>(c)</sup>	32,646	5.2	3.4	80,224	12.8	0.4	78,098	12.5	1.2	2,126	0.3	16,491	2.6	(8,682)	(1.4)	624,400
2019-20 <sup>(c)</sup>	34,250	5.2	4.9	82,471	12.6	2.8	80,939	12.4	3.6	1,532	0.2	10,707	1.6	(3,742)	(0.6)	654,100
2020-21 <sup>(c)</sup>	35,617	5.2	4.0	83,770	12.2	1.6	82,270	12.0	1.6	1,500	0.2	7,939	1.2	(950)	(0.1)	685,200

(a) Restated

(b) Revised

(c) Estimate

(d) Gross State Product



Table C.2: General Government Sector Balance Sheet and Financing Indicators

	Borrowings <sup>(d)</sup>		Interest Expense		Net Debt <sup>(e)</sup>		Net Financial Liabilities <sup>(f)</sup>	
	\$m	Per cent of GSP	\$m	Per cent of revenue	\$m	Per cent of GSP	\$m	Per cent of GSP
1996-97	13,604	6.7	1,551	5.9	11,478	5.6	29,860	14.7
1997-98	14,795	6.9	1,490	5.5	10,823	5.0	29,441	13.7
1998-99	17,680	7.8	1,362	4.7	10,392	4.6	28,377	12.5
1999-00	15,857	6.6	1,348	4.4	9,771	4.0	24,590	10.2
2000-01	12,432	4.9	1,021	3.2	6,893	2.7	23,651	9.3
2001-02	11,211	4.2	868	2.6	5,422	2.0	24,502	9.3
2002-03	10,570	3.8	803	2.2	3,638	1.3	25,418	9.1
2003-04	11,189	3.7	789	2.1	2,970	1.0	25,072	8.4
2004-05	11,872	3.8	1,190	3.0	2,826	0.9	31,363	9.9
2005-06	12,404	3.7	1,209	2.8	1,483	0.4	32,066	9.6
2006-07	13,060	3.7	1,289	2.9	3,645	1.0	28,820	8.2
2007-08	13,874	3.7	1,320	2.8	5,663	1.5	34,079	9.0
2008-09	16,662	4.2	1,488	3.0	8,170	2.1	53,212	13.5
2009-10	19,075	4.6	1,674	3.0	9,161	2.2	57,716	14.0
2010-11	22,530	5.1	1,877	3.3	7,960	1.8	55,932	12.6
2011-12	26,885	5.8	2,082	3.5	14,127	3.0	80,497	17.3
2012-13	29,060	6.1	2,220	3.7	11,907	2.5	70,437	14.7
2013-14	31,040	6.3	2,249	3.4	6,869	1.4	70,715	14.3
2014-15	31,511	6.1	2,243	3.2	5,461	1.1	74,371	14.5
2015-16 <sup>(a)</sup>	31,847	5.9	2,209	3.0	(57)	(0.0)	87,611	16.3
2016-17 <sup>(b)</sup>	33,021	5.8	2,117	2.7	(7,788)	(1.4)	64,339	11.3
2017-18 <sup>(c)</sup>	32,571	5.5	2,094	2.6	(521)	(0.1)	67,910	11.4
2018-19 <sup>(c)</sup>	38,045	6.1	2,165	2.7	9,864	1.6	74,688	12.0
2019-20 <sup>(c)</sup>	43,247	6.6	2,526	3.1	15,850	2.4	78,121	11.9
2020-21 <sup>(c)</sup>	45,313	6.6	2,586	3.1	18,583	2.7	81,142	11.8

(a) Restated

(b) Revised

(c) Estimate

(d) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost

(e) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements

(f) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities

## Historical Fiscal Indicators

Table C.3: Total State Sector<sup>(d)</sup> Operating Statement Aggregates

	Revenue	Expenses	Net Operating Balance		Gross Capital Expenditure		Net Lending/ (Borrowing)	
	\$m	\$m	\$m	Per cent of GSP	\$m	Per cent of GSP	\$m	Per cent of GSP
1996-97	36,796	35,962	834	0.4	4,263	2.1	(765)	(0.4)
1997-98	37,962	36,079	1,883	0.9	4,441	2.1	(89)	(0.0)
1998-99	36,343	35,062	1,282	0.6	5,149	2.3	(628)	(0.3)
1999-00	38,970	36,315	2,655	1.1	5,467	2.3	669	0.3
2000-01	43,625	41,192	2,434	1.0	5,365	2.1	1,269	0.5
2001-02	42,263	39,872	2,391	0.9	6,088	2.3	56	0.0
2002-03	44,627	42,911	1,715	0.6	6,699	2.4	(689)	(0.2)
2003-04	46,488	45,232	1,255	0.4	6,708	2.2	(991)	(0.3)
2004-05	48,548	48,197	351	0.1	6,986	2.2	(2,163)	(0.7)
2005-06	52,009	50,412	1,597	0.5	8,378	2.5	(2,132)	(0.6)
2006-07	54,819	52,511	2,309	0.7	9,805	2.8	(2,769)	(0.8)
2007-08	58,761	57,588	1,173	0.3	11,216	3.0	(4,776)	(1.3)
2008-09	60,550	61,309	(356)	(0.1)	13,276	3.4	(8,102)	(2.1)
2009-10	65,658	64,132	2,570	0.6	16,347	4.0	(7,256)	(1.8)
2010-11	68,613	69,312	(201)	(0.0)	14,869	3.3	(7,828)	(1.8)
2011-12	69,854	70,140	249	0.1	13,076	2.8	(6,619)	(1.4)
2012-13	70,009	70,358	49	0.0	14,149	2.9	(6,837)	(1.4)
2013-14	76,085	73,301	2,794	0.6	13,877	2.8	(3,099)	(0.6)
2014-15	79,500	74,862	4,646	0.9	13,472	2.6	(816)	(0.2)
2015-16 <sup>(a)</sup>	84,827	80,669	4,369	0.8	16,236	3.0	(3,163)	(0.6)
2016-17 <sup>(b)</sup>	82,844	81,632	2,350	0.4	18,855	3.3	(5,193)	(0.9)
2017-18 <sup>(c)</sup>	84,674	84,869	(194)	(0.0)	22,289	3.7	(13,453)	(2.3)
2018-19 <sup>(c)</sup>	85,607	86,389	(782)	(0.1)	22,816	3.7	(14,671)	(2.3)
2019-20 <sup>(c)</sup>	88,349	89,653	(1,304)	(0.2)	15,593	2.4	(7,762)	(1.2)
2020-21 <sup>(c)</sup>	91,092	91,677	(584)	(0.1)	12,015	1.8	(3,469)	(0.5)

(a) Restated

(b) Revised

(c) Estimate

(d) Includes Public Financial Enterprises and therefore differs from the Non-Financial Public Sector estimates shown in Appendix A1 Statement of Finances

Table C.4: Total State Sector<sup>(d)</sup> Balance Sheet and Financing Indicators

	Borrowings <sup>(e)</sup>		Interest Expense		Net Debt <sup>(f)</sup>		Net Financial Liabilities <sup>(g)</sup>	
	\$m	Per cent of GSP	\$m	Per cent of revenue	\$m	Per cent of GSP	\$m	Per cent of GSP
1996-97	24,574	12.1	2,411	6.6	19,547	9.6	42,125	20.7
1997-98	25,859	12.0	2,348	6.2	19,395	9.0	41,705	19.4
1998-99	29,548	13.0	1,965	5.4	19,043	8.4	41,259	18.2
1999-00	26,701	11.0	1,986	5.1	18,228	7.5	36,959	15.3
2000-01	25,789	10.1	1,906	4.4	18,106	7.1	38,474	15.1
2001-02	25,740	9.7	1,567	3.7	16,447	6.2	39,769	15.0
2002-03	26,707	9.6	1,626	3.6	15,497	5.6	42,562	15.2
2003-04	27,466	9.2	1,675	3.6	15,357	5.1	42,891	14.3
2004-05	30,675	9.7	2,143	4.4	16,660	5.3	54,499	17.3
2005-06	29,829	9.0	2,234	4.3	15,518	4.7	55,273	16.6
2006-07	35,748	10.1	2,040	3.7	19,982	5.7	54,007	15.3
2007-08	38,524	10.2	2,863	4.9	21,774	5.8	60,840	16.2
2008-09	50,031	12.7	3,172	5.2	29,437	7.5	85,576	21.7
2009-10	59,278	14.3	3,534	5.4	33,345	8.1	95,143	23.0
2010-11	61,992	13.9	4,200	6.1	32,426	7.3	93,669	21.1
2011-12	72,343	15.6	4,222	6.0	43,740	9.4	125,597	27.0
2012-13	76,601	16.0	3,952	5.6	41,574	8.7	115,981	24.2
2013-14	82,297	16.6	4,062	5.3	40,363	8.1	118,643	24.0
2014-15	81,998	16.0	4,012	5.0	45,184	8.8	121,381	23.6
2015-16 <sup>(a)</sup>	80,110	14.9	3,854	4.5	38,053	7.1	133,329	24.8
2016-17 <sup>(b)</sup>	72,935	12.8	4,046	4.9	23,459	4.1	93,113	16.3
2017-18 <sup>(c)</sup>	74,067	12.4	4,162	4.9	36,945	6.2	100,256	16.8
2018-19 <sup>(c)</sup>	81,808	13.1	4,635	5.4	48,383	7.7	108,512	17.4
2019-20 <sup>(c)</sup>	87,301	13.3	5,383	6.1	54,047	8.3	110,747	16.9
2020-21 <sup>(c)</sup>	90,152	13.2	5,602	6.1	57,446	8.4	112,555	16.4

(a) Restated

(b) Revised

(c) Estimate

(d) Includes Public Financial Enterprises and therefore differs from the Non-Financial Public Sector estimates shown in Appendix A1 Statement of Finances

(e) Includes borrowings and derivatives at fair value including finance leases and borrowings at amortised cost

(f) Net debt consists of the sum of deposits held, advances received, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements

(g) Net financial liabilities equal total liabilities less financial assets, excluding equity in other public sector entities

## Historical Fiscal Indicators

Table C.5: New South Wales Credit Metrics

	Gross Debt/Receipts <sup>(d)</sup>	Gross Interest Paid/Receipts <sup>(e)</sup>	Non-Commercial Gross Debt/Revenues <sup>(f)</sup>
1996-97	78.3	6.6	81.0
1997-98	73.7	6.3	76.8
1998-99	77.4	5.7	85.5
1999-00	66.1	4.9	71.9
2000-01	59.3	4.1	57.4
2001-02	55.1	3.6	50.1
2002-03	51.9	3.4	48.2
2003-04	51.4	3.3	46.8
2004-05	53.3	3.3	50.6
2005-06	51.5	3.3	39.6
2006-07	58.3	3.3	40.8
2007-08	54.8	3.3	44.5
2008-09	62.4	3.3	56.0
2009-10	62.4	3.5	57.9
2010-11	72.7	3.8	59.0
2011-12	76.1	4.2	66.7
2012-13	80.4	4.3	75.0
2013-14	79.9	4.2	72.8
2014-15	77.4	4.0	68.5
2015-16 <sup>(a)</sup>	74.6	3.9	60.6
2016-17 <sup>(b)(g)</sup>	64.7	3.8	68.7
2017-18 <sup>(c)(g)</sup>	69.5	2.9	68.7
2018-19 <sup>(c)(g)</sup>	79.9	3.0	76.9
2019-20 <sup>(c)(g)</sup>	85.7	3.4	81.6
2020-21 <sup>(c)(g)</sup>	87.0	3.4	82.9

(a) Restated

(b) Revised

(c) Estimate

(d) Gross debt as ratio to operating receipts in Non-Financial Public Sector

(e) Interest paid as a ratio of operating receipts in Non-Financial Public Sector. Three year average

(f) Total state gross non-commercial debt as ratio to general government revenues

(g) Excludes non-recourse debt associated with WestConnex

## D. PERFORMANCE AND REPORTING UNDER THE FISCAL RESPONSIBILITY ACT

The *Fiscal Responsibility Act 2012* (FRA) requires the budget to include a report on performance against the FRA's object, targets and principles and an explanation of any departures with a plan to restore compliance.

This table reports on the object, targets and principles of the FRA.

Table D.1: *Performance and reporting under the Fiscal Responsibility Act 2012*

Object	Status
The object of the FRA is to maintain the State's triple-A credit rating	New South Wales' triple-A credit ratings were reaffirmed by international credit rating agencies Moody's and Standard and Poor's in 2016.
Targets	Status
Hold expense growth below long-run revenue growth	Historical long-term average annual revenue growth was estimated at 5.6 per cent in the <i>2011-12 Long-Term Fiscal Pressures Report</i> . This amount is prescribed in regulations under the FRA. The <i>2016 NSW Intergenerational Report</i> reported that historical long-run growth in revenue has been 5.7 per cent. Over the four years of the 2017-18 Budget, expense growth is projected to average 2.8 per cent per annum. Expense growth is highest in 2017-18 at 5.0 percent.
Eliminate the State's unfunded superannuation liabilities by 2030	The most recent triennial actuarial review of superannuation liabilities was completed as at 30 June 2015. It reported that based on the current Crown funding plan, the liabilities were on track to be fully funded by 2030, in line with the legislated target date. Treasury in conjunction with the SAS Trustee Corporation (STC) is reviewing the funding plan on an ongoing basis to ensure that it remains on track, taking into account current and future State market conditions and outlook and the Government's risk tolerances. Further discussion on unfunded superannuation liabilities can be found in Chapter 7 of this Budget Statement.
Principles	Status
Responsible and sustainable spending, taxation and infrastructure investment	The 2017-18 Budget delivers low average expense growth over the budget and forward estimates that is below long-term average revenue growth. These outcomes will deliver significant budget surpluses that can fund the Government's large infrastructure spending program in a sustainable way. Taxation policies remain stable and predictable.
Effective financial and asset management	Since coming to office a key objective of the Government has been to improve the financial and asset management of the State. A significant program of reform, initially informed by the Commission of Audit reviews of the State's finances and public sector management, has seen: Expenses brought under control <ul style="list-style-type: none"> <li>heightened accountability of ministers and agency CEOs in maintaining their expenses to budget</li> <li>clear and monitored targets for portfolio saving and labour cost caps, reducing expense growth and delivering operating surpluses to help manage debt and fund infrastructure</li> <li>a program of rolling efficiency audits across clusters and agencies</li> </ul>

Table D.1: Performance and reporting under the Fiscal Responsibility Act 2012 (cont)

Principles	Status
	<p>Contestability and service delivery strengthened</p> <ul style="list-style-type: none"> <li>• increased private sector provision of public services and introduction of contestability in the delivery of public services</li> <li>• the launch of a new Commissioning and Contestability Policy which puts the customer at the centre of service delivery</li> <li>• establishment of a Data Analytics Centre to facilitate customer focus and quicker decision making by Government</li> </ul> <p>Infrastructure undergoing unprecedented and innovatively-funded expansion</p> <ul style="list-style-type: none"> <li>• establishment of Infrastructure NSW to guide decision-making on infrastructure investment priorities on the basis of the best economic and social outcomes, supported by comprehensively modernised Treasury cost benefit guidelines</li> <li>• creation of Restart NSW and Rebuild NSW to capture net divestment proceeds and windfall revenue proceeds, and redirect them to infrastructure development</li> <li>• divestment of assets that are not core to the delivery of public services (including the State's electricity network, its principal port assets, and the Land and Property (LPI) service), with the net proceeds recycled to fund new infrastructure</li> <li>• better use of existing infrastructure, including the legislation of a modernized framework for the transport system – the Transport Asset Holding Entity (TAHE)</li> </ul> <p>Financial management enhanced</p> <ul style="list-style-type: none"> <li>• an active and integrated approach to the management of cash, financial investments and debt, via a whole of state approach to balance sheet and financial risk management</li> <li>• establishment of a new Asset and Liability Committee, which draws upon the technical and financial market expertise of New South Wales Treasury Corporation and the private sector by including representatives of these groups as members</li> <li>• creation of the Financial Management Transformation program to modernise the State's financial management systems</li> <li>• consolidation under the New South Wales Treasury Corporation (TCorp) of financial management for all core State financial services including Insurance &amp; Care NSW (icare) and the Long Service Corporation (LSC).</li> </ul>
Achieving intergenerational equity	<p>Funding infrastructure from operating surpluses and asset recycling reduces the burden of debt repayments passed on to future generations. The effect of government policies on intergenerational equity is assessed by the impact of Government measures on the long-term fiscal gap from one budget to the next.</p> <p>As required under the FRA, the five-yearly <i>2016 Intergenerational Report</i><sup>1</sup> (the Report) gives a detailed assessment of prospects 40 years ahead. The Report projects that NSW residents in 2055-56 will have significantly higher average life expectancies and much higher average per capita incomes than today.</p> <p>While projecting a larger fiscal gap (3.4 per cent of GDP, compared to 2.8 per cent of GDP in the previous study), the Report highlights ways to close the gap by strengthening the economy, delivering better services and infrastructure and building a more sustainable revenue base.</p> <p>The measures in this Budget (leading to slightly lower revenue, and small increases in both expenses and capital expenditure) are estimated to have increased the fiscal gap from 3.4 per cent to 3.5 per cent by 2055-56 as discussed in Chapter 2 of this Budget Statement. The Government's success in maintaining operating surpluses indicates that the current generation is funding the cost of its services.</p>

Against all these criteria, performance in 2016-17 and the strategy and measures in this Budget comply with the requirements of the FRA. There are no departures from the object, target and principles in this Budget.

<sup>1</sup> The 2016 Intergenerational Report was included as Budget Paper No.5 in the 2016-17 Budget.

## GLOSSARY

ABS Government Finance Statistics GFS Manual (ABS GFS)	The ABS publication Australian System of Government Finance Statistics: Concepts, Sources and Methods as updated from time to time.
Appropriation	The funds appropriated by Parliament from the consolidated fund to Ministers for the purposes of funding agency activities.
Budget result (net operating balance)	The budget result represents the difference between expenses and revenues from transactions for the general government sector. This measure is equivalent to the net operating balance adopted in accounting standard AASB 1049 <i>Whole-of-Government and General Government Sector Financial Reporting</i> .
Capital expenditure	This is expenditure relating to the acquisition or enhancement of property, plant and equipment (including land and buildings, plant and equipment and infrastructure systems) and intangibles (including computer software and easements). Capital expenditure also includes assets acquired using finance leases.
Capital grants	Amounts paid or received for capital purposes for which no economic benefits of equal value are receivable or payable in return.
Cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets (less distributions paid for the public non-financial corporation (PNFC) and public financial corporation (PFC) sectors).
Classification of the functions of government – Australia (COFOG-A)	A system of classification for revenue, expenses, and transactions in non-financial assets, according to the primary purpose for the outlay (e.g. health, education, transport). This replaces the former government purpose classification (GPC) breakdown.
Comprehensive Result (Change in net worth)	Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.
Consolidated Fund	The fund is established under s39 of the <i>Constitution Act 1902</i> to collect public monies collected on behalf of the State.
Current grants	Amounts paid or received for current purposes for which no economic benefits of equal value are receivable or payable in return.
Fiscal aggregates	These are analytical balances that are useful for macroeconomic purposes, including assessing the impact of a government and its sectors on the economy. AASB 1049 <i>Whole-of-Government and General Government Sector Financial Reporting</i> prescribes the net operating balance (budget result), net lending/borrowing (fiscal balance), change in net worth (comprehensive result), net debt, net worth, and cash surplus/(deficit).
Fiscal gap	The fiscal gap is the difference between the base period primary balance as a share of gross state product (GSP) and the primary balance as a share of GSP at the end of the projection period, on a no policy change basis. The primary balance is the gap between spending and revenue excluding interest transactions but including net capital expenditure. A positive gap implies that fiscal pressures will be building over the projection period.
<i>Fiscal Responsibility Act 2012</i> (FRA)	The Act sets out both medium-term and long-term fiscal targets and principles providing a framework for budgeting in New South Wales.
General government sector (GGS)	This is an ABS classification of agencies that provide public services (such as health, education and police), or perform a regulatory function. General government agencies are funded in the main by taxation (directly or indirectly).

## Glossary

Government finance statistics (GFS)	A system of financial reporting developed by the International Monetary Fund and used by the Australian Bureau of Statistics to classify the financial transactions of governments and measure their impact on the rest of the economy.
Grants for on-passing	All grants paid to one institutional sector (for example, a state government) to be passed on to another institutional sector (for example, local government or a non-profit institution). For New South Wales, these primarily comprise grants from the Commonwealth Government to be on-passed to specified private schools, and to specified local government authorities.
Gross state product (GSP)	The total market value of final goods and services produced within a state.
Interest expense	Costs incurred in connection with the borrowing of funds. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings. Where discounting is used, the carrying amount of a liability increases in each period to reflect the passage of time. This increase is also recognised as an interest expense.
National Agreement (please also see National Specific Purpose Payments)	National Agreements define the objectives, outcomes, outputs and performance indicators, and clarify the roles and responsibilities that guide the Commonwealth and the States in the delivery of services across a particular sector. The sectors include; Health, Education, Skills and Workforce, Disability and Indigenous.
National Partnership Payment (NPP)	A Commonwealth Government grant to States and Territories to support the delivery of specified outputs or projects, to facilitate reforms or to reward the delivery of nationally significant reforms. Each NPP is supported by a National Partnership Agreement which defines mutually agreed objectives, outputs and performance benchmarks.
National Specific Purpose Payments (SPP)	A Commonwealth Government grant made to the States and Territories under the associated National Agreement. These grants must be spent in the key service delivery sector (Health, Education, Skills and Workforce, Disability and Indigenous) for which it is provided. States are free to allocate the funds within that sector to achieve the mutually agreed objectives specified in the associated National Agreement.
Net acquisition of non-financial assets	This is purchases (or acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Purchases and sales (or net acquisitions) of non-financial assets generally include accrued expenses and payables for capital items. Other movement in non-financial assets include non-cash capital grant revenue/expenses such as developer contribution assets.
Net financial assets	See net financial worth.
Net debt	Net debt equals the sum of financial liabilities (deposits held, advances received, loans and other borrowings) less the sum of financial assets (cash and deposits, advances paid and investments, loans and placements).
Net financial liabilities (NFL)	This is the total liabilities less financial assets, other than equity in PNFCs and PFCs. It is a more accurate indicator than net debt of a jurisdiction's fiscal position. This is because it is a broader measure than net debt in that it includes significant liabilities other than borrowings (for example, accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth. For the general government sector NFL, excluding the net worth of other sectors results in a purer measure than net financial worth as, in general, the net worth of other sectors of government is backed up by physical assets.
Net financial worth	Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets less liabilities. It is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. It includes all classes of financial assets and liabilities, only some of which are included in net debt.
Net interest on the net defined benefit liability/asset	This is the change during the period to the net defined benefit liability/asset that arises from the passage of time.



Net lending/(borrowing)	This is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
Net operating balance (budget result)	This is calculated as revenue from transactions less expenses from transactions.
Net worth	This is an economic measure of wealth and is equal to total assets less liabilities.
Nominal dollars/prices	This shows the dollars of the relevant period. No adjustment is made each time period for inflation.
Non-financial public sector (NFPS)	This is a sub-sector formed by the consolidation of the general government sector and public non-financial corporations (PNFC) sector.
Operating Result	This is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.
Other economic flows	These are the changes in the volume or value of an asset or liability that do not result from transactions (that is, revaluations and other changes in the volume of assets).
Payables	A liability that includes short and long term trade creditors, and accounts payable.
Program group	A group of aligned activities aimed at delivering an agreed outcome. These activities may be performed by more than one agency.
<i>Public Finance and Audit Act 1983</i>	An Act to make provision with respect to the administration and audit of public finances and for other purposes.
Public Private Partnerships (PPP)	The creation of an infrastructure asset through private sector financing and private ownership for a concession period (usually long term). The Government may contribute to the project by providing land or capital works, through risk sharing, revenue diversion or purchase of the agreed services.
Public financial corporations (PFC)	An ABS classification of agencies that have one, or more, of the following functions: § that of a central bank § the acceptance of demand, time or savings deposits or § the authority to incur liabilities and acquire financial assets in the market on their own account.
Public non-financial corporations (PNFC)	Government controlled agencies where user charges represent a significant proportion of revenue and the agencies operate within a broadly commercial orientation.
Receivables	An asset that includes short and long term trade debtors, accounts receivable and interest accrued.
Services	These are the 'end products' or direct services that are delivered to clients or recipients, the broader community or another government agency. They are expected to contribute to Government priorities.
State-owned corporation (SOC)	Government entities (mostly PNFCs) which have been established with a governance structure mirroring as far as possible that of a publicly listed company. NSW state owned corporations are scheduled under the <i>State Owned Corporations Act 1989</i> (Schedule 5).
Superannuation interest cost	This is the net interest on the net defined benefit liability/asset determined by multiplying the net defined benefit liability/asset by the discount rate (government bond rate).
Other superannuation expense	This includes all superannuation expenses from transactions except superannuation interest cost. It generally includes all employer contributions to accumulation schemes and the current service cost, which is the increase in defined benefit entitlements associated with the employment services provided by employees in the current period. Superannuation actuarial gains/losses are excluded as they are disclosed as an other economic flow.

## Glossary

Surplus/deficit (net result)	In Budget Paper No.3 <i>Budget Estimates</i> this is the agency accounting result which corresponds to profit or loss in private sector financial reports. It equals the net cost of services adjusted for government contributions. This is not the same as the budget result or the GFS cash surplus/(deficit).
Total Asset Management (TAM)	An agency's TAM plan sets out its asset expenditure priorities and funding projections over a rolling ten year period, to ensure physical asset management plans are aligned with service priorities and performance targets, and are financially sustainable. TAM covers the acquisition, maintenance, operation and disposal of all physical assets, including land, buildings, infrastructure, plant and equipment, and information technology.
Total expenses	The total amount of expenses incurred in the provision of goods and services, regardless of whether a cash payment is made to meet the expense in the same year. It does not include expenditure on the purchase of assets. It also excludes losses, which are classified as other economic flows.
Total revenues	This is the total amount of revenue due by way of taxation, Commonwealth Government grants and from other sources (excluding asset sales) regardless of whether a cash payment is received. It excludes gains, which are classified as other economic flows.
Total state sector	This represents all agencies and corporations owned and controlled by the NSW Government. It comprises the general government, public non-financial corporations and public financial corporations.
Uniform Presentation Framework (UPF)	The uniform presentation framework provides uniformity in presentation of financial information so that users of the information can make valid comparisons between jurisdictions.

To gain a better understanding of the terminology and key aggregates used in these budget papers, a glossary of terms can be found in Note 35 of the Report on State Finances 2015-16.