Budget Statement

2020-21

Budget Paper No. 1

Circulated by The Hon. Dominic Perrottet MP, Treasurer

STATEMENT OF THE SECRETARY

The 2020-21 Budget Papers are prepared in accordance with the requirements of the *Government Sector Finance Act 2018,* the *Fiscal Responsibility Act 2012* and the *COVID-19 Legislation Amendment (Emergency Measures-Treasurer) Act 2020*.

The 2020-21 Budget reflects the continuing shift in focus from incremental input measures to the delivery of outcomes and performance, where performance metrics are given as much importance as the financial results. This is a feature of the new Budget Paper No. 2 *Outcomes Statement*.

The 2020-21 Budget has been prepared against the backdrop of significant events which added a number of challenges. A severe and prolonged drought, the catastrophic bushfires and the onset of COVID-19 – which resulted in a fiscal and economic shock – have framed the 2020-21 Budget. This is a Recovery and Reform Budget, where significant investment has been made to support the impacts of these challenges through temporary and targeted stimulus measures. The Government has also taken the opportunity to accelerate reform initiatives for long term advantage and prosperity.

Temporary authorisation of expenditure and the Appropriation Bill 2020

Earlier in 2020, National Cabinet agreed all jurisdictions would defer their budgets to enable governments to focus on the COVID-19 response effort. The NSW Treasurer exercised powers under the *Government Sector Finance Act 2018* so services could be funded until a new Appropriation Bill was enacted. This Budget and the *Appropriation Bill 2020* transparently set out the resourcing needs for the whole 2020-21 year.

Best available information

Actual financial statements have been prepared based on audited financial information as presented in the *Total State Sector Accounts 2019-20.*

The Estimated Financial Statements have been prepared to reflect best estimates of existing operations and the impact of new Government policy decisions. They have also been prepared to take into account other economic and financial data available to Treasury up to 11 November 2020, including information provided in the 2020-21 Commonwealth Budget.

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

Professional judgement

The Estimated Financial Statements contain projections for the Budget year (2020-21) and the three following years (2021-22 to 2023-24). The forward looking nature 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.

Acknowledgement of country

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

Michael Pratt AM
Secretary, NSW Treasury
17 November 2020

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ABOUT THIS BUDGET PAPER

Purpose and scope

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

- inform citizens of the State's fiscal position and the Government's fiscal strategy
- meet requirements under the *Government Sector Finance Act 2018*, which prescribes the content of the budget papers, including providing four-year projections of all major economic and financial variables, 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 objectives, 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 in line with 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 estimated financial statements for the public non-financial corporations (PNFC) and the non-financial public sector (NFPS). The statements provide a comprehensive picture of the State's fiscal position and strategy.

Where comparisons are made to previously published estimates, unless otherwise stated, the comparison is to the 2019-20 Half-Yearly Review.

For a list of definitions used in the Budget Papers, please see *How to Read the Budget Papers*.

Reporting of Actual and Budget data

The actual results for 2018-19 and 2019-20 reflect the audited financial statements for the GGS as presented in the *Total State Sector Accounts 2019-20.*

The Estimated Financial Statements of the general government sector (2020-21 to 2023-24) in these budget papers are prepared on an accrual basis of accounting, in accordance with Australian Accounting Standards, the Uniform Presentation Framework and the principles and rules contained in the Australia Bureau of Statistics, Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 (Cat. No. 5514) (ABS-GFS Manual).

Aggregated financial data is presented on an eliminated basis – that is, intra government transactions between entities are eliminated.

From 1 July 2020, the State applied the new accounting standard of AASB 1059 *Service Concession Arrangements* (AASB 1059). Further information on the impact of changes to accounting standards on the Estimated Financial Statements for the general government sector, are detailed in the Statement of Significant Accounting Policy and Forecast Assumptions section in *How to Read the Budget Papers*.

Notes

- The budget year refers to 2020-21, while the forward estimates period refers to 2021-22, 2022-23 and 2023-24. Figures in tables, charts and text 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) and 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.
- Unless otherwise indicated, the data source for tables and charts is NSW Treasury.

1. BUDGET OVERVIEW

1.1 Executive summary: Driving a strong recovery for our State

In the eleven months since the 2019-20 Half Yearly Review, the people of New South Wales have endured one of the most challenging periods since the middle of the last century. The 2020-21 Budget offers the relief the people of New South Wales need at this difficult time, turning the State's focus to job creation and a strong steady recovery, and laying the foundations for long-term prosperity.

Throughout 2019-20, New South Wales was in the grip of a severe, prolonged drought covering 99.9 per cent of the State. Going into the summer of 2019, dry conditions erupted into catastrophic bushfires, scorching 5.5 million hectares over 240 consecutive days, destroying 2,476 homes and $899 million in infrastructure, and tragically taking the lives of 26 people.

Before the fires stopped burning, and just as bushfire affected communities were taking the first steps towards rebuilding, the onset of the COVID-19 pandemic delivered the most significant economic shock in living memory.

Restrictions afforded the Government time to prepare and reinforce the health system, investing over $3.0 billion in additional health capacity. This included quadrupling intensive care capacity in NSW hospitals to withstand a sudden surge in demand and resourcing highly effective testing and tracing capabilities.

Those efforts have been highly successful in New South Wales, which has, uniquely, limited the spread of the virus over a sustained period, provided exceptional care to those who need it, and kept the economy open to the greatest extent possible.

In conjunction with the Commonwealth, the Government also took immediate steps to cushion the economic impact of the pandemic, with the clear objective of keeping people in jobs and businesses in business.

Despite these efforts, the scale of the pandemic has made the resulting economic contraction the most severe in living memory. Over the second half of 2019-20, economic activity in New South Wales contracted by almost 10 per cent. The unemployment rate rose to its highest level since the late 1990s, household consumption fell by 15 per cent and business investment fell sharply. The impact on our citizens' mental health has been significant, with higher volumes of calls to Lifeline, Kids Helpline and Beyond Blue.

The successful reopening of the economy has helped many businesses to re-open their doors and many people get back to work. However, a return to pre-COVID-19 economic growth will take time. A sustained recovery will depend on restoring confidence in the private sector. In this Budget the NSW Government takes decisive action to kick-start the state's economy in the short term, while laying the foundations for an even stronger economy in the long term.

The Budget injects a further wave of temporary, targeted stimulus measures, to create jobs and get NSW businesses back on their feet in the immediate future. The Budget delivers the Government's economic recovery and reform strategy across six key areas:

- **Building a better New South Wales** – record infrastructure pipeline that ensures the delivery of vital projects across the state, and accelerates shovel-ready projects, to directly create jobs in the short-term.

- **Investing in our people and their future** – ensuring citizens of New South Wales are equipped to enter or re-enter the workforce and that the workforce has the skills needed for the modern economy.
- **Delivering quality services for everyone in New South Wales** – securing a world-class standard of frontline services across the State and pursuing digital reform so services are easier to access and fit for a fast-changing world.
- **Making it easier to run a business** – supporting businesses to invest, set down roots and create more local jobs, while also removing barriers to running a business in New South Wales.
- **Strong industry, big global outlook** – boosting economic growth by attracting new investors to New South Wales, securing our industrial infrastructure and lifting the State's profile as a regional and global leader for emerging industries.
- **Economic reform for lasting prosperity** – major tax and productivity reform (including education and skills, planning and digitisation) to expand our economic capacity and increase living standards for our people.

The stimulus measures in this Budget complement the Commonwealth Government's ongoing stimulus and support measures, and the Reserve Bank of Australia's monetary policy settings. As a result of the NSW Government's support, the unemployment rate is expected to be as much as 1.0 percentage point lower in June 2021 than without Government support.

While this Budget lays out a path to recovery by providing more stimulus, importantly, it also pursues economic and productivity reform. This will ensure that the recovery is long-lasting, and that New South Wales remains the best place to live and work.

The State's strong financial position is key to enabling the Government's response to the health crisis and the support measures in this Budget. Despite this, the pandemic has placed immense pressure on the State's finances, with significant reductions in State revenue, and increased expenditure to provide much needed health and economic support.

This has resulted in New South Wales recording a budget deficit for 2019-20 of $6.9 billion, and a projected deficit of $16.0 billion in 2020-21. This position reflects the Government's commitment – made early in the pandemic – to put people before the budget result. However, the Government remains committed to ensuring that the people of New South Wales have the security of a strong fiscal position to meet any future challenges that may arise.

That is why, in addition to delivering stimulus to create jobs and boost confidence in the short term, the Budget also charts a clear course to reinforce the State's fiscal position over the medium term. Based on current conditions, this Budget projects a return to surplus by 2024-25, with net debt to return to around 7 per cent of Gross State Product over the medium term.

This fiscal strategy will ensure the State maintains fiscal capacity to respond to future shocks. The State's dedicated debt retirement fund, the NSW Generations Fund, is projected to grow to more than $70 billion by the end of the decade, ensuring that this Government will not leave future generations to bear the cost of the pandemic.

While this Budget lays out a path to recovery and prosperity, successful management of health risks is critical in keeping the economy moving.

Box 1.1: Supporting jobs in New South Wales

This Budget reaffirms the New South Wales Government's commitment to support the State through the COVID-19 pandemic and set up the economy for a strong recovery with the creation of jobs a top priority.

The commitments included in this Budget bring the Government's total COVID-19 response to $29.0 billion in economic stimulus and support measures. The Government's comprehensive stimulus and recovery plan will boost economic activity, promote public confidence and create jobs.

Combined with its record infrastructure pipeline of $107.1 billion, the Government's stimulus plan will support the forecast unemployment rate to trend back to 5 ¼ per cent, with up to 270,000 people back in work by June 2024.

The Government's $29.0 billion commitment is unprecedented for any state or territory and represents more than 11 per cent of own-source state revenue. As a percentage of own-source revenue, this is more than any other state or territory and the Commonwealth Government.

1.2 Economic outlook: the road to recovery

The economic impact of bushfires and COVID-19 has been felt across the state. A full recovery from these successive crises will take time, although the road to recovery has been made shorter by the decisive response from all levels of government.

Bushfires led to a loss of lives, property, assets and community infrastructure. Regional communities and businesses were hit particularly hard, not only by the destruction of assets but also the impact it had on service-based businesses. In many regional communities, bushfires raged over the peak tourism season of Christmas and New Year, taking away critical income. The impact was also felt in our cities with domestic activity and international tourism affected by the deterioration in air quality and worldwide coverage of the bushfires.

The economic impact of COVID-19 has been even worse than the global financial crisis. In 2020 the state witnessed its sharpest contraction in economic activity in living memory.

The closure of international and state borders has led to a loss of international students, tourists and inward migration. It has hampered the productive capacity of the economy and weakened demand. Social distancing, school closures and other restrictions on movement have negatively impacted consumer spending. There was a sharp drop in confidence early on in the pandemic, although there are signs this confidence is starting to return to pre-COVID-19 levels as the economy reopens and the number of new infections remains low.

The impacts of COVID-19 have been reflected in all major State economic indicators.

Economic activity, as measured by State Final Demand (SFD), contracted by almost 10 per cent over the second half of 2019-20. Household consumption (almost 60 per cent of the economy) was the biggest driver, falling 14.8 per cent over the same period. Timely data suggest consumer spending has partially rebounded as containment measures are lifted. Government support, including an acceleration of Commonwealth income tax cuts, will assist the ongoing recovery.

Dwelling and business investment have both fallen sharply. Commonwealth and State stimulus measures are expected to trigger an improvement in business investment (especially equipment investment) in 2020-21, but dwelling investment is set to remain sluggish so long as border closures inhibit migration.

Public demand has helped to fill the void for the economy, recognising the major expenditure in health and pandemic support plus a record infrastructure building effort. The public sector was the only segment of the NSW economy to see positive growth, contributing 1.8 percentage points to SFD growth through the year to June 2020.

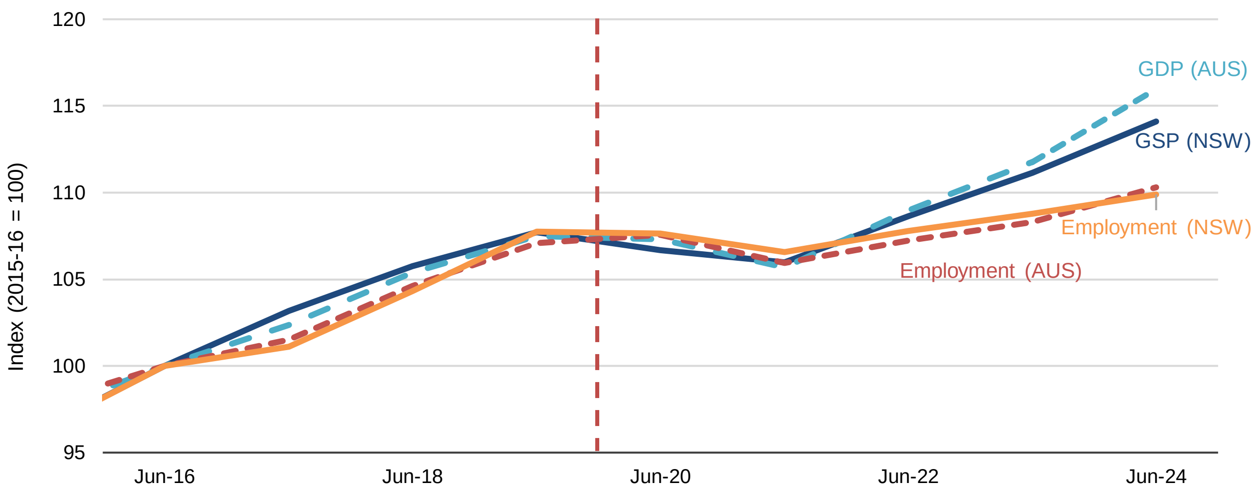
In the first half of 2020-21, the unemployment rate rose to its highest level since the late 1990s, at 7.2 per cent. While the removal of Commonwealth job support measures is expected to see the unemployment rate move higher in the near term, an anticipated lift in economic activity should see the unemployment rate ease back to around 6½ per cent by June 2021.

The stimulus measures rolled out in 2020 have made a meaningful difference. Without the significant level of State Government assistance (combined with Commonwealth Government stimulus), the unemployment rate could have been as much as 1 per cent higher in June 2021.

While the NSW economy will make solid inroads towards recovery, a full recovery will take time. The economy is forecast to surpass its pre-COVID-19 level in 2021-22 and will continue to see solid rates of growth in the following years.

With positive signs of recovery, but the virus still active around the world, there is a higher degree of uncertainty to the forecasts than normal. In particular, there is significant uncertainty around progress of the virus globally, and the timing and availability of an effective vaccine. See Appendix B Fiscal Risks for analysis on the assumptions underpinning the central scenario forecast.

Chart 1.1: Economic activity and employment take time to rebound from pre-COVID-19 low



Source: ABS 5220.0, 6202.0 and NSW Treasury

1.3 Supporting the economy now, with fiscal reinforcement over the medium-term

Table 1.1: Key Budget aggregates for the general government sector

	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
Budget Result ($m)	-6,916	-15,984	-6,830	-2,091	-460
Per cent of GSP	-1.1	-2.5	-1.0	-0.3	-0.1
Capital expenditure ($m)	20,985	22,644	22,930	20,131	18,523
Per cent of GSP	3.4	3.6	3.5	3.0	2.6
Net debt ($m)	19,261	53,187	75,433	91,771	104,347
Per cent of GSP	3.1	8.4	11.5	13.5	14.7
Net worth ($m)	238,688	228,999	228,321	236,398	258,698
Per cent of GSP	38.4	36.3	34.8	34.8	36.6

The significant stimulus and support measures announced in this Budget are only possible because the State came into the crisis in a strong financial position. At the time of the 2019-20 Half-Yearly Review, the Government had the lowest net debt of any jurisdiction in the nation and was on track to deliver its seventh consecutive surplus. New South Wales was only one of five comparable sub-national jurisdictions being rated triple-A by Moody's and S&P Global.

The Government's fiscal strategy is to provide targeted and temporary fiscal stimulus in the short-term to support jobs, the economy and productivity growth. Government spending has done much of the heavy lifting in supporting the economy since the 2019-20 Half-Yearly Review. Including the support measures announced in this Budget, general government expenditure over the four years to 2023-24 is $21.3 billion higher than projected at the time of the 2019-20 Half-Yearly Review.

The COVID-19 recession has heavily impacted State revenue. The Government has also used revenue policy measures to cushion the economic impact of COVID-19, by deferring collections for some taxes and reducing or waiving others. This has generated a much needed cashflow boost for businesses while reducing 2019-20 collections and forecast revenue for 2020-21.

General government revenue is expected to be $14.8 billion lower over the four years to 2023-24 compared to 2019-20 Half-Yearly Review. While the bulk of this write-down was initially expected to be in the early years, current forecasts will see the revenue impacts of COVID-19 linger across the forward estimates.

The 2020-21 Budget projects a budget deficit of $16.0 billion in 2020-21. This is expected to taper back to a deficit of $460 million in 2023-24 as the economy recovers and fiscal repair measures ramp up. Based on current economic and fiscal projections, the Government is anticipating a return to surplus by 2024-25.

To compliment the stimulus measures, this Budget both augments and accelerates the Government's capital and maintenance program. It sees a record infrastructure program of $107.1 billion to 2023-24.

In the short-term, the Government is stimulating the economy through 'shovel-ready' and targeted infrastructure, including $812.0 million for measures to maintain and upgrade social and community housing, $180.0 million in upgrades to facilities in regional schools, $104.5 million in critical maintenance and upgrades to NSW cultural institutions and $97.7 million in upgrades to NSW Police facilities, including the Goulburn Police Academy.

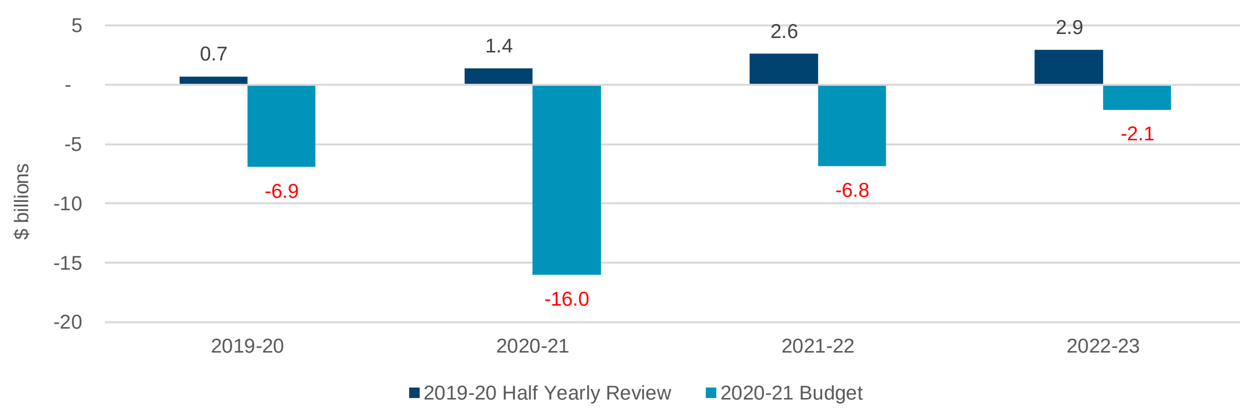
The best economic evidence indicates that, dollar for dollar, one of the most powerful ways the Government can stimulate the economy quickly and effectively is through infrastructure and capital investment. This record infrastructure program will generate a short-term boost to employment, along with ongoing productivity benefits for decades. Additional stimulus measures in the Budget, from tax cuts to investment incentives, are designed to have an immediate stimulatory impact.

Further supporting the economy during COVID-19 and helping lay the groundwork for longer term economic growth, this Budget is delivering tax relief to NSW businesses, including a temporary two-year reduction in the payroll tax rate from 5.45 per cent to 4.85 per cent from 1 July 2020 to 30 June 2022; and a permanent increase in the payroll tax threshold to $1.2 million from 1 July 2020. This will see 3,500 NSW businesses no longer having to pay payroll tax, freeing up much needed capital for businesses to reinvest.

Tax relief is complemented by a variety of measures to spur job creation, including $300.0 million for the Regional Growth Fund 2.0 to support economic growth in the regions, $250.0 million for the Jobs Plus Program to drive job creation and $175.0 million for Made in NSW program to invest in new film and TV projects made in New South Wales.

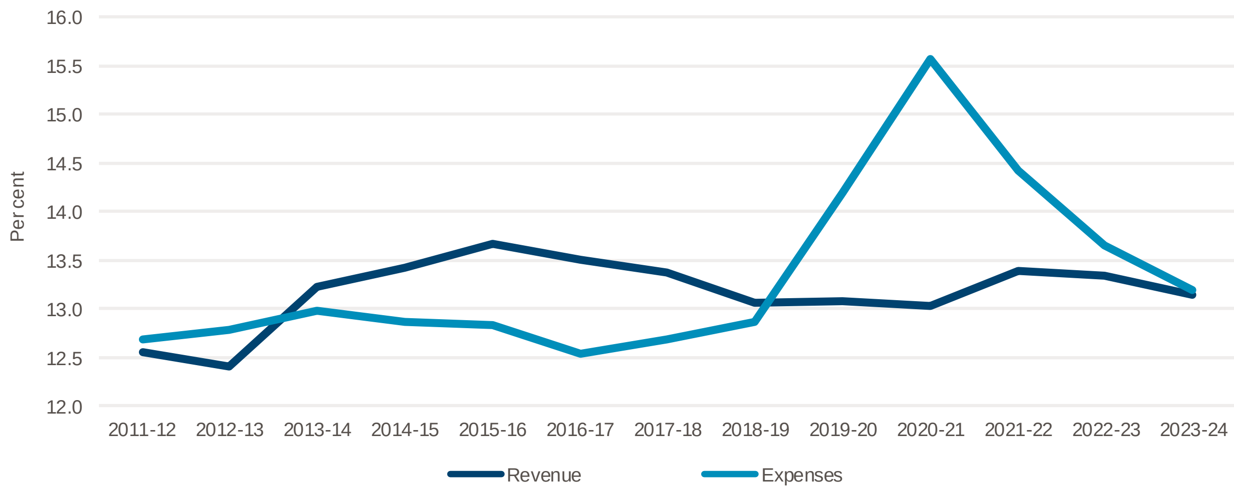
Through the Out and About program, this Budget will also deliver up to $500.0 million to NSW residents to stimulate the economy, through digital vouchers to encourage residents to support local cafes, restaurants and cultural attractions.

Chart 1.2: Budget result: 2020-21 Budget compared to the 2019-20 Half Yearly Review



As a proportion of GSP, general government expenditure has lifted off the back of drought, bushfires and COVID-19 response measures. As Chart 1.3 shows, after peaking at $98.1 billion, or 15.6 per cent of GSP, expenses are projected to revert back to more business-as-usual levels. Tight control on expense growth is expected to return by the end of the forward estimates, reflecting the Government's commitment to fiscal discipline.

Chart 1.3: General government revenues and expenses as a share of GSP



The State entered the COVID-19 pandemic with exceptionally low debt and a triple-A credit rating. The Government has been able to borrow at historically low interest rates to support emergency health measures and stimulus measures to reinvigorate the economy. Net debt will increase from $19.3 billion at June 2020 to $104.3 billion at June 2024. This increase is being driven by COVID-19 revenue loss, fiscal stimulus and the Government's record infrastructure program which is contributing ¼ per cent to economic growth in 2020-21 alone. With historically low rates and prudent balance sheet management, the Government has been able to decrease interest expenses as a per cent of borrowings from 3.1 per cent at June 2020 to 2.0 per cent at June 2024.

Over the medium term, the Government's fiscal strategy is to rebuild balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium term. This will help support the Government's commitment to the *Fiscal Responsibility Act 2012*. In order to achieve this, the Government will embark on a program of fiscal reinforcement, with the initial measures included in this budget (refer to Box 3.1 in Chapter 3).

Over the last decade, New South Wales has been leading the nation in balance sheet reform, including our successful asset recycling program. This Budget will continue the Government's program of asset recycling, with the sale of its residual 49 per cent share of WestConnex and a scoping study of Lotteries duties.

Asset recycling proceeds will be invested into the NSW Generations Fund, a debt offset fund, which supports the Government's fiscal repair program while giving it capacity to support ongoing infrastructure investment. This approach will ensure that the State's balance sheet remains protected despite the effects of the COVID-19 recession.

This asset recycling will help support the Government's record $107.1 billion infrastructure program. Since the 2019-20 Budget, the Government has committed to city-shaping and innovative projects such as Sydney Metro West, Sydney Metro Western Sydney Airport, Western Harbour Tunnel and Warringah Freeway Upgrade and digital investments. This investment into productive infrastructure will create thousands of jobs.

1.4 The 2020-21 Budget sets the roadmap for a prosperous New South Wales

The Government has delivered unprecedented levels of support over the last 12 months. This has steered the State through the drought (with $4.5 billion for drought and water security), the bushfire crisis ($4.4 billion in relief and recovery initiatives in partnership with the Commonwealth) and the COVID-19 pandemic ($16.0 billion in support).

Building on this initial crisis response, the Budget sets out the NSW Government's goal to ensure a prosperous post-pandemic recovery: a focus on new stimulus measures to kick-start the economy and create jobs, while laying the foundations for sustained growth with a concrete plan for reform.

Box 1.2: The New South Wales Government's COVID-19 response measures have made a real impact across the State

Since the beginning of the crisis, the NSW Government's COVID-19 support package has delivered for business and the community, including:

- over 6,500 businesses have already been supported through the NSW Government's Business Connect program, which provides practical and tailored advice to business owners to help adapt their small business
- over 52,347 small businesses have accessed a $10,000 grant to assist them with urgent and unavoidable expenses during the New South Wales lockdown
- over 36,000 small businesses have accessed a $3,000 grant to help them to adapt their business model to operate in a new COVID-safe environment
- over 1,450 new households and 1,750 existing households have been assisted to access secure housing with rental subsidies through Rent Choice packages
- over 4,176 rough sleepers and 22,208 people experiencing other forms of homelessness have been provided temporary accommodation
- over 15 million meals and over 3,500 food boxes have been distributed by OzHarvest and Foodbank to those in need
- over 34,000 energy relief vouchers applied to customer accounts providing energy relief to customers experiencing short-term financial distress.

Building a better New South Wales

The pipeline of infrastructure projects planned, and already underway, has placed New South Wales in a strong position to respond to the economic crisis. As part of the record $107.1 billion pipeline, this Budget invests in additional targeted stimulus initiatives towards capital projects and maintenance. These initiatives will create jobs across the State and boost confidence more generally.

Underpinning this stimulus is the $3.0 billion Jobs and Infrastructure Acceleration Fund, which will deliver projects across the State. Key projects to be delivered from this fund include:

- accelerating work on the $385.0 million St George Hospital Integrated Ambulatory Care Precinct in Kogarah, and bringing forward $60.0 million of the $608.0 million Sydney Children's Hospital Network redevelopment in Randwick
- the roll-out of a $157.8 million LED light replacement program in schools across the state to support a more energy efficient operating environment

- new public schools in Googong, Murrumbateman and Edmondson Park to meet the needs of growing communities and $180.0 million to upgrade school facilities throughout regional New South Wales
- stage 1 of the Mamre Road upgrade between the M4 and Erskine Park Road with $28.0 million to accelerate works as well as $90.0 million for the Spring Farm Parkway Stage 1 upgrade, ensuring that road infrastructure is keeping pace with growing communities
- acceleration of the Fixing Country Bridges and Fixing Local Road programs
- the delivery of more than 80 infrastructure and local community projects in the regions to support the delivery of health, education and recreational activities.

This Budget also commits to new stimulus across the state for capital maintenance works and shovel-ready projects, including:

- $812.0 million for new social housing and to undertake significant maintenance and upgrades of social and Aboriginal housing
- $256.0 million for upgrades and maintenance works across National Parks, the Royal Botanic Gardens, Centennial Park, Sydney Olympic Park and the Crown Land portfolio
- $194.4 million for wharf upgrades and maritime infrastructure investment across New South Wales, including upgrades and ongoing maintenance
- $167.7 million for capital works and maintenance of courts, police stations and corrective services, as well as upgrade of the Goulburn Police Academy into a state-of-the-art training facility
- $104.5 million for an Arts Maintenance and Upgrade Fund to improve accessibility, sustainability and functionality of cultural assets
- $100.0 million for the Greater Cities and Regional Sports Facility Fund, which aims to create spaces that enable communities to participate in sport at all levels by investing in new and existing facilities.

This additional maintenance is on top of the existing record infrastructure pipeline. The $107.1 billion pipeline of works will deliver vital projects across the state including in the health, education and transport sectors. This record investment includes:

- $10.4 billion over the next four years for Sydney Metro West: once completed this project will double the rail capacity between the Sydney and Parramatta CBDs, linking new communities to rail services and supporting both employment growth and housing supply. Sydney Metro West will have a travel time target of around 20 minutes between the two cities and is expected to create about 10,000 direct and 70,000 indirect jobs during construction
- $9.2 billion over the next four years for Sydney Metro – Western Sydney Airport: the new metro rail will become the transport spine for Greater Western Sydney, connecting communities and travellers with the new Western Sydney International (Nancy-Bird Walton) Airport and the growing region. This city-shaping project will provide a major economic stimulus for western Sydney, creating more than 14,000 jobs during construction
- $2.2 billion over the next four years for the Sydney Gateway project: once completed this project will provide a new high capacity road connection from Sydney Airport and Port Botany to the new WestConnex St Peters Interchange, creating over 1,000 direct jobs during construction
- a record $10.7 billion investment in Health infrastructure over the next four years, including completion of the $673.3 million Tweed Hospital Redevelopment and the $632.0 million Campbelltown Hospital Stage 2 Redevelopment

- a record $7.7 billion invested in Education and Skills infrastructure, with over $1.4 billion in new schools infrastructure funding for new and upgraded schools, and $100.0 million for asset replacement and maintenance for TAFE NSW to deliver quality training services.

Investing in our people and their future

The 2020-21 Budget builds on existing response measures to protect jobs by investing in initiatives to ensure that New South Wales citizens are equipped to enter or re-enter the workforce. This includes additional investment to create immediate skilling opportunities, and initiatives that ensure the labour market has the right skills to meet the adapting needs of the economy:

- a $159.3 million commitment for the Skilling for Recovery initiative, a key component of the State's COVID-19 Recovery Plan to help job seekers retrain or upskill, and support school leavers to enter the workforce for the first time. The NSW Government commitment will match the Commonwealth's JobTrainer funding (total joint investment of $318.6 million) and offer more than 100,000 training places
- $80.0 million to create 300 new housing sector pre-apprenticeships and cadetships to provide career pathways for young people and social housing tenants
- $57.4 million for the creation of a Trades Skills Pathways Centre to address skills shortages in the New South Wales economy by recognising trades skills, establishing new trades pathways and improving skilled employment opportunities for women
- an additional $17.0 million for targeted investment into the care economy to support jobs growth and improved worker quality. The care economy comprises early childhood, community services, social housing, aged care, disability care and personal support
- $10.0 million for grants and Return to Work coordinators to support women who have lost their job due to the COVID-19 pandemic or have been out of the workforce for an extended period to return to work.

To ensure that children are not falling behind and have the educational foundations for a successful future, this Budget provides additional support with:

- $337.0 million for intensive tutoring in New South Wales schools. This program will assist students recover lost learning time as a result of COVID-19 disruptions and shutdowns in early 2020, and ensure that educational outcomes are not falling behind
- $120.0 million to extend the free preschool program for community and mobile preschools through to the end of 2021, providing fee relief for families.

This Budget further supports increased participation and retention of women in the workforce, with a new parental leave policy for New South Wales public sector workers – offering 14 weeks leave to a new child's primary carer, regardless of gender.

Delivering quality services for everyone in New South Wales

The Government is committed to the delivery of quality services across the State.

Building on significant investment in health system capacity in response to the onset of COVID-19, the budget maintains this commitment with additional investment to boost health services including:

- $169.4 million in mental health support measures including additional community health workers, virtual mental health support, 100 additional wellbeing and in-reach nurses, and to establish 12 mental health and wellbeing community collaboratives

- $55.9 million for palliative care measures, to provide an additional 5,000 End of Life home support packages, specialist allied health professionals, education and training, and improved bereavement support
- digital health measures to build on key successes during COVID-19 and to further modernise the health system with:
  - $50.4 million to provide technology-enabled workforce support options, including remote video conferencing and expanding telehealth services and related infrastructure to enable more access to mental health support for people in immediate crisis
  - $10.2 million to Tresillian and Karitane to extend access to virtual residential parenting services and evaluate service delivery outcomes and experiences
  - an integrated State-wide Laboratory Information Management System to provide seamless ordering, processing and reporting of over 70 million tests per year across NSW Health
  - a Real Time Prescription Monitoring system to track prescribed medicines associated with a high risk of causing harm, dependence or misuse.

This Budget further supports the delivery of quality services with additional investments to support the vulnerable and ensure that our emergency services are equipped for the future. Initiatives include:

- $29.0 million to extend the Together Home program delivering housing and wraparound support to break the cycle of homelessness for hundreds of people sleeping rough
- $20.0 million over four years for Closing the Gap in accordance with the National Agreement, and support for the equal participation of Aboriginal Communities in priority reforms
- investment into our emergency services to implement key recommendations from the NSW Bushfire Inquiry, and boost resources for the bushfire season, including:
  - $51.4 million to upgrade the New South Wales Rural Fire Service (RFS), Fire and Rescue New South Wales (FRNSW) and National Parks and Wildlife Services fleet, which will deliver more than 120 new and 70 refurbished vehicles for the RFS
  - $36.0 million for a new first responder mental health strategy for emergency services staff
  - $23.0 million for additional Personal Protective Clothing and $5.4 million towards enhancing the RFS aerial fleet – this is in addition to $9.5 million provided for initial priority works for the fire trail network.

Key to delivering quality Government services is ensuring that those services are fit-for-purpose and meet the needs of the community. In this Budget, the Government is pursuing an ambitious transformation agenda driven by digitisation.

Underpinning this transformation is the $1.6 billion Digital Restart Fund (DRF). The fund promotes a whole-of-sector approach to digitisation and service transformation. The 2020-21 Budget confirms allocations from the DRF, including:

- $365.8 million over two years to close the digital gap between regional and metropolitan schools through better integration of digital technology into the school curriculum and infrastructure
- $54.5 million for a major digital courts and tribunals reform project to digitise services, improve productivity in the legal system, enhance processes and improve customer experience

- $45.8 million to implement the next phase of an end-to-end digital planning service through the ePlanning program, to improve customer experience by streamlining services within the New South Wales planning system
- $17.5 million to improve the online customer experience for key Revenue NSW online services, to ensure integration with Service NSW for taxes and fines.

Making it easier to run a business

The Government recognises that businesses in New South Wales have been doing it tough since the onset of the pandemic. The 2020-21 Budget builds on support already provided to sustain businesses through the immediate response phase of the pandemic, with the next phase including targeted initiatives to assist businesses to invest and employ in the short term. These measures include:

- $2.8 billion in revenue foregone to provide a temporary two-year reduction in the payroll tax rate from 5.45 per cent to 4.85 per cent, from 1 July 2020 to 30 June 2022, and a permanent increase in the payroll tax-free threshold to $1.2 million
- up to $500.0 million in the Out and About program to stimulate spending in the local economy, including restaurants, visitor sites and cultural attractions. Every adult resident will be eligible to claim up to $100 in digital vouchers to spend on eating out and entertainment.
- $472.0 million to provide small and medium-sized businesses which do not pay payroll tax with access to a $1,500 digital voucher, to be used towards the cost of any government fees and charges before 30 June 2022, and available from April 2021 (further detail in Box 1.3)
- additional support for small businesses, including $39.3 million to extend the Business Connect program and funding for the Office of the Small Business Commissioner to support businesses to tender for New South Wales Government procurement contracts.

Building on initiatives that have been successful during the pandemic, the Government is also committed to removing barriers to running a business in New South Wales – ensuring that there are no restrictions on businesses being able to grow as the economy reopens. This will be undertaken through new reform measures (refer to the Economic Reform section below) and by exploring which temporary relaxations in regulation due to COVID-19 should remain.

Box 1.3: Supporting small business as the economy reopens

The NSW Government is committed to helping small business through these challenging times.

Since the onset of the pandemic, the Government has been committed to providing relief for small businesses, with a focus on assisting through the health containment measures. This included the $750 million Small Business Support Fund, which provided eligible small businesses with $10,000 grants for immediate relief, and $3,000 recovery grants to support safe reopening.

To reduce the cost of doing business and to support these small businesses to invest and employ as the economy re-opens, this Budget provides further fee relief by introducing a $1,500 digital voucher. This voucher will:

- be available for small to medium-sized businesses in New South Wales which do not pay payroll tax
- capped at a cost of $1,500 per business, and be used towards the cost of any government fees and charges
- accessible through the MyService NSW portal and operate as a rebate, where a claim can be made after fees and charges have been paid
- be available for use from April 2021 to 30 June 2022.

This Budget also provides further support to ensure that small businesses are prosperous in the longer-term, and that New South Wales remains the best State for businesses to be located. Key initiatives include:

- an extension of the Business Connect program, which subsidises professional business advice for small businesses in New South Wales
- funding for the Office of the Small Business Commissioner to support businesses to tender for New South Wales Government procurement contracts.

Strong local industry, big global outlooks

For a sustained economic recovery, the Government is committed to boosting economic growth by attracting investors to our State and making sure our local industries are thriving.

As countries around the world go back into lockdown, the pandemic offers an opportunity – to showcase the advantages of living and working in New South Wales, attract investment and develop global partnerships which strengthen the State's economy and create jobs for the future.

To ensure the competitive positioning of New South Wales in the global economy this Budget includes:

- $250.0 million for the Jobs Plus Program, which will drive job creation by supporting businesses and industries seeking to scale up and grow in New South Wales. This includes initiatives such as payroll tax relief and access to free or subsidised spaces, and will be available for companies if they create at least net 30 new jobs
- $179.8 million to support the implementation of the Global NSW Strategy. This investment will grow the Trade and Investment network offshore to support New South Wales businesses in key international markets as well as attracting investment from around the world to support business growth and jobs.

Further investment is also provided to make sure our existing local industries are thriving, including:

- $300.0 million to the Regional Growth Fund 2.0 to deliver an extra round of economic development and job creation programs such as the Stronger Country Communities program
- $175.0 million for the Made in NSW program, focusing on investment in new film and television projects
- $100.0 million in grants to the Regional Job Creation Fund to incentivise businesses in regional New South Wales to invest, expand their operations, get new customers through the door and create new jobs
- An additional $75.0 million for Destination NSW to promote tourism and ensure the industry is thriving once international and domestic borders reopen.

Economic Reform

Swift and unprecedented government action has mitigated the worst economic and health impacts of the COVID-19 pandemic in New South Wales. While this assistance is critical to shielding business and the broader community from this extraordinary event, the longer-term health of our economy requires a steady return to robust competition and a business-led recovery.

Reform is the most powerful tool we have for promoting strong and sustained economic growth. Productivity-driven growth enables higher wages for workers and supports revenue growth to provide essential services and minimise public debt.

To build upon the success of changes introduced during COVID-19, this Budget includes an ambitious reform agenda to ensure prosperity for future generations.

Leveraging the NSW Productivity Commission's Green Paper and the Thodey review of Federal Financial Relations, this Budget provides additional investment for a suite of reforms. These reforms are designed to take the first steps in reforming inefficient taxes, deliver a more streamlined and timely planning system to accommodate new businesses, improve student outcomes and ensure workforce flexibility and usher in regulatory changes to support innovation, competition and economic growth.

To tackle an inefficient property tax system, over the coming months the Government will seek feedback from the public on a possible transition away from the current transfer duty and land tax system. The consultation will seek feedback on a model to reduce barriers to home ownership and boost long-term economic growth (Box 1.4).

To deliver a more streamlined and timely planning system, reform initiatives include:

- **Cutting assessment times** – reducing red tape and complexity in the planning system to reduce New South Wales approval assessment times
- **Optimising industrial land use** – the Government will review the retain-and-manage category of industrial and urban services lands to enable greater flexibility of land use to generate greater economic value and employment
- **Reforming infrastructure contributions** – to increase certainty and simplicity across the contributions system, drawing on the recommendations of the Review of Infrastructure Contributions
- **Consolidating employment zones** – the Government will increase flexibility within employment zones to allow a broader range of activities to allow land to adapt as the economy evolves, reducing constraints on businesses that do not fit neatly into current definitions.

To improve student outcomes and ensure long-term labour force flexibility, reform policies include:

- **Teach for Australia program** – supporting new accelerated pathways to teaching for mature aged workers from non-teaching backgrounds through the Teach for Australia program. This program will help fill critical teacher shortages in disadvantaged and remote schools, work towards reducing the 'learning gap' exacerbated by COVID-19 and improve educational outcomes
- **Skills** – the Government is pursuing ambitious reforms to ensure longer-term labour force efficiency and flexibility. This includes establishing the Trades Skills Pathways Centre to introduce new pathways into trades, particularly for mature workers and women; and investing in growing jobs in the care sector (refer to the *Investing in our people and their future* section above).

Key reforms to reduce regulation, support innovation and business growth include:

- **Automatic mutual recognition of occupational licences** – together with the Commonwealth, New South Wales is leading work on a new national automatic mutual recognition scheme, enabling occupational licensees to work in other jurisdictions without having to apply, or pay fees, promoting freer flow of labour between jurisdictions. Licence holders will be able to undertake the activities they are licensed for in their home jurisdiction, and regulators will be able to take any necessary enforcement action under local laws
- **Improving the regulatory experience** – the Treasurer will lead a whole-of-government evaluation of targeted regulatory relaxations implemented at the height of the pandemic to assess their costs and benefits. By retaining the best of these reforms, the Government will promote a stronger recovery.

Box 1.4: Pursuing reform in the taxation system

Transfer duty is a long-standing part of the New South Wales tax system. It was introduced to New South Wales in 1865 and has been broadly unchanged for at least a generation.

The current tax system is not fit for a modern society. It impedes home ownership and makes it harder for people to move to where they want to live. Rather than moving to a more suitable home, people may stay in a home that is too big or too small for their needs or endure longer commutes than necessary. The tax also acts as a brake on the economy.

A number of reviews, including the recent NSW Review of Federal Financial Relations, recommended that New South Wales should replace transfer duty with a broad-based land tax. The NSW Government is now seeking to progress the conversation beyond the theory by proposing a model for reform, where transfer duty and existing land tax could be replaced by a single property tax.

The proposed changes could inject $11.0 billion over four years into the economy, providing much needed stimulus in the current downturn. It could also deliver the most significant economic reform available right now to strengthen our state's economy and increase our prosperity over the long term.

Further information can be found at the NSW Government 'Have Your Say' page.

2. THE ECONOMY

- The NSW economy has faced unprecedented challenges over the last 12 months. The devastating bushfire season was followed by a global pandemic that has plunged the world economy into deep recession.
- In line with the sharp contraction in the national economy, the NSW economy has recorded its first recession in nearly 30 years.
- The recession in New South Wales has been less severe than witnessed overseas. The State's containment measures and world class health system have been effective in slowing the virus and the worst of the shock appears to be behind us. The careful easing of restrictions in New South Wales and coordinated policy support from the Reserve Bank, Commonwealth and state governments have put the economy in a position to rebound strongly.
- Following a contraction of 1 per cent in 2019-20, economic activity is expected to fall by a further ¾ per cent in 2020-21. Growth is then expected to rebound to 2½ per cent in 2021-22, and continue to grow at an above-trend rate throughout the forward estimates, reflecting the positive effects of unprecedented stimulus and successful management of the pandemic. However, the level of economic activity is not expected to recover to pre-COVID-19 levels until 2021-22.
- Unemployment is likely to rise in coming months, as key Commonwealth support measures unwind, and is not expected to return to pre-COVID-19 levels over the forecast horizon. But, record levels of stimulus from the NSW Government are expected to support a decline in the unemployment rate to 5¼ per cent by June quarter 2024.
- The closure of international borders has lowered the state's population growth to the slowest rate in more than 100 years. This will weigh heavily on short-term economic growth and severely impact the state's education and tourism exports.
- The economic outlook in this Budget is subject to an unusually high degree of uncertainty and risk. The Commonwealth has linked the timing of an effective vaccine for COVID-19 to the reopening of international borders. The recent resurgence of COVID-19 cases overseas also highlights the precarious nature of virus containment.
- A careful balancing of containment measures and the progressive resumption of economic activities—supported by the NSW Government's comprehensive stimulus plan, productivity enhancing reforms, and record investment in infrastructure—will be critical to the continued rebound in confidence and employment in New South Wales.

Table 2.1: NSW - economic performance and outlook(a)

	2018-19 Outcome	2019-20 Outcome (d)	2020-21 Forecasts	2021-22 Forecasts	2022-23 Projection	2023-24 Projection
Real state final demand	2.1	-1¾ (2)	-1½ (2¼)	2½	2¼	3¼
Real gross state product	1.9	-1 (1¾)	- ¾ (2¼)	2½	2¼ (2½)	2¾
Employment	3.3	0 (1½)	-1 (1¼)	1¼	1 (1¼)	1
Unemployment rate (b)	4.6	6½ (4¾)	6½ (4½)	6 (4½)	5¾ (4½)	5¼
Sydney consumer price index	1.7	1 (1¾)	1 (1¾)	1¼ (2)	1½ (2)	1½
Wage price index	2.4	2 (2¼)	1¼ (2½)	1¼ (2¾)	1½ (2¾)	1¾
Nominal gross state product	3.7	-½ (3½)	1¼ (4)	4 (4½)	3¾ (4½)	4¼
Population (c)	1.3	0.9 (1.5)	0.0 (1.5)	0.2 (1.4)	0.7 (1.4)	1.1

(a) Per cent change, annual average unless otherwise stated. Previous forecast (HYR 2019-20) in parenthesis where different.
(b) June quarter, per cent.
(c) Per cent change through the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage points.
(d) Real gross state product and population for 2019-20 are NSW Treasury estimates.

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

2.1 The economy is rebuilding with policy stimulus support

State Final Demand, the broadest measure of NSW economic activity, first contracted in the March 2020 quarter. This initial contraction was driven by disruptions caused by bushfires, combined with restrictions on the arrival of foreign students and tourists in the early days of the COVID-19 outbreak.

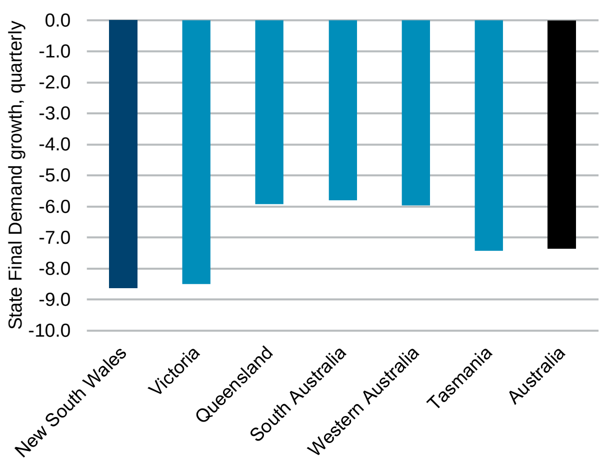
The full economic impact of COVID-19, however, was felt in the June quarter. The introduction of containment measures in late March successfully lowered the number of new COVID-19 cases in New South Wales but came at significant economic cost. State Final Demand fell by 8.6 per cent in the June quarter, the most significant contraction ever recorded for the state.

The impact of the virus on the state's labour market has been equally severe. Almost 270,000 people lost their jobs in New South Wales between March and May. Many thousands more saw their hours of work reduced. However, the volume of job losses was contained by government initiatives aimed at keeping businesses afloat and workers attached to their jobs.

While the downturn in the NSW economy has been significant, the experiences of major advanced countries around the world have been more severe (see Chart 2.6). For example, the United Kingdom lost nearly 20 per cent of its output in the June quarter, and New Zealand's GDP fell by more than 12 per cent.

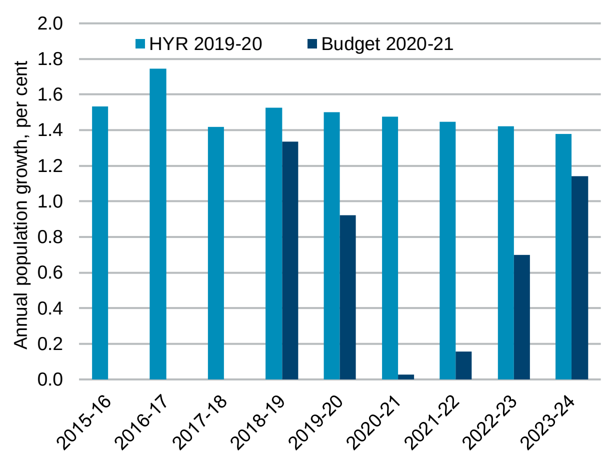
The International Monetary Fund (IMF) expects a V-shaped recovery for the global economy in the short term. Beyond 2021, growth will continue, but the pace will slow.

Chart 2.1: Economic impact of COVID-19 around Australia (June Qtr)



Source: ABS 5206.0 and NSW Treasury

Chart 2.2: Plunge in net overseas migration has slowed NSW population growth to a crawl



Source: ABS 3101.0 and NSW Treasury

For New South Wales, the re-opening of the economy is well underway. This is expected to deliver a short-term rebound in economic growth. The economic outlook hinges heavily on the timing of the removal of the remaining restrictions put in place to contain the virus, as well as public perceptions around the health risks. The lingering impacts from closed international borders and elevated rates of unemployment suggest a slower pace of recovery after the initial boost, rather than a rapid return to pre-COVID-19 levels of activity.

Based on current Commonwealth policy settings, it is assumed that closed international borders through to the end of 2021 will result in a permanent reduction in population.[1] This would permanently lower the expected productive capacity of the economy. The population effect alone means the economy is forecast to be more than 5 per cent smaller by the end of the projection period than was forecast at the 2019-20 Half-Yearly Review.

[1] This is consistent with the Commonwealth's technical assumption of no change to the current migration policy setting once borders reopen.

The recovery in the labour market will be gradual. Policy support measures in 2020, such as the JobKeeper wage subsidy, helped cushion the short-term impact of the pandemic. By extension their gradual removal is expected to see employment growth soften in coming months. From next year, employment growth is then expected to accelerate in line with an improvement in aggregate demand and eventual reopening of international borders.

The NSW unemployment rate is expected to peak close to 7½ per cent towards the end of 2020, before gradually declining. As with previous downturns, it will take more than four years to recover to pre-COVID-19 levels.

Government support will continue to play a key role in the economic recovery. Stimulus by the Commonwealth government, combined with the NSW Government's stimulus plan and a record capital program, will help generate jobs and accelerate the economy's recovery. They should help offset the impact of other measures being wound back over coming months.

NSW Government's stimulus and economic support measures are estimated to support around 27,000 jobs per year in the four years to 2023-24. Without the significant level of State Government assistance NSW Treasury estimates that the unemployment rate could have been as much as 1.0 percentage point higher in June 2021.

The outlook presented in this Budget is subject to a greater degree of uncertainty than normal. The economic recovery will likely encounter speedbumps along the way. For example, a renewed wave of global infections and the unwinding of key Commonwealth government support measures present risks to the near-term outlook.

Box 2.1 Health assumptions that underpin the economic outlook

The working assumption of NSW Treasury, in line with the Commonwealth Government's assumption, is that a vaccine for COVID-19 will start to roll out in NSW from around the middle of 2021, with 20 per cent of people vaccinated by the end of the September quarter. Vaccination rates are expected to build from there.

It is assumed that some social distancing restrictions will continue until a vaccine is widely available, noting the uncertainty around the timing and efficacy of the vaccine and the possible need to extend social distancing restrictions beyond this time.

The assumptions on Australia's international border restrictions underpinning the demographic/macroeconomic forecasts broadly align with those in the Commonwealth's recent Budget. This reflects the fact that policy levers around Australia's international borders and the rollout of a vaccine are largely held by the Commonwealth Government.

Australia's international borders are expected to re-open in the December quarter 2021, in line with the assumed timing of a widely available vaccine. A gradual return of international students and permanent migrants is assumed from the latter part of 2021. Inbound and outbound international travel is expected to remain low through the latter part of 2021, after which a gradual recovery in international tourism is assumed to occur.

Some inbound travel of New Zealand tourists to NSW without quarantine restrictions has resumed. It is assumed that NSW tourists will be permitted to travel to NZ from around the March quarter 2021.

All interstate border restrictions are expected to be removed by the end of 2020.

2.2 The pandemic had a significant initial impact on the economy

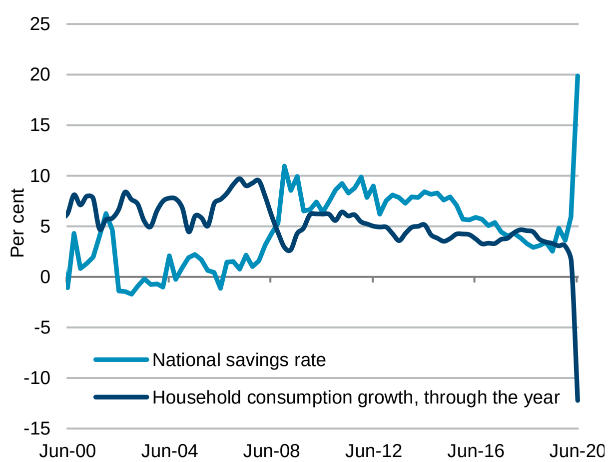
Consumer spending was hardest hit from the initial shutdown

Household spending has been impacted by a number of factors, including social distancing restrictions, changes to business operations, major job losses and volatile confidence. The result was a plunge in household consumption of more than 13 per cent in the June quarter. This contributed to around three-quarters of the decline in State Final Demand. That was despite the introduction of significant income support measures by the Commonwealth Government. The combined effect of lower consumption and increased government transfers to households saw the national household saving ratio jump to 19.8 per cent in the June quarter, the highest rate since June 1974 (Chart 2.3).

Consumer spending on discretionary goods and services has been hit especially hard. Spending on transport services (which includes domestic airline travel) fell by 84.2 per cent over the June quarter. Spending at hotels, cafes and restaurants dropped by almost 60 per cent. However, not all consumption has fallen during the pandemic. One side-effect of the lockdown had been increased spending on essential items such as food. Meanwhile, spending on furnishings and household equipment (including home office, entertainment, and renovation) increased, along with spending on household utilities as people spent more time at home.

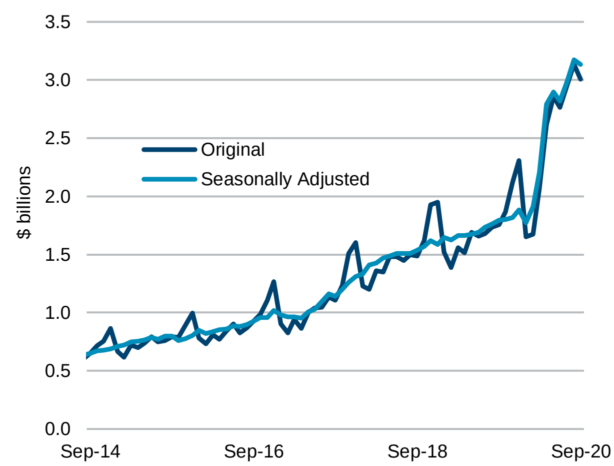
At the same time, there has been a notable shift toward more online shopping, including click-and-collect, with several retailers quickly adopting online sales channels. Total online sales remained elevated in September at 10.6 per cent of total sales in Australia. This is broadly in line with the peak seen in April 2020, when restrictions were in place across the whole country, and is significantly higher than the 6 per cent level seen in January.

Chart 2.3: Consumers have chosen to save during the pandemic



Source: ABS 5206.0 and NSW Treasury

Chart 2.4: Online spending accelerated as people were forced to stay at home



Source: ABS 8501.0 and NSW Treasury

Heavy disruption to business and the labour market

Business confidence plunged with the onset of COVID-19 and the introduction of containment measures, as over half of all Australian businesses reported reduced revenues since March 2020. Lacklustre demand throughout the economy led to a drop in firms' capacity utilisation rates from 82 per cent to 75 per cent, below the levels needed to generate widespread incentives to invest. Intended investment spending for 2020-21 has subsequently been revised down by almost 10 per cent. It is also likely that containment measures had a negative impact on productivity, at least initially. For example, health orders to work from home (where possible) may have caused disruption for some workers, particularly for those who were unprepared for such an arrangement and/or were required to care for children unable to attend school or childcare.

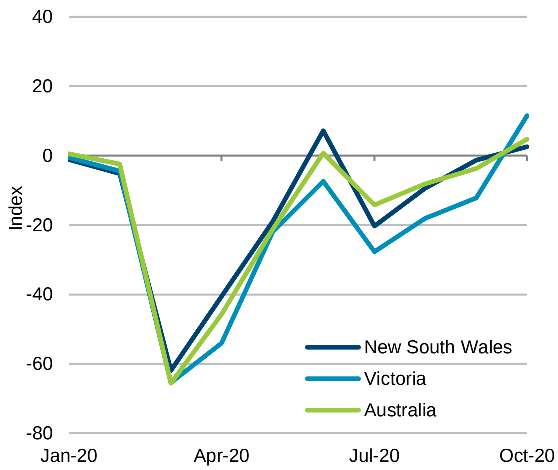
Fortunately, the easing of restrictions from late May has helped drive a rebound in business confidence in New South Wales (Chart 2.5). If sustained, this bodes well for an eventual rebound in investment as final demand improves.

The weakness in final demand weighed heavily on the NSW labour market. Around 270,000 workers lost their jobs in New South Wales during the peak of the virus containment phase in April and May. The unemployment rate subsequently jumped to 6.4 per cent in May. The result was tempered by the fact that most workers laid off in April and May temporarily left the labour market, driving the participation rate down to a more than 15 year low.

The outcome for the labour market was cushioned by the Commonwealth Government's *JobKeeper* program, which kept many workers employed or notionally attached to their employers. In April, 230,000 additional people reported being employed while working zero hours. Were it not for Government support measures and people dropping out of the labour market, the unemployment rate would have increased to 15.8 per cent in April. That is more than double the official unemployment rate.

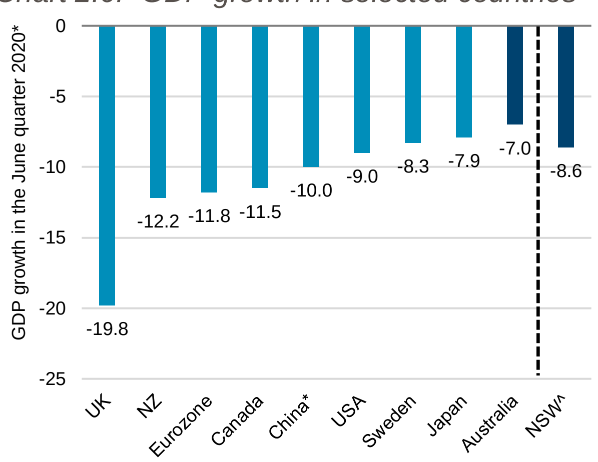
Labour market outcomes have been quite different for young workers, including the youth (aged 15 to 24 years) and those aged 25 to 29, compared to other age cohorts. Employment for 15-29 year olds remained 5.6 per cent below its pre-COVID-19 level in September (non-seasonally adjusted) compared to a decline of 0.2 per cent for all other age cohorts. Participation of this cohort in the labour market has also fallen by 39,000 (non-seasonally adjusted) since the pandemic started, whereas it has increased by 25,000 on net for all other age groups.

Chart 2.5: Business confidence stabilises



Source: NAB and NSW Treasury

Chart 2.6: GDP growth in selected countries



**China GDP is for the March quarter 2020*
^NSW State Final Demand is presented here. GSP is not available quarterly.
Source: Bloomberg and NSW Treasury

Australia has been a standout compared to many major global economies

The COVID-19 pandemic is having an immense impact on economies around the globe, many of which are experiencing the largest contraction in decades. In the first half of this year, economic activity contracted severely across the globe as most governments imposed restrictions to contain the virus.

The direct link between containment measures and economic activity, however, is complex (See Box 2.2). In the June quarter, the United States economy contracted by 9 per cent, with the unemployment rate hitting a peak of almost 15 per cent, more than double the rate seen in New South Wales. Meanwhile, the eurozone economy shrank by more than 15 per cent in the first half of 2020. The weakness in activity was even more stark for the United Kingdom, which contracted by 20 per cent in the June quarter alone, more than double the rate of decline in NSW State Final Demand (Chart 2.6). Reflecting this, for the first time in history, the IMF expects that both advanced economies as well as emerging markets and developing economies will shrink in 2020 in aggregate terms.

Box 2.2 How the response to COVID-19 has impacted economies around the world

COVID-19 related restrictions on activity expanded rapidly in New South Wales at the end of March, before peaking on 2 April, as stay at home orders were expanded across the country.

While strict and instrumental in the sharp economic contraction in the June quarter, the magnitude of containment measures was relatively 'mid-range' when compared to other advanced economies.

The stringency index, produced by Oxford University, is a standardised measure of the strictness of 'lockdown style' policies that primarily restrict people's behaviour (on a scale of 0-100). The containment measures in Australia early in the June quarter resulted in an average stringency index around 69.

However, international evidence on the correlation between containment measures and economic outcomes is not clear cut. Countries such as Japan and Sweden had a much more relaxed response to the pandemic, yet experienced a similar economic contraction to Australia in the June quarter—although each experienced very different rates of infection in the quarter. In contrast, South Korea imposed stricter measures than Sweden and Japan, but had much lower rates of infection and a smaller negative impact on the economy.

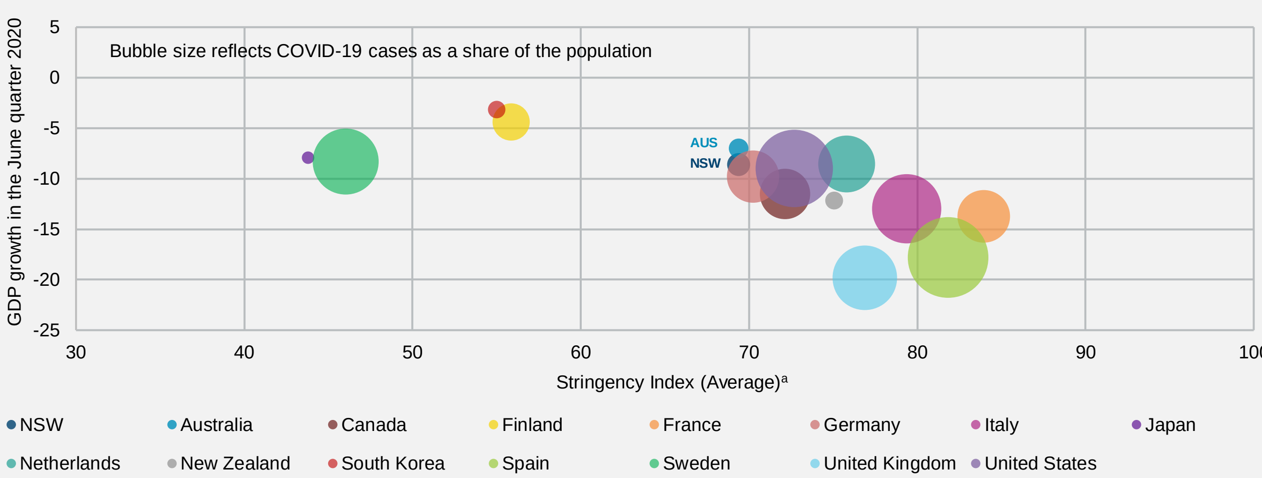
In other countries where infection rates were high, the negative correlation between containment measures and economic outcomes becomes more apparent.

Recent analysis by the IMF found that "the adoption of lockdowns was a significant factor in the recession, but voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction." The IMF concluded that "although easing lockdowns can lead to a partial recovery, economic activity is likely to remain subdued until health risks abate."

This analysis indicates that containing the virus remains instrumental in maintaining an environment conducive to business success and jobs growth. Containment will provide the conditions for (i) minimal restrictions, and (ii) ensuring the population has the confidence to move and consume, to the full extent permitted.

The NSW Government has emerged as a global leader in response to the COVID-19 pandemic, in terms of positive health outcomes and achieving one of the lowest economic impacts in comparison to peers. NSW's capabilities in quarantine and tracing will remain key to re-opening the economy while protecting public health.

Chart 2.7: The correlation between containment and economic impact is mixed



(a) The stringency index is a standardised measure of the extent to which containment measures have been applied in each jurisdiction (most relaxed measures have an index = 0). The chart above uses an average index for April and May 2020. The Australian stringency index has been applied to NSW.

Source: OECD, Oxford University and NSW Treasury

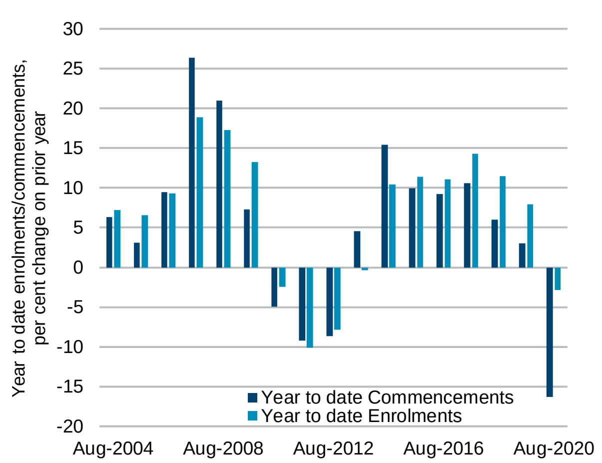
The easing of COVID-19 restrictions in several countries has triggered a partial rebound in economic activity. Business surveys of purchasing managers suggest a continued strong rebound in global manufacturing activity through the September quarter. The rebound in activity outside manufacturing, however, has subsequently softened in many countries, particularly Europe, reflecting a second wave of infections and subsequent renewed restrictions.

Border restrictions will determine the recovery in services exports

Services exports have been hit hard as international border closures limit the number of students, tourists and other travellers arriving in Australia. The recovery in services exports will hinge on the re-opening of international borders, which is set to be one of the final restrictions lifted by the Commonwealth Government (see Box 2.1 on COVID-19 assumptions).

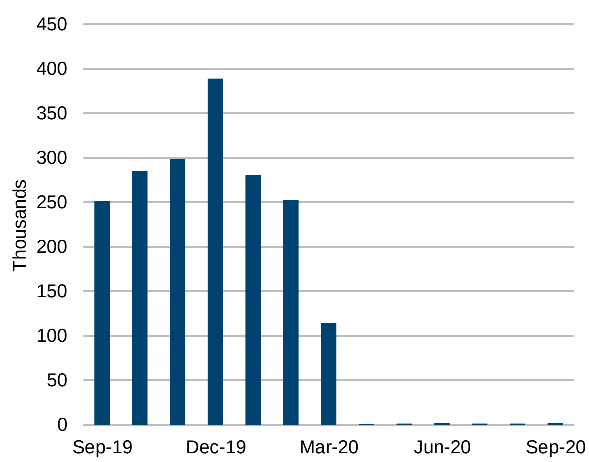
International education is the single largest services export for New South Wales, adding $13.9 billion to the NSW economy in 2018-19. While there are still a considerable number of international students studying in New South Wales, the future pipeline of students is shrinking. International student commencements in New South Wales have fallen 16.7 per cent in the first eight months of 2020 compared to the same period in 2019, the largest fall observed in the 18-year history of the data. The majority of spending by international students is on goods and services in the economy, rather than fees. Thus, the sharp drop in international students creates flow-on effects to other sectors of the economy, including demand for dwelling and accommodation services.

Chart 2.8: International students in NSW



Source: Department of Education and NSW Treasury

Chart 2.9: Number of monthly overseas arrivals in NSW



Source: ABS 3401.0 and NSW Treasury

International tourism exports are the state's second largest services exports, adding $7.7 billion to the NSW economy in 2018-19. This is expected to drop to a historical low in 2020-21 amid international border closures. The number of tourist arrivals to NSW has effectively fallen to zero (Chart 2.9). A gradual recovery is expected with the initial opening of a trans-Tasman bubble with New Zealand and, later, a lifting of international border restrictions more broadly. Re-opening of borders is likely to at least partly depend on the health outcomes of other countries, as well as the arrival and implementation of a vaccine. Nevertheless, it may take several years for tourism exports to return to their pre-COVID-19 levels. The International Air Transport Association expects global air travel will not return to pre-COVID-19 levels until 2024.

2.3 The Government's strategy for navigating out of the pandemic

The removal of containment measures is allowing firms to get back to business

The containment of health risks has allowed for a successful re-opening of the economy. During the peak of restrictions in April, indicators of peoples' movements, or mobility, more than halved compared to pre-COVID-19 levels. Public transport patronage, based on the number of Opal trips taken in New South Wales, slumped by 75-80 per cent. Similarly, Google Maps data showed that travel to workplaces dropped by 82 per cent as many workers began working from home, while travel to retail and recreation venues (such as restaurants, shopping centres and cinemas) was 72 per cent below normal levels.

As restrictions were relaxed, mobility data for June and July revealed that individuals had started to travel again for a range of purposes, albeit below normal levels.

The success in bringing COVID-19 under control clearly has buoyed confidence in New South Wales. The Westpac-Melbourne Institute consumer confidence index in NSW has surged over 40 per cent since the trough seen in April. This in turn has improved the outlook for businesses. Fewer businesses reported a decrease in revenue in October (31 per cent), compared to July (47 per cent). Additionally, the proportion of businesses that expected to see a decline in the number of employees in October (7 per cent) was much lower compared to July (13 per cent).

The successful re-opening of the economy has helped many businesses re-open their doors, allowing people to return to work and driving increased optimism in the labour market. New South Wales has regained 65 per cent (174,000) of the employment previously lost at the height of the pandemic. Together with the reintroduction of mutual obligation requirements for Commonwealth income support, this has seen a return of those workers who left the labour market during the shutdown, with the participation rate rebounding to above pre-COVID-19 levels (at 65.4 per cent in September). The higher participation rate has caused the unemployment rate to rise above 7 per cent in recent months, more than 2 percentage points higher than the pre-COVID-19 level, despite the strong rebound in employment.

Successful management of the public health risks has supported the safe re-opening of the economy and will continue to be a key factor in maintaining and improving business and consumer confidence and spending.

Providing near-term support through the worst of the impacts

A coordinated effort at both the State and Commonwealth levels of government to support the economy has been instrumental in smoothing the severity of the downturn.

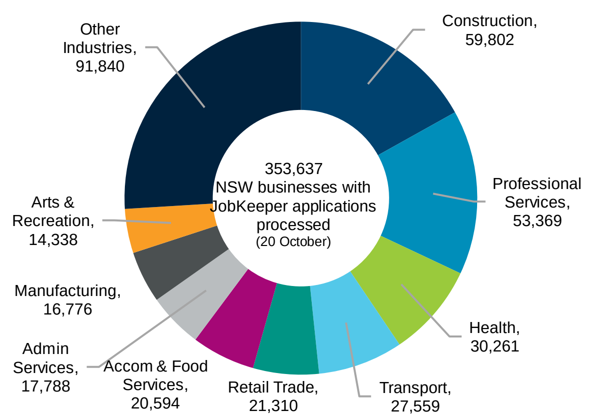
Commonwealth support has been principally delivered through the JobSeeker and JobKeeper programs, which have provided direct income support to households and businesses. These programs have been critical in keeping people connected to their workplace. They have supported broader confidence in the economy and buoyed consumption throughout the crisis.

Around 354,000 NSW businesses have had applications for JobKeeper processed as of 20 October. More than 1 million individuals were estimated to be receiving the JobKeeper payment, representing a quarter of all employed people in New South Wales. The number of businesses in New South Wales receiving JobKeeper has remained relatively steady throughout the pandemic.

The construction industry represents the largest share, at 16.9 per cent, of all businesses in New South Wales on the JobKeeper scheme. This is followed by businesses in professional services (15.1 per cent) and health (8.6 per cent).

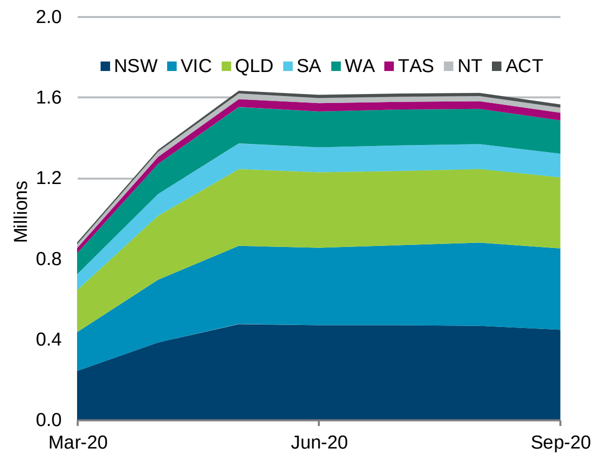
In September, there were almost 450,000 individuals living in New South Wales receiving JobSeeker income support. This represents around 28.7 per cent of all recipients across the country (Chart 2.11). This is slightly lower than was the case back in May. While significant, this is lower than New South Wales' share of the national working age population.

Chart 2.10: NSW businesses on JobKeeper



Source: Commonwealth Treasury

Chart 2.11: Individuals on JobSeeker



Source: Commonwealth Treasury

Looking ahead, the unwinding of these measures presents a key risk to the outlook. Spending from those on JobSeeker and JobKeeper will likely have fallen since September when payment rates were reduced. A further easing of spending from those receiving support from these policies is expected as these JobSeeker payments are scheduled to revert back to pre-COVID-19 levels and the JobKeeper scheme winds up. Notably, payrolls data show a drop in employee jobs and a fall in wages in the immediate aftermath of the tapering of JobKeeper payments at the end of September.

To manage this risk and assist the transition away from emergency support measures, governments have accelerated other measures to bolster demand within the economy. Personal income tax cuts have been brought forward by the Commonwealth Government to support household disposable income. NSW residents are expected to receive around $5.7 billion in income tax relief over the next two years, with almost half expected to flow onto additional consumption. Increased spending in turn is expected to improve business confidence and encourage firms to create more jobs and invest.

To complement these measures, and provide necessary additional near-term support to the economy, the NSW Government has provided additional stimulus worth almost $29 billion (including spending in the 2019-20 fiscal year).

The focus of these measures is to provide timely and temporary support to the economy at a time when private demand remains relatively weak. Combined, these measures are expected to have a significant impact on the labour market, supporting an average of 27,000 jobs per annum over the next four years, with particular focus in the next 12-18 months. This is expected to assist a reduction in the unemployment rate, with NSW Treasury estimating that the unemployment rate could have been as much as 1.0 percentage point higher in June 2021 in the absence of NSW stimulus measures.

This is in addition to the NSW Government's record infrastructure pipeline and ambitious reform agenda to drive future economic growth, which in addition to providing support to activity is also serving to lift the long run productive capacity of the economy (see Section 2.5 for details on the role of reform in the economic recovery).

Combined, these measures will assist the recovery in the labour market, which is projected to result in a 270,000 increase in employment by 2024. This is forecast to contribute to a decline in the unemployment rate to 5¼ per cent by June 2024.

Encouraging business to drive the long-run recovery

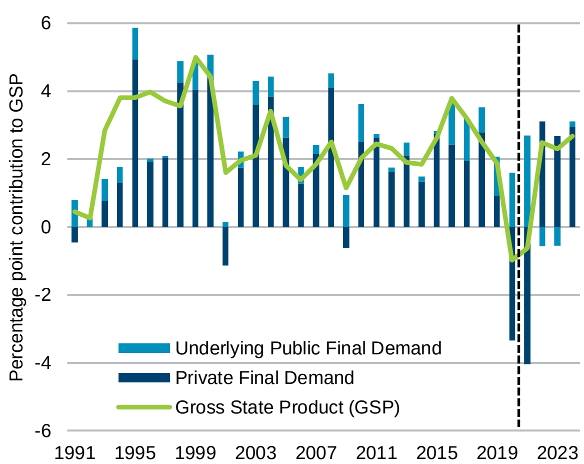
Both the Commonwealth and the NSW Government have shifted from emergency response to propelling a swift recovery, putting in place policies to support business and encourage them to employ and invest. This in turn will support jobs and households. Businesses will benefit from reduced red tape, faster planning approvals, reforms to credit, insolvency and labour laws, subsidised training, improvements in labour mobility, loss carry back provisions and full asset write-offs. Business investment will be critical to productivity growth, which will in turn fuel the economic growth needed to fully recover from the pandemic and reduce the burden from higher debt.

Equipment investment typically ebbs and flows in line with quarterly economic growth. The rebound in household demand is thus expected to support a recovery in equipment investment from early 2021. The recovery will be bolstered by the Commonwealth Government's full asset write-off incentive and support for the manufacturing sector.

On the other hand, construction-related investment lags the business cycle, as the pre-existing pipeline of projects allows work to continue. Once this pipeline becomes depleted, activity can slump for a prolonged period, long after other sectors have recovered. Without support from the public sector this would create a long and deep drag on employment, given that construction is one of the State's largest sources of employment and has a large spill over effect on other industries. Additionally, the pandemic may shift the composition of construction investment and activity, stemming from changes in the way we shop, work and do business. These changes may have implications for demand for offices, short-term accommodation and retail space, all of which had been reasonably robust in recent years.

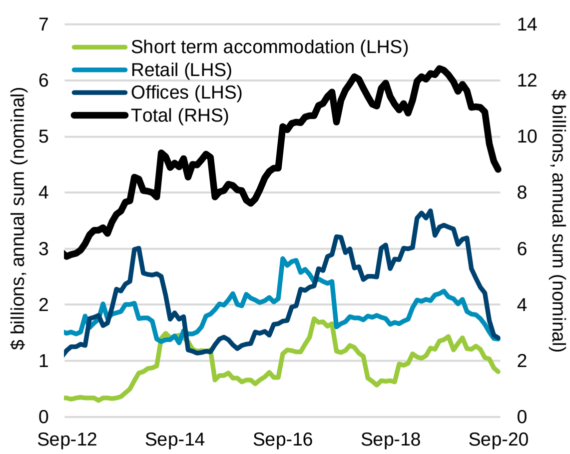
Commonwealth and state governments have mobilised to fill the gaps left by private industry through increased public investment, including the NSW Government's record $107.1 billion infrastructure pipeline. Supporting the construction sector — through direct expenditure and improvements in the planning system—while private investment gradually returns is key to the NSW Government's stimulus and recovery strategy.

Chart 2.12: Public demand stepped in as private demand weakened



Source: ABS 5220.0 and NSW Treasury

Chart 2.13:NSW non-residential building approvals plummet



Source: ABS 8731.0 and NSW Treasury

2.4 The economy still faces major challenges to the outlook

New outbreaks could threaten the global economic recovery

As is the case in New South Wales, easing restrictions has seen the beginning of a recovery in many other economies. The IMF revised up its expectation for growth in the global economy in its October World Economic Outlook. The IMF expects a 4.4 per cent rate of contraction in 2020 (a 0.8 percentage point smaller decline as compared to the June report) largely due to better than expected results in the first half of 2020. The upward revision was most evident in major advanced economies, but growth in NSW's major trading partners, including China, was revised only modestly higher. India saw a heavy downward revision—India's economy now is expected to contract by 10.3 per cent in 2020.

Global growth is forecast to be 5.2 per cent in 2021 as economies reopen, although this is modestly weaker than what the IMF expected in June. The IMF notes that there would have been a stronger upward revision if not for the persistent social distancing and stalled re-opening in the second half of the year as infections re-accelerated across the northern hemisphere.

Beyond 2021, the global recovery is likely to be drawn out, with the economy making slow progress towards catching up to the path of activity expected before the onset of the pandemic. This is most stark for advanced economies, where the IMF is forecasting growth in GDP per capita between 2019-2025 to be only half the rate expected pre-COVID-19.

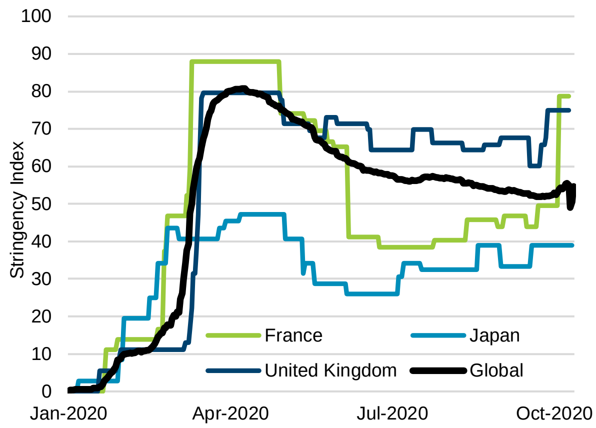
The outlook is subject to a greater degree of uncertainty than normal, especially as new outbreaks in COVID-19 infections throughout Western Europe have prompted many countries to delay the removal of, or even reinstate, some containment measures (Chart 2.14).

Several countries have re-introduced a raft of measures in an effort to stop the spread of the virus. These include curfews, reduced caps at weddings, and strict limits or bans for gatherings of people indoors (outside of work or education). Workers, meanwhile, are being encouraged to work from home where possible throughout the European winter.

A second round of infections is likely to have negative impacts on economic activity, irrespective of government restrictions. This is due to increased voluntary social distancing associated with health risks. IMF analysis shows that in the first seven months of the pandemic, the impacts of voluntary social distancing and government-imposed lockdowns were comparable. Ultimately the impact on economic activity will depend on health risks from the virus.

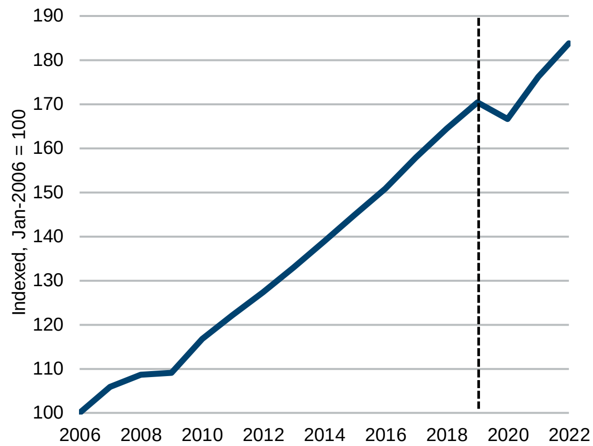
After a sharp contraction in GDP of NSW's major trading partners in the first half of 2020, a recovery is expected to be underway from the September quarter. GDP growth is expected to be negative in 2020, followed by a rebound in 2021.

Chart 2.14: The pace of easing containment measures has slowed



Source: Oxford University and NSW Treasury

Chart 2.15: Major trading partner GDP outlook



Source: IMF and NSW Treasury

Lower population growth will continue to weigh on the construction industry

International border closures have implications beyond the direct disruption to overseas students and tourists. A positive for regional areas and some other retailers has been the influence on domestic spending patterns as savings from international holidays are partly redirected into regional travel and other household expenditure. However, sectors which are more exposed to tourism flows such as accommodation and food services and transport services, are still performing well below pre-pandemic levels.

The closure of the international border is also reducing the level of net international migration to New South Wales, which weighs on the outlook for dwelling investment and household consumption. Net international migration to New South Wales is now expected to be negative in both 2020-21 and 2021-22, while the fertility rate is also expected to be lower. NSW's population in June 2024 has been revised down by 376,000 since the 2019-20 Half-Yearly Review.

The reduction in population growth is a drag on housing demand and, therefore, is a headwind to the outlook for dwelling investment. Dwelling investment in New South Wales has now already declined for eight consecutive quarters since reaching a record high in mid-2018. A high level of new dwelling completions combined with rapidly diminishing population growth, reductions to income and jobs due to COVID-19 and a shift of short-term rentals into the long-term market are all placing upward pressure on the rental vacancy rate in Sydney. As a result, rents in Sydney are falling, and Sydney dwelling prices have shown moderate falls since the start of the pandemic. While low interest rates and government stimulus measures will provide some support, dwelling investment is expected to be weak over the forecast period.

Box 2.3 Population policy is critical to the outlook

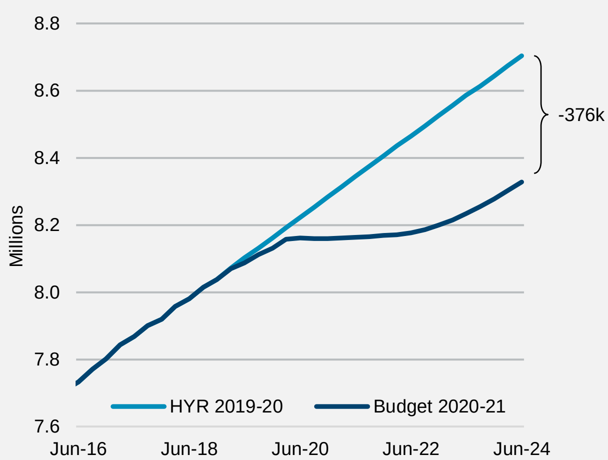
Re-opening international borders will be a critical step towards achieving a full economic recovery from COVID-19. Decisions around the timing of re-opening and the subsequent migration policy—both levers controlled by the Commonwealth government—has the potential to signficantly affect a successful recovery.

The Commonwealth Budget in October indicated that almost no population growth was expected for the next two years, largely due to weak net overseas migration (NOM). A net outflow of migration is expected for the first time since 1946, with no catch-up in subsequent years, leaving the level of population permanently lower than expected prior to the pandemic.

Based on current Commonwealth policy settings and assumptions, this will reduce NSW population in 2023-24 by around 376,000 people compared to projections at the 2019-20 Half Yearly Review (Chart 2.16).

Closed borders are the most significant remaining health restriction in place, in terms of the impact on population growth and flow-on effects for GSP over the forecast period.

Chart 2.16: NSW population revisions

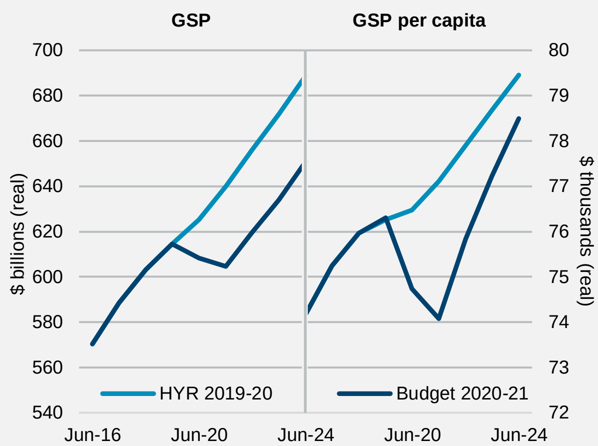


Source: ABS 3101.0 and NSW Treasury

The decline in population growth (other things being equal) is expected to reduce the level of GSP in NSW by around 5 per cent by 2023-24 (or almost $34 billion).

This population effect is a major reason why, despite a strong recovery in per-capita GSP, the overall economy is not expected to fully recover to its pre-COVID-19 trajectory over the forward period (Chart 2.17).

Chart 2.17: GSP & GSP per capita revisions



Source: ABS 5220.0 and NSW Treasury

Migration has a direct impact on the supply of labour and, by extension, the productive capacity of the economy. In the nine months to November 2019, around 50 per cent of migrants arriving in Australia gained employment, many of whom filled critical skill shortages within New South Wales.

The impact on GSP is not set in stone, and will hinge on border and migration policy decisions by the Commonwealth in coming years. As a downside risk, any delay in the rollout of a vaccine and re-opening of international borders will result in an even larger negative impact on GSP (see Appendix F). In contrast, progress towards developing safe ways to allow for a higher level of migration intake in the future would support stronger growth in the economy.

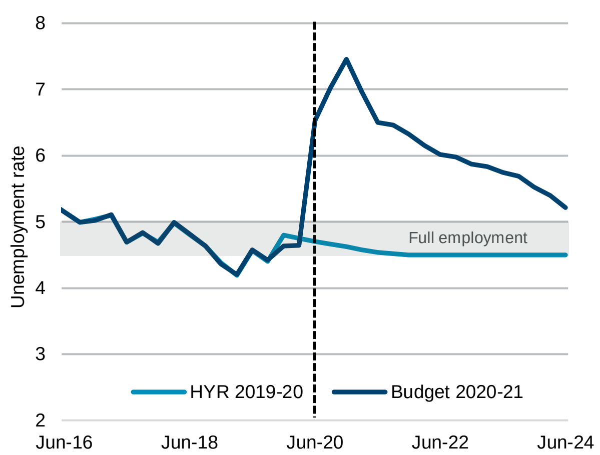
The labour market gradually moving back towards full employment

The outlook for employment growth depends on a range of factors which, on balance, suggest a slow recovery in the near-term, followed by an acceleration in growth from next year as demand recovers. Jobs will continue to be supported by further easing of domestic restrictions in the near-term. Recently announced Commonwealth measures including the hiring credit and incentives to boost apprenticeships are supportive. By contrast, the winding down of the JobKeeper scheme, closed international borders and weak population growth will remain a headwind. Overall, employment is expected to fall 1 per cent in 2020-21, before recovering 1¼ per cent in 2021-22 in line with the recovery in aggregate demand.

The unemployment rate is expected to peak at 7½ per cent by the end of 2020, before falling thereafter as demand picks up. As with previous recessions, it will take quite some time to reverse all of the increase in the unemployment rate seen during COVID-19. The unemployment rate is forecast to ease to 5¼ per cent by June quarter 2024.

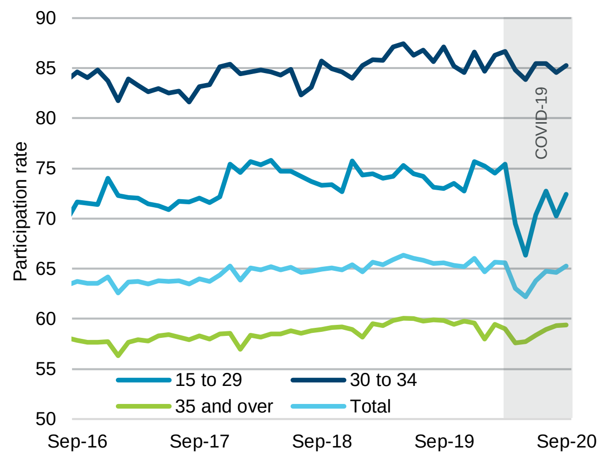
Wages growth in New South Wales eased sharply to 1.8 per cent through the year to the June quarter 2020. Given the weakness in the labour market, private sector wages growth is expected to ease through the course of 2020-21, before gradually picking up as the labour market strengthens. Growth in NSW public sector wages will also be lower than in previous years, reflecting the NSW Industrial Relations Commission recent decision to grant a 0.3 per cent increase for many NSW public sector employees in 2020-21. Scheduled annual increases of 0.5 per cent in the superannuation guarantee starting from 1 July 2021 are also expected to detract from wages growth.

Chart 2.18: NSW unemployment rate to improve gradually



Source: ABS 6202.0 and NSW Treasury

Chart 2.19: Participation rate by age-cohort - NSW



Source: ABS 6291.0 and NSW Treasury

Spare capacity in the economy will keep inflation subdued

The near-term outlook for inflation is dominated by three factors: the Commonwealth Government's policy to provide free childcare; a gradual recovery in global oil prices, following a sharp fall earlier in the year; and material weakness in the housing sector, particularly rents. These factors combined to push annual headline inflation into negative territory for the first time since 1997—Sydney headline CPI fell 1.0 per cent over the year to the June quarter 2020.

Moving forward, the unwinding of these short-term effects and continued removal of COVID-19 restrictions over the next couple of months should produce a rebound in consumer prices which will see a temporary spike in June 2021 up to 3 per cent. This forecast is also predicated on oil prices rebounding moderately from current levels and the waiver of childcare fees in Victoria not extending much beyond the end of this year.

Further out, several factors will work to constrain consumer price growth over the medium term including limited wage and rental price growth, excess global industrial capacity, the easing of drought conditions and a gradual appreciation of the Australian dollar.

2.5 Reform will be crucial in sustaining our long-term recovery

Swift and unprecedented government action has mitigated the worst of the immediate economic and health impacts from COVID-19 in New South Wales. While fiscal stimulus will be needed to support the economy in the short-term, it will be most effective when combined with productivity reforms. Such reforms can support the economy through its post-COVID-19 adjustment, and underpin economic growth over the medium-term, as stimulus is gradually withdrawn.

Productivity reform is the most powerful tool we have for supporting sustained economic growth and drive improvements in living standards. With COVID-19 impacting other major drivers of economic growth, boosting the State's productive capacity has never been more urgent and relevant.

Productivity reforms can improve the speed and efficiency of adaption to new conditions. They also can encourage businesses to be more innovative and competitive, and make it easier to develop or adopt new technologies. Productivity growth enables higher wages for workers and supports revenue growth to fund essential services and minimise public debt. Importantly, in a post-crisis environment, reform can be a powerful tool to boost business investment, support investor confidence and encourage a business-led recovery.

One of the key lessons of the response to the Global Financial Crisis is that reform delayed is reform denied. Economic stimulus was not backed up with longer-lasting productivity reforms. The result has been mediocre productivity growth over the past decade, placing government budgets under pressure and constraining real income growth.

Recognising the need to lay the foundations of a strong economic recovery, the NSW Government has introduced a suite of productivity reforms in this Budget. Many of these are drawn from the NSW Productivity Commission's recent *Green Paper* and are designed to:

- support individuals and businesses to rapidly adapt to the new environment
- make it easier to do business by removing hurdles to investment and innovation, and
- leverage the opportunities from COVID-19 and adopt new technologies.

Supporting individuals and businesses to rapidly adapt

As the structure of the post-COVID-19 economy takes a more definite shape, it is important that labour and capital are free to move to where they are needed most. COVID-19 has impacted heavily on the female-dominated hospitality, retail and tourism industries and many women will see the transition into a secure new job, such as trade, as a good option.

The NSW Productivity Commission has, however, highlighted chronic skills shortages and gender imbalance in the trades. Most trades workers are men, particularly in areas with serious skills shortages (e.g. construction, refrigeration, automotive and electrotechnology, where men comprise around 98 per cent of workers). Trades training is currently limited to apprenticeships and is not being delivered in flexible ways suitable for women or mature workers.

To address these structural problems, the NSW Government has allocated an additional $57.4 million over four years to establish a Trades Skills Pathways Centre that will:

- initially focus on the construction industry to tap into the potential of experienced workers who lack a qualification
- develop new and flexible training pathways for 'non-traditional' groups such as women and mature-aged workers to enter trades, and
- establish accelerated pathways into trades qualifications that are suitable for experienced workers.

Together with the Commonwealth, New South Wales is also leading work on a new national automatic mutual recognition scheme, enabling occupational licensees to be recognised in other jurisdictions without having to apply, or pay fees. Licence holders will be able to undertake the activities they are licensed for in their home jurisdiction, and regulators will be able to take any necessary enforcement action under local laws. This will reduce costs and promote the free flow of labour between jurisdictions. In this Budget, the NSW Government is providing $10 million to support implementation and administration of the new scheme, which is expected to start in mid-2021.

In addition, to help small businesses start or pivot their business model with the changing needs of the economy, the NSW Government has committed an additional $39.3 million over four years to Business Connect.

Making it easier to do business and innovate

Business investment will be critical to a sustainable recovery. The NSW Government is supporting businesses affected by COVID-19 to adapt, innovate, and invest in new activities.

The NSW Government's targeted relaxation of trading hours and other regulations at the height of the pandemic has helped businesses pivot to alternative models and encouraged the uptake of new technology. The Treasurer will lead a whole-of-government evaluation of the costs and benefits of retaining some of these temporary changes to promote a stronger recovery.

The Government is also proactively reviewing regulations with the aim of giving businesses more room to innovate, including more freedom to adopt new technologies, while still ensuring compliance with safety and other important standards. The Government is exploring wide-ranging reforms to how we regulate across all sectors, including reforms recommended by the NSW Productivity *Green Paper,* such as:

- delivering greater competition in the e-conveyancing market by leading the development of a national interoperability framework, and
- improving the operation of competition policy and introducing regulatory reforms in areas identified by the NSW Productivity Commission such as drones, micro-mobility devices, retail trade and agriculture.

The planning system has an important role to play by supporting the private sector to invest in job-creating construction projects that will grow the economy as we rebuild. The NSW Productivity Commissioner's *Green Paper* has identified scope to improve the planning system by reducing delays in processing and approvals. To do this, the 2020-21 Budget allocates $258.5 million of new funding over four years to deliver the NSW Planning Reform Action Plan, which includes:

- making planning processes more efficient to reduce assessment times
- simplifying the system to accommodate new business models and changing needs
- improving the interface between industry and the Government with a 'one stop shop'
- investing in ePlanning to bring council processes into the twenty-first century, and
- developing an integrated digital tool to transform the way stakeholders interact with the infrastructure contributions system ($14.8 million).

This is in addition to reforms to the infrastructure contributions system arising from the NSW Productivity Commission review currently underway.

These reforms will increase NSW businesses and citizens' capacity to: adapt to the new economic conditions, be more innovative and competitive, and develop or adopt new technologies. Doing so will drive productivity growth, support the economy, help balance budgets, lift wages and improve living standards for the people of New South Wales.

2.6 Key risks to the outlook

In addition to the greater than usual uncertainty around the forecasts, there are several key risks that, if realised, could significantly affect the outlook. There are risks both to the upside and downside, although in the current environment the downside risks tend to be the most apparent.

Critical to the recovery will be the development of an effective vaccine. Expedited development and distribution of a vaccine could lead to a faster recovery in trade-exposed sectors such as education and tourism and a quicker than expected removal of remaining social distancing restrictions. This would see higher consumer spending and lower unemployment than expected. Conversely, an effective vaccine may never eventuate, or could be delayed, impacting service export industries for far longer than currently envisaged.

On the downside, re-opening the economy could contribute to a spike in infections, which would either heavily impact people's willingness to leave home, or trigger a re-tightening of containment measures. Either of these outcomes would have a substantial negative impact on the economy and the labour market. The longer containment measures persist, the more enduring the impact on incomes and structural rates of unemployment.

There also is a high level of uncertainty about what will happen once temporary fiscal support, including JobKeeper, are scaled back from the December quarter (with JobKeeper slated to end after March 2021). Recently announced stimulus measures are helping to mitigate this risk. Cash flow enhancing measures, debt repayment holidays and insolvency relief have masked much of the business failure and mortgage default risk that overshadows the economy, with current levels of insolvencies only around half their usual level. Available data suggests that $179 billion in loans nationally (6.7 per cent of loans), including $133 billion in mortgages, have received a repayment deferral. These policies are buying time for the economy to recover, allowing households and businesses that otherwise would have remained viable (if not for COVID-19) to repair their balance sheets.

Geopolitical tensions with China materialising in the form of substantial restrictions on NSW exports is another tail risk. China already has placed a travel warning on Australia. If this travel warning is still in place after the international borders open to Chinese students and tourists, there will likely be a noticeable impact on services exports and population growth. There have also been reports that China will impose restrictions on the import of certain Australian goods such as coal, timber, copper ore and concentrates, barley, sugar, lobster and wine. Any further escalation in such restrictions could have a material impact on NSW exports.

Migration to Australia could be permanently higher or lower than expected. This could be demand driven (demand from migrants coming to Australia) or policy driven (changes in Commonwealth Government immigration policy). Population growth has been an important driver of the construction industry and consumer demand over the last few decades. A protracted downturn in construction activity is already expected given the dramatic decline in migration. A further decline in population growth would extend this downturn, while an earlier or larger increase in population growth would support a sooner than expected recovery in construction activity.

3. FISCAL STRATEGY AND OUTLOOK

- The COVID-19 pandemic has placed significant pressure on the Government's fiscal and economic outlook. The Government acted decisively to implement a successful health response and to support businesses and the community throughout this pandemic.
- The Government's strong fiscal position coming into the crisis allowed significant response and recovery measures to be taken, with the average surplus since 2011-12 exceeding $2 billion per annum and negative net debt of $10.4 billion at June 2019.
- The 2020-21 Budget is the first major update to capture the impacts of COVID-19 and the 2019-20 summer bushfires on the State's fiscal position, including:
  - $17.6 billion in revenue losses over the five years to 2023-24
  - around $29 billion in COVID-19 response, recovery and reform measures
  - $4.4 billion in bushfire response and recovery measures.
- The Government's immediate priority is to continue to support the NSW economy by delivering job-creating initiatives, productivity-enabling reforms and a record $107.1 billion infrastructure program. By ensuring stimulus measures are targeted and timed to when they are needed most (i.e. 2020-21 and 2021-22) and are limited in duration, the Government is able to support the community and economy while maintaining fiscal discipline over the medium term.
- The 2020-21 Budget lays out the Government's medium-term fiscal strategy, which is to ensure the State's finances remain sustainable and to begin rebuilding fiscal capacity to respond to any future natural disasters or economic shocks.
- The Government has already begun reinforcing its operating position and reinvesting these savings into stimulus and support measures. This Budget includes a new wages policy of 1.5 per cent over the forward estimates and the Industrial Relations Commission's determination to limit public servant wage increases to 0.3 per cent in 2020-21 for 170,000 employees, delivering $4.3 billion in savings over the next four years.
- This Budget is driving more efficient procurement spending, with savings of $729 million over the next four years. A program of work is also underway to ensure Government is to deliver outcomes using taxpayer dollars in an efficient and effective manner.
- The Government's operating position is projected to improve over the forward estimates to a $0.5 billion deficit in 2023-24 with a return to surplus by 2024-25, based on the current economic, revenue and expense forecasts.
- Net debt is projected to increase to 14.7 per cent of GSP by June 2024 driven by the impact of revenue write-downs, stimulus measures, and infrastructure investment to support the community and the economy. With the Government continuing its innovative balance sheet reform including further asset recycling, net debt will decrease towards 7 per cent of GSP over the medium term.

3.1 Supporting the economy through an extraordinary fiscal challenge

Over the past year, New South Wales has faced unprecedented challenges with continued drought, 2019 summer bushfires and the COVID-19 pandemic.

To support NSW business and the community through the shutdown, the Government is responding with around $29 billion in economic response, recovery and reform measures including $3.0 billion in additional health support measures to respond to the COVID-19 health crisis, tax deferrals and waivers, fee waivers, cash grants, additional cleaners, and accelerated capital investments.

With low rates of COVID-19 community transmission across the State, the NSW Government is shifting from response to recovery. In the short-term, the Government's fiscal strategy is to continue to support the economy to help boost employment and confidence. The 2020-21 Budget sees further investments in infrastructure, fiscal stimulus to support job recovery, and productivity reform to help grow the NSW economy longer-term.

The NSW Government's infrastructure program is now projected to hit a record $107.1 billion over the four years to 2023-24, which will help support employment and economic growth over the medium-term (see Chapter 2 for details on how public investment is contributing to economic growth). With investments such as Sydney Metro West and redevelopment of the Royal Prince Alfred Hospital, Shoalhaven Hospital and Shellharbour Hospital, the Government continues to build the key economic and social infrastructure needed to support the future growth of New South Wales.

Over the medium term, the Government will shift its focus from economic response to rebuilding fiscal capacity through its fiscal reinforcement program (see Box 3.1) to restore capacity to respond to possible future natural disasters or economic shocks. As the New South Wales economy recovers, the Government's fiscal objective is to repair the operating position by returning the budget to surplus by 2024-25 and rebuilding balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium-term. Having surpluses and a strong balance sheet has allowed a fast and effective response to the extraordinary events of the 2019 summer bushfires and the COVID-19 pandemic.

The outcomes budgeting framework will be used to drive a more efficient and effective public sector to help repair the State's operating position over the medium-term while also supporting the economy. The key focus will be on value-for-money spending to ensure the Government continues to deploy taxpayer dollars as efficiently and effectively as possible.

The Government will also continue its successful asset recycling program to unlock the value from the State's balance sheet, allowing the record investment in productive infrastructure to continue. Asset recycling allows the State to build the world-class infrastructure needed while rebuilding balance sheet capacity over the medium term (see Box 3.4). Other reforms that help support this approach have been to establish the NSW Generations Fund in late 2018 (see Box 3.2) and maximising the value of every dollar on the State's balance sheet.

Announced in this Budget, but not included until the transaction is finalised, is the sale of the State's residual 49 per cent share of WestConnex. Additionally, this Budget announces a scoping study into Lotteries Duties.

Box 3.1: Reinforcing the State's sound financial management

This Government has a strong record of responsible financial management.

From 2011, the Government has brought expenses back under control after a decade of expense growth averaging well above revenue growth.

The Government also embarked on an ambitious decade of balance sheet reform, including centralising cash management, asset recycling, and investment optimisation through innovative funds such as the NSW Generations Fund (NGF) and the NSW Infrastructure Future Fund.

This Budget sees the Government continuing to build on its strong record of financial management with a program of fiscal reinforcement which identifies $12 billion in savings over the four years to 2023-24 to help mitigate the impacts of COVID-19 and bushfires.

This program will give the Government more fiscal capacity to respond to future shocks, while ensuring any measures undertaken have minimal economic impact.

To help support the operating position, this Budget includes $5.6 billion of expense savings (see Box 5.5) including:

- $4.3 billion from lower wages growth for public sector workers
- $729 million from additional procurement savings.

To help rebuild balance sheet capacity and bring net debt down towards 7 per cent of GSP over the medium term, this Budget will:

- continue the Government's successful program of asset recycling. This will include the sale of the Government's residual 49 per cent share of WestConnex
- re-anchor the State's superannuation target to 2040 which will reduce net debt by $5.1 billion over four years to 2023-24
- re-direct surplus cash, State Owned Corporation dividends and mining royalties into the NGF. This redirection of income from the State's natural resources will improve intergenerational equity by ensuring future generations also see the financial benefit from royalties. The overall budget benefit of these measures is $1.0 billion over four years to 2023-24.

Box 3.2: The NSW Generations Fund protects future generations from the greatest fiscal challenge since the Great Depression

The New South Wales balance sheet was well-positioned to meet the extraordinary fiscal challenges of 2019-20. With innovative balance sheet reform, such as the NGF, this Government is ensuring that future taxpayers are not burdened with repaying debt at the expense of current public services and infrastructure our State needs.

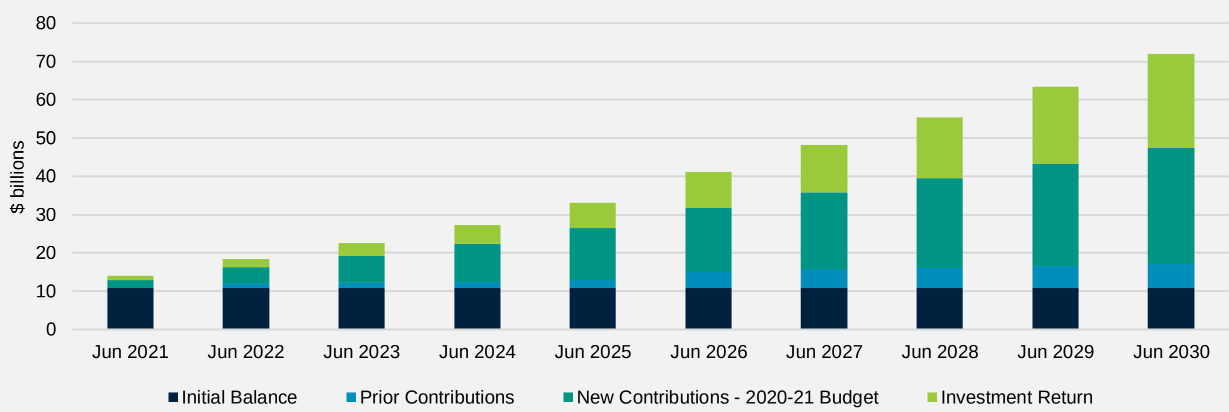
To ensure future generations continue to benefit from the Government's disciplined financial management, the NGF is projected to grow to more than $70 billion over the next decade from measures including directing future dividends from State Owned Corporations and mining royalties to the NGF.

Mining royalties are very important for NSW, but these markets are changing. Demand for coal is shifting as the global economy transitions away from fossil fuels. By redirecting these royalties into our State's sovereign wealth fund, the Government is ensuring that future generations can benefit from the sale of today's non-renewable resources.

The Government's investment strategy for the NGF remains sound. Even with recent market volatility, the NGF remains well-positioned to deliver its return objective of CPI + 4.5 per cent over the medium term.

The NGF supports the State's triple-A credit rating, allowing debt to be maintained at sustainable levels over the long term. Without the NGF, the State net debt position would be $19 billion worse off by the end of the decade, and future generations of taxpayers would be the ones to carry this burden with higher taxes or lower levels of service delivery and infrastructure investment.

Chart 3.1: NGF Projected Fund Balance



The anchor of the Government's fiscal strategy is the *Fiscal Responsibility Act 2012* (FRA). The FRA establishes the Government's commitment to manage taxpayers money in a prudent manner, by mandating the State maintains a fiscal position in line with the highest credit rating possible.

The fiscal discipline inherent in managing to the FRA will help provide fiscal capacity for the State to respond to future crises such as the extraordinary events of this year that included drought, bushfires and a pandemic.

Box 3.3: NSW triple-A credit rating and sound financial management has allowed it to respond to the economic crisis and return the budget to sustainability

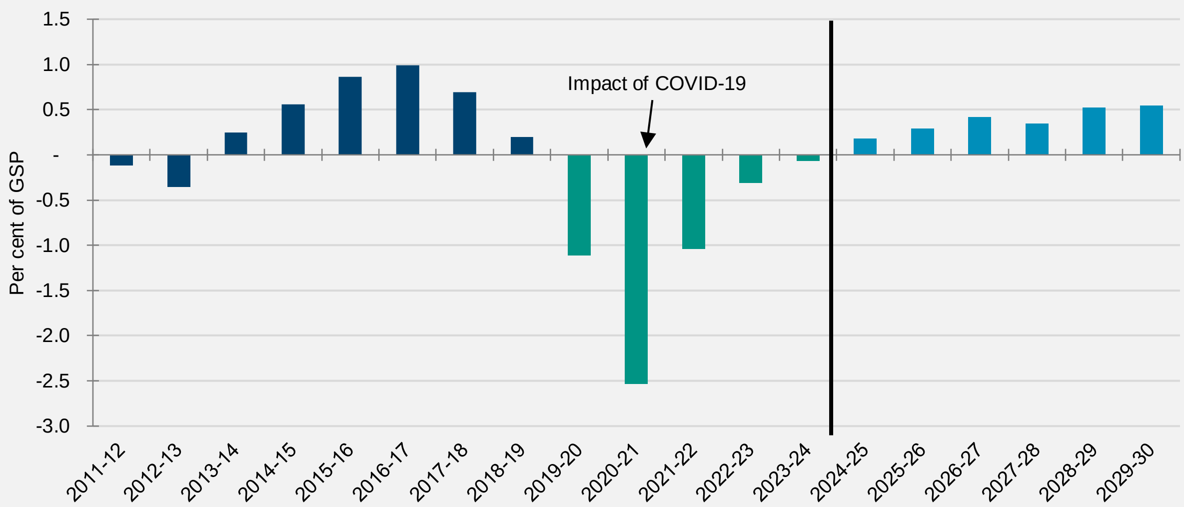
Prior to COVID-19, New South Wales is one of only two Australian states and one of four international sub-sovereigns rated triple-A by both major credit rating agencies.

The State's triple-A credit rating was reaffirmed by both major global credit rating agencies, Moody's and S&P Global, in September 2019. This rating is the highest possible that can be assigned by ratings agencies and generally leads to the State paying lower relative levels of interest.

In April 2020, S&P Global placed Australia's triple-A credit rating on negative outlook. This automatically flows through to the NSW credit rating as the States cannot have a higher rating than the Commonwealth. By extension, if the Commonwealth is downgraded this would flow through to New South Wales if this were to occur. The NSW Government will do what it takes to maintain a fiscal position consistent with a triple-A credit rating over the medium term while responding to the economic situation with temporary and targeted support measures in the short term.

By maintaining discipline on expense growth, the Government will return the operating position to surplus once the economic crisis has eased (see Chart 3.2). In addition, a continuation of the Government's successful asset recycling strategy will rebuild balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium term (see Box 3.4).

Chart 3.2: Medium term projection for general government operating position over GSP[1]



[1] Note that there remains significant uncertainty in the economic and fiscal outlook and any changes in the underlying assumptions would flow through to changes in the projection. For further information please refer to Chapter 2 – The Economy or Appendix B – Fiscal Risks and Sensitivities.

3.2 Building the path back to surplus

The COVID-19 recession has placed significant pressure on the State's operating position, resulting in both lower revenue and higher spending in the short term. The budget result in 2020-21 is expected to be a deficit of $16.0 billion and improves over the forward estimates to $0.5 billion deficit in 2023-24 (see Table 3.1). Based on current forecasts, the operating position will return to surplus by 2024-25. This is possible due to the Government's tight grip on expense growth supported by wages constraint, procurement savings and the NGF.

Table 3.1: General government sector budget result aggregates

	2018-19	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
Revenue ($m)	81,655	81,367	82,149	87,689	90,601	92,930
Revenue growth (per cent p.a.)		-0.4	1.0	6.7	3.3	2.6
Expenses ($m)	80,450	88,283	98,133	94,519	92,692	93,390
Expense growth (per cent p.a.)		9.7	11.2	-3.7	-1.9	0.8
Budget Result ($m)	1,206	-6,916	-15,984	-6,830	-2,091	-460
Per cent of GSP	0.2	-1.1	-2.5	-1.0	-0.3	-0.1

COVID-19 has led to major revenue write-downs

The economic contraction due to the COVID-19 shutdown is driving a significant deterioration in State revenue. Relative to the 2019-20 Half Yearly Review, revenue has been written down by $17.6 billion over the five years to 2023-24.

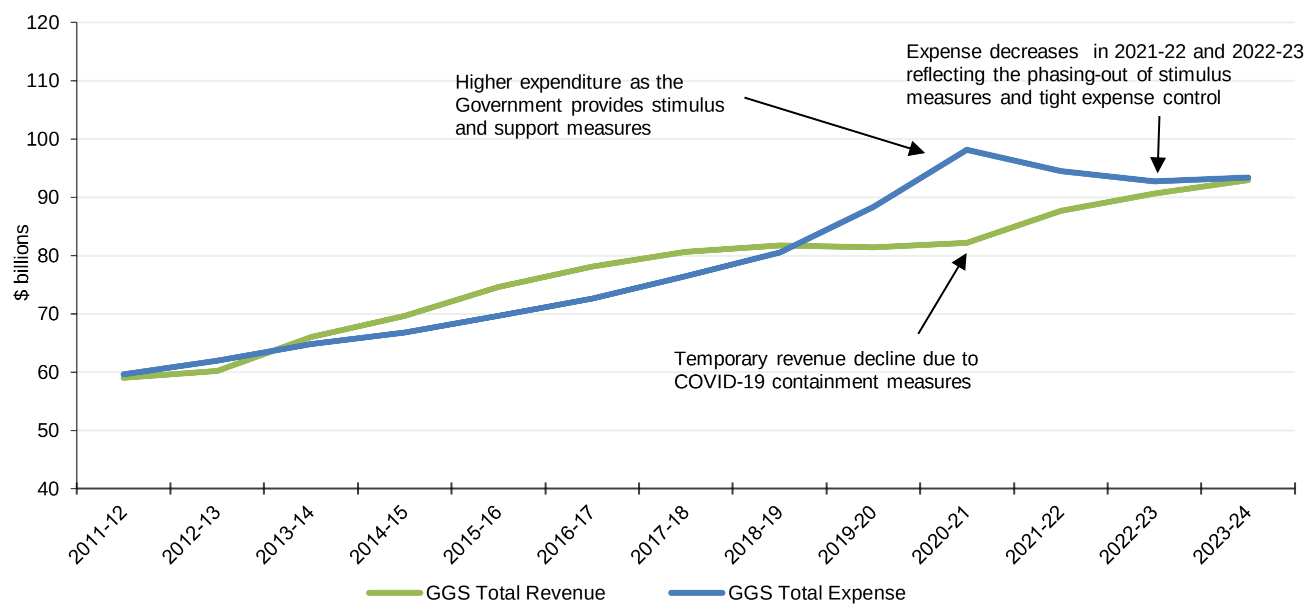
Revenue growth is forecast to average 3.4 per cent over the four years to 2023-24, which is marginally higher than the 3.3 per cent forecast at the 2019-20 Half Yearly Review. Further detail on revenue can be found in Chapter 4.

Temporary and targeted support to kick-start the economic recovery

During 2019-20, general government expenses increased by 9.7 per cent to $88.3 billion, which is above the long-term average rate of revenue growth of 5.6 per cent, as a result of the Government's health and economic response measures.

In 2020-21, total expenses are expected to grow by 11.2 per cent to $98.1 billion in 2020-21, above the long-term revenue growth rate of 5.6 per cent. From 2021-22 onwards, the temporary and targeted health and economic response measures will phase out and tight expense controls will ensure the efficient and effective use of taxpayers' dollars. This reflects the Government's disciplined approach to financial management and commitment to its FRA targets.

Chart 3.3: Revenue and Expenses from 2011-12 to 2023-24



Changes in the budget result since 2019-20 Budget

The projected budget result in 2020-21 has been revised down since the 2019-20 Budget, primarily driven by lower State revenue and higher spending from temporary and targeted COVID-19 response and economic recovery measures (see Table 4.3 in Chapter 4).

Table 3.2: Reconciliation of 2019-20 Budget to 2020-21 Budget[(a)]

	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 $m
Budget result: 2019-20 Budget	**1,016**	**1,227**	**2,002**	**2,599**
Changes from 2019-20 Budget to 2019-20 Half Yearly Review				
Revenues	(159)	639	660	1,063
Expenses	(156)	(494)	(59)	(725)
Total budget result impact	**(315)**	**145**	**601**	**338**
Budget result: 2019-20 Half Yearly Review	**702**	**1,372**	**2,603**	**2,937**
Changes from 2019-20 Half Yearly Review to 2020-21 Budget				
Revenues	(2,791)	(6,121)	(2,988)	(2,470)
Expenses	(4,827)	(11,234)	(6,444)	(2,557)
Total budget result impact	**(7,618)**	**(17,355)**	**(9,432)**	**(5,027)**
Budget result: 2020-21 Budget	**(6,916)**	**(15,984)**	**(6,830)**	**(2,091)**

(a) Positive amounts reflect a positive impact on the budget result e.g. an increase in revenue or a decrease in expenses.

NSW is delivering a record program of world-class infrastructure for generations to come

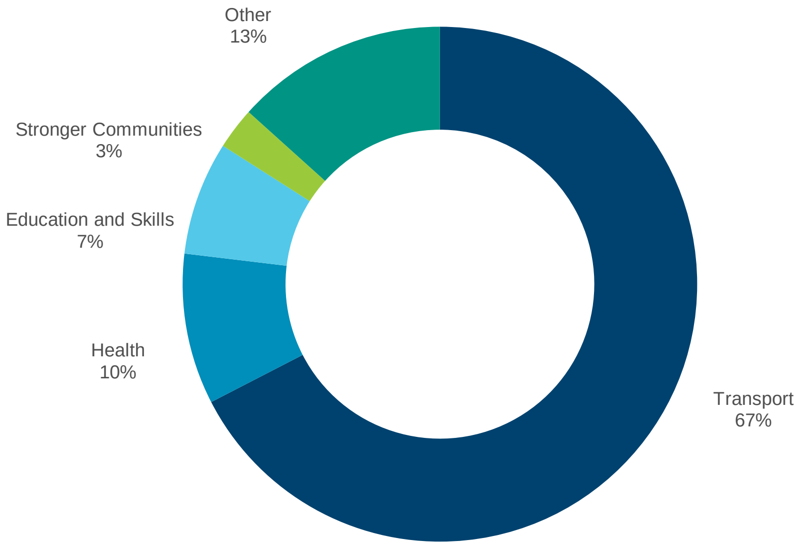
This Budget announces a record infrastructure program for the general government sector of $84.2 billion. This includes $4.3 billion in new and accelerated projects to help support the NSW economy during COVID-19.

New and expanded projects in this Budget include:

- metro projects such as Sydney Metro West and Sydney Metro City and Southwest
- major road projects such as the Sydney Gateway, Pacific Highway Upgrade and Princes Highway Upgrade
- major investments in health, including the redevelopment of the Royal Prince Alfred Hospital and expansion of Sydney's Children's Hospital at Randwick
- new public schools in Googong, Murrumbateman and Edmondson Park to meet the needs of growing communities and $120.0 million to upgrade school facilities throughout regional New South Wales.

Non-financial public sector (NFPS) capital expenditure is projected to reach $107.1 billion over the next four years. Road, rail and other transport infrastructure accounts for 67 per cent of this investment. The Government is also investing in other priority areas with health, education and stronger communities related infrastructure making up 20 per cent of the four-year total (see Chart 3.4 and Budget Paper No. 3 *Infrastructure Statement*).

Chart 3.4: Non-financial public sector (NFPS) capital expenditure by cluster over the four years to 2023-24[(a)]



(a) Numbers represented in the chart are on an eliminated NFPS basis. This chart does not agree with individual agencies reporting which is done on an uneliminated basis, predominately due to showing the impact of leases transacted between clusters.

The Government is funding the State's record infrastructure program while ensuring net debt is maintained at manageable levels. This has been made possible by funding capital expenditure through operating surpluses over the forward estimates, reinvesting asset recycling proceeds, and maintaining manageable borrowing levels (see Box 3.4).

Box 3.4: Using the balance sheet to fund record infrastructure investment

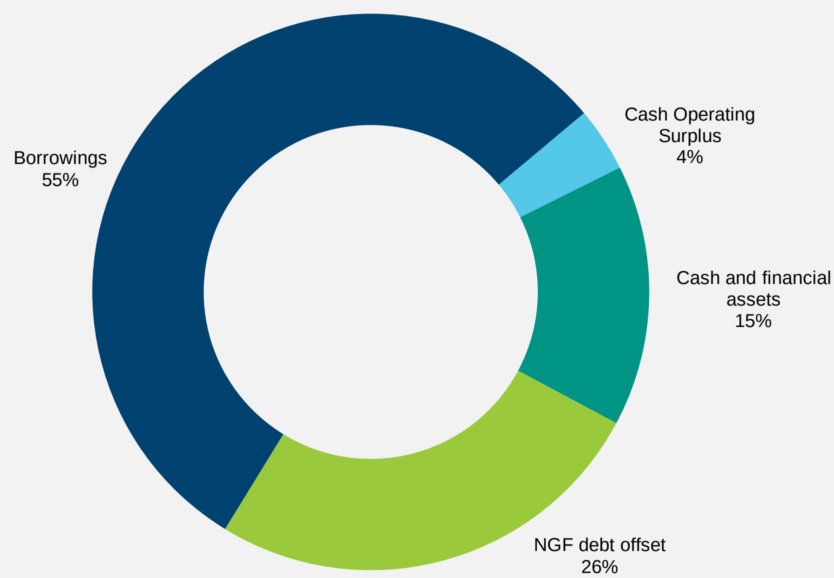
Maintaining strong fiscal discipline and manageable levels of debt has helped mitigate the financial impact of drought, bushfires and COVID-19. This allowed the Government to support the State's economy as these events unfolded, even as COVID-19 dramatically reduced the Government's cash operating surpluses.

The Government's cash operating surpluses were funding 44 per cent of the State's 5-year infrastructure program as at the 2019-20 Half-Yearly Review. Since then, COVID-19 has had a significant impact on the State's operating cashflows with a higher proportion of the Government's record infrastructure program required to be funded through borrowings (see Chart 3.5).

Rather than cutting back on infrastructure investment when the State's economy needs it the most, the Government is taking advantage of historically low interest rates to grow its record infrastructure program. This vital public investment is supporting jobs that will help stimulate private demand through the recovery.

This does not mean future generations will be left holding the bill. The Government is pursuing further asset recycling opportunities and continuing to grow the NGF to help ensure net debt levels remain sustainable over the medium-term.

Chart 3.5: How the balance sheet is supporting the GGS 5-year capital program



Rebuilding balance sheet capacity over the medium-term

Net debt, which is a measure of the State's capacity to immediately repay debt, is projected to be $53.2 billion (8.4 per cent of GSP forecast) at June 2021, a low level compared to other jurisdictions across Australia despite the significant impact on the State's finances from the pandemic. The State's sustainable level of net debt is a result of the Government's strong financial management and successful asset recycling program in previous financial years and other ongoing balance sheet reforms (see Chapter 6 for more details).

Box 3.5: Asset recycling paves the way forward for infrastructure

The Government's successful asset recycling program has unlocked over $60 billion in gross proceeds to date, which has been reinvested to benefit the people of New South Wales. Restart NSW has invested over $25 billion (see Budget Paper No. 3 *Infrastructure Statement*, Chapter 3) to provide much needed infrastructure, including Sydney Metro City and Southwest, WestConnex and various regional projects.

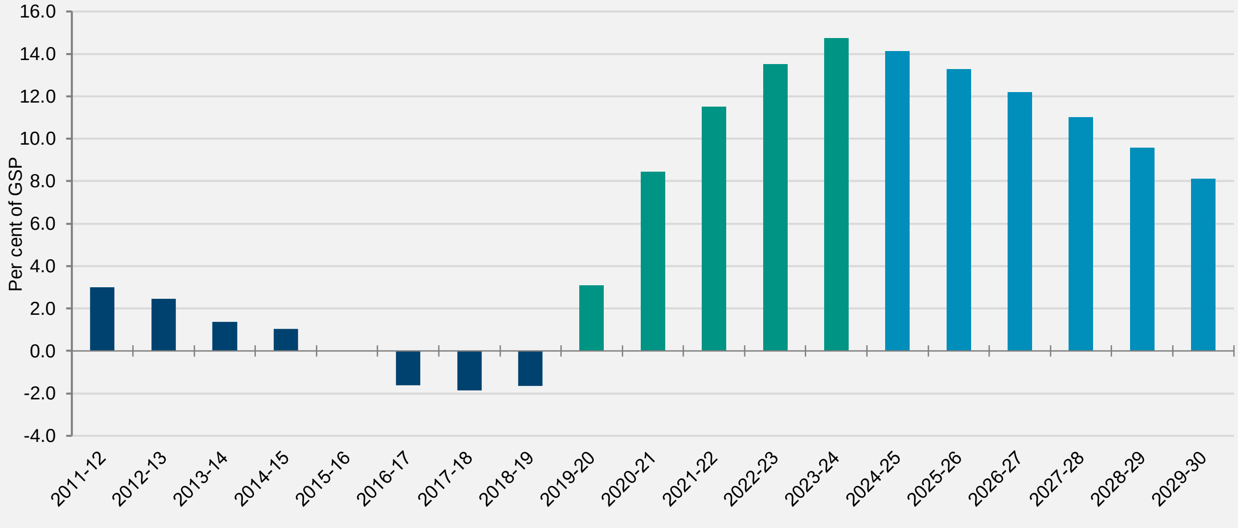
Since the 2019-20 Budget, the Government has committed to additional infrastructure projects, taking its 4-year capital program to $107.1 billion. This is significantly larger than any other State or even the Commonwealth Government's program over the next four years and is key to New South Wales' future economic prosperity. This record capital program is being invested in state-shaping and investments including:

- Sydney Metro West
- Sydney Metro Western Sydney Airport
- Western Harbour Tunnel and Warringah Freeway Upgrade
- $1.6 billion Digital Restart Fund
- $3 billion Infrastructure and Job Acceleration Fund

The Government will continue its successful asset recycling program in the 2020-21 Budget, progressing the sale of the State's residual 49 per cent share in WestConnex, with the net proceeds to be invested into the NSW Generations Fund. The Government in this budget also announces a scoping study into Lotteries Duties.

Through asset recycling and other balance sheet reform measures, the Government is aiming to rebuild balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium term (see Chart 3.6).

Chart 3.6: Projected net debt to GSP over the medium-term[(a)]



(a) Chart 3.6 does not include the impact of upcoming asset recycling

4. REVENUE

The Government will provide significant payroll tax relief for businesses to support the economic recovery through:

- a temporary reduction in the payroll tax rate from 5.45 per cent to 4.85 per cent for two years
- a permanent increase in the payroll tax threshold to $1.2 million from 1 July 2020.

Tax relief in combination with the economic impacts of the pandemic results in general government revenue being $2.8 billion lower in 2019-20 than forecast at the 2019-20 Half-Yearly Review.

Lower revenue collections in 2019-20 also reflect the significant level of Government tax support for bushfire-affected communities and businesses impacted by the COVID-19 pandemic:

- businesses with payrolls below $10.0 million had 25 per cent of their 2019-20 payroll tax liabilities waived
- a payroll tax exemption was also applied to certain payroll amounts arising as a result of JobKeeper payments.

General government revenue is expected to be $14.8 billion lower in net terms over the four years to 2023-24 in comparison to forecasts at the 2019-20 Half-Yearly Review, with the near-term revenue outlook shaped by the ongoing economic impacts of the COVID-19 pandemic and temporary support through the tax system. In particular:

- lower national consumption is expected to result in a loss of GST revenue (including “no worse off” payments) to New South Wales of $8.7 billion over the four years to 2023-24
- business support measures, weak employment and wages growth will drive a $6.8 billion reduction in forecast payroll tax revenue over the four years to 2023-24
- transfer duty revenue has been revised down by $2.3 billion over the four years to 2023-24 on weaker than previously forecast transaction volumes, in the near term
- revenue from sales of goods and services has been revised down by $1.1 billion over the four years to 2023-24, largely as a consequence of weaker transport service revenues
- sustained weakness in the global coal market has reduced expected mining royalties revenue by $1.4 billion over the four years to 2023-24.

4.1 Impacts of COVID-19 on revenue in 2019-20

General government revenue in 2019-20 was $2.8 billion lower than forecast at the 2019-20 Half-Yearly Review, largely as a consequence of the COVID-19 pandemic. From January 2020, state and Commonwealth governments responded to public health risks with containment measures that had significant economic impacts through to the end of the financial year, affecting almost all revenue sources. The immediate and lasting effects of the pandemic on the New South Wales and Australian economy are expected to continue to weigh on revenues over the coming years.

For 2019-20, the main tax and non-tax revenue sources impacted by the pandemic include:

- **Payroll tax**: Public health measures, weaker economic conditions and concerns about COVID-19 led firms to reduce employment, hours worked and employee earnings, which weighed on payroll tax receipts. To protect businesses and employment through the period of heightened public health restrictions, the Government provided a 25 per cent discount on 2019-20 payroll tax liabilities for businesses with a payroll less than $10.0 million. An exemption was also applied to certain payroll amounts arising as a result of JobKeeper payments. These factors have contributed to payroll tax revenue in 2019-20 being $1.3 billion lower than expected at the 2019-20 Half-Yearly Review.
- **Transfer duty**: The number of property transactions during the June quarter fell by over 20 per cent relative to the March quarter, reflecting a period of heightened restrictions, including some limits on property inspections and auctions, and uncertainty as the COVID-19 pandemic escalated. Accordingly, transfer duty revenue in 2019-20 was $578.4 million lower than expected at the 2019-20 Half-Yearly Review.
- **Gambling and betting taxes**: Public Health Orders required the closure of clubs, hotels and casinos between March and May 2020 preventing patrons from attending these businesses. This, combined with restrictions in June, lowered gambling tax revenues by $455.9 million relative to 2019-20 Half-Yearly Review expectations.
- **Sales of goods and services**: COVID-19 restrictions on mobility and transport capacity lowered patronage on public transport.

For 2019-20, the main grant revenue impacts of the pandemic were as follows:

- **GST payments to New South Wales** were $266.2 million lower in 2019-20 than expected at the 2019-20 Half Yearly Review. See Box 4.2 for further details.
- **National Agreement and National Partnership Payments** increased relative to forecasts at the 2019-20 Half-Yearly Review. The additional payments were made in response to increased demand for government assistance as a result of COVID-19 and bushfire recovery efforts (see section 4.5 for more detail).

The NSW Government expects COVID-19 will continue to place sustained pressure on State revenue sources. Further detail is outlined in this chapter.

4.2 Revenue measures since 2019-20 Half-Yearly Review

Since the 2019-20 Half-Yearly Review, the NSW Government has announced a number of support measures to businesses and communities devastated by bushfires and COVID-19. These measures are aimed at keeping people in jobs and businesses in business.

The package of tax reductions, waivers and deferrals is forecast to reduce the budget result by $1.5 billion in 2020-21 and by a further $1.6 billion over the forward estimates to 2023-24.

New taxation measures and non-taxation revenue measures are detailed below.

Taxation revenue measures since 2019-20 Half-Yearly Review

Table 4.1 shows the new taxation revenue measures announced since the 2019-20 Half-Yearly Review, including more than $2.8 billion in measures announced in this Budget.

Table 4.1: New taxation revenue measures

	2019-20 $m	2020-21 $m	2021-22 $m	2022-23 $m	2023-24 $m	Four years to 2023-24
Payroll tax rate reduction	...	(1,030)	(1,070)	...	...	(2,100)
Payroll tax threshold increase to $1.2 million	...	(166)	(175)	(199)	(204)	(744)
Payroll tax waiver for small businesses	(450)	...	...	...	...	...
Payroll tax exemption for additional wages arising from JobKeeper	(130)	(140)	...	...	...	(140)
Bring forward of $1.0 million payroll tax threshold	...	(56)	...	...	...	(56)
Reducing transfer duty for first home buyers purchasing new homes	...	(52)	(26)	...	...	(78)
Government response to NSW Bushfire Inquiry - insurers contribution	...	...	30	58	17	104
Freeze of indexation rates for heavy vehicles	...	(8)	(9)	(9)	(9)	(34)
Drought relief and assistance - Primary Producer Heavy Vehicle	...	(36)	...	...	...	(36)
Other taxation measures	(18)	...	...	...	...	...
Total - taxation measures	**(598)**	**(1,488)**	**(1,250)**	**(150)**	**(196)**	**(3,084)**

Lowering the payroll tax rate

The payroll tax rate will be reduced from 5.45 per cent to 4.85 per cent for all New South Wales tax-paying businesses in 2020-21 and 2021-22. The lower tax rate is estimated to provide New South Wales' businesses with around $2.1 billion in savings in total across 2020-21 and 2021-22, with an equivalent reduction in government revenue. See Box 4.1 below for further details.

Increasing the payroll tax threshold to $1.2 million from 1 July 2020

To further support the recovery and viability of businesses in New South Wales, the Government is raising the payroll tax threshold from $900,000 to $1.2 million from 1 July 2020.

As part of the Government's response to COVID-19, the Government announced in March 2020 that it would accelerate the increase to the payroll tax threshold to $1.0 million from 1 July 2021 to 1 July 2020. This was expected to save business an additional $56.0 million in 2020-21.

As part of the 2020-21 Budget, the Government is taking this further by permanently increasing the payroll tax threshold to $1.2 million from 1 July 2020. This is expected to save businesses an additional $166.0 million in 2020-21 and $744.0 million in total over the four years to 2023-24.

Together, these increases in the threshold from $900,000 to $1.2 million will save businesses around $800.0 million over the four years to 2023-24. This is on top of savings to businesses of $571.0 million over the forward estimates from previously announced threshold increases.

Waiving 25 per cent of 2019-20 payroll tax for smaller businesses

Businesses with grouped Australian wages of $10 million or less for 2019-20 had 25 per cent of their 2019-20 annual payroll tax waived by the NSW Government. This measure was designed to help these businesses stay afloat during the pandemic and to help them retain staff. This measure was expected to lower payroll tax revenue by $450.0 million in 2019-20.

Payroll tax exemption for additional wages arising from JobKeeper

The NSW Government acted to ensure that businesses did not face additional costs when passing on JobKeeper payments to their employees. Under the JobKeeper scheme, employers must pay their eligible employees an amount at least equal to the JobKeeper payment. The NSW Government has exempted from payroll tax any additional wages paid to employees to meet this requirement.

This means that where an employee is temporarily stood down from work duties, the full JobKeeper payment will be exempt from payroll tax. For employees who ordinarily earn less than the JobKeeper payment amount, the difference between their regular wage and the JobKeeper payment will be exempt from payroll tax.

The exemption is expected to reduce payroll tax revenue by $270.0 million, of which $130.0 million was for the 2019-20 year and $140.0 million for the 2020-21 financial year.

Land tax relief for landlords, supporting rental relief for tenants

The Government is providing land tax relief for landlords who reduce the rents of tenants experiencing financial distress as a result of the pandemic. This is intended to encourage landlords to allow tenants to remain in their current location during this difficult time. Landlords can receive land tax relief (in the 2020 land tax year) of up to 50 per cent of their land tax liability relating to the land leased. This Budget extends this support to provide land tax relief of up to 25 per cent for the 2021 land tax year for landlords of retail tenants.

Landlords can receive land tax relief of up to 25 per cent for rental reductions provided in each of the periods from 1 April 2020 to 30 September 2020, 1 October 2020 to 31 December 2020 and 1 January 2021 to 28 March 2021.

To qualify for the relief, landlords must reduce the rents of commercial tenants who have faced at least a 30 per cent reduction in turnover, or residential tenants who have faced at least a 25 per cent reduction in household income. In 2020, commercial tenants must have an annual turnover of not more than $50.0 million, in order for the rental reductions to be eligible. In 2021, the relief will be limited to rental reductions provided to retail tenants with annual turnover of up to $5.0 million.

This relief is provided as a grant payment and is therefore recognised as expenditure rather than foregone revenue. It is expected to raise government expenditure by $450.0 million over 2019-20 and 2020-21.

Land tax concession for build-to-rent properties

Build-to-rent housing can provide high-quality rental accommodation with long-term leases, offering greater security for tenants. The Government is encouraging more rental housing through land tax concessions of up to 50 per cent on applicable land – until 2040 – for new build-to-rent development that commenced construction on or after 1 July 2020.

The concession aims to ensure that build-to-rent developments are subject to similar overall amounts of state tax as comparable build-to-sell developments. A build-to-rent property must meet several eligibility criteria, including that the property is managed under unified ownership and must not be sub-divided within the first 15 years.

Eligible build-to-rent properties are also exempt from foreign investor surcharges.

Build-to-rent properties that qualify for the 50 per cent land tax discount are expected to generate a comparable amount of tax revenue in the long run as build-to-sell properties. With build-to-sell developments, all individual properties generate transfer duty, but only a minority of units generate land tax. A build-to-rent property, by contrast, would generate land tax from all units, for at least 15 years. This measure is therefore expected to be broadly revenue neutral over the four years to 2023-24.

Reducing transfer duty for first home buyers purchasing new homes

The Government has increased first home buyer concessions by reducing transfer duty for one year for new homes valued between $650,000 and $1.0 million. A first home buyer will pay no transfer duty when they purchase a new home valued up to $800,000, and a concessional rate of duty when purchasing a new home valued between $800,000 and $1.0 million.

Transfer duty is also reduced for first home buyers of vacant land, with exemptions applying for land valued up to $400,000, and concessions applying for land valued up to $500,000. This is an increase on the previous level of support, which provided an exemption for land valued up to $350,000, and concessions for land valued up to $450,000.

The increased concessions are in place from 1 August 2020 to 31 July 2021.

By targeting new homes, this measure will support demand for new construction, with positive flow-on effects on jobs, spending and the economy more broadly. Under this new policy, a first home buyer will save up to $31,335 when they purchase a new home worth up to $800,000. This measure is expected to cost $52.0 million in 2020-21 and $26.0 million in 2021-22.

Transfer duty relief for bushfire victims

The 2019-20 bushfires ravaged vast stretches of regional New South Wales and destroyed thousands of homes. People who lost their homes in the 2019-20 bushfires can access up to $55,000 in transfer duty relief if they purchase a replacement property elsewhere in New South Wales rather than rebuild. Applications are open until 2 March 2022.

This measure is expected to cost $5.0 million in 2019-20 and $5.0 million in 2020-21. The amount of transfer duty relief is calculated with reference to a homebuyer's transfer duty liability. However, as the relief is paid as a grant, the measure is recognised as an expenditure rather than foregone revenue.

Government response to NSW Bushfire Inquiry - Insurers' Emergency Services Levy and councils' contribution

As a consequence of the Government adopting recommendations from the independent NSW Bushfire Inquiry, additional insurers' Emergency Services Levy and council contributions are expected to increase revenue by $104.2 million over the four years to 2023-24.

Freeze of indexation rates for heavy vehicles

The freezing of indexation rates for heavy vehicles will lower motor vehicle weight tax revenue by $34.4 million over the four years to 2023-24.

Drought relief and assistance - Primary Producer Heavy Vehicle Concession

A one year extension to the rebate for Primary Producers Heavy Vehicle Registration costs will lower motor vehicle weight tax revenue by $36.1 million in 2020-21.

Payroll and gambling tax deferrals to support business cashflow

In response to COVID-19 the Government offered a range of tax deferrals to support cashflow and improve liquidity for businesses impacted by mobility restrictions. Payments for payroll tax and a range of gambling taxes and duties were deferred for around six months, with extended repayment plans made available at the end of the deferral period.

The deferral of payments for payroll tax, gambling taxes and duties is not expected to directly reduce general government sector revenue overall. However, a component of 2019-20 payroll tax revenue will now be recognised in 2020-21 rather than 2019-20. This is because deferred payroll tax for some businesses will not be confirmed until deferred annual reconciliations are finalised in 2020-21.

Box 4.1: Building on tax support for NSW businesses: Lowering the payroll tax rate

The Government is building on its strong record of reducing the payroll tax burden on New South Wales businesses. The Government has successively increased the payroll tax threshold from $750,000, with the Government now increasing the threshold from $900,000 to $1.2 million from 1 July 2020. This builds upon and replaces the Government's previous announcement to increase the threshold to $1.0 million from 1 July 2020. At the 2018-19 Budget, it was estimated that around 5,000 businesses that would have paid payroll tax would be exempt once the threshold reached $1.0 million. It is estimated a further 3,500 businesses will be exempt with the Government's decision to now increase the threshold from $1.0 million to $1.2 million.

As part of its initial COVID-19 support package, the Government also provided a 25 per cent discount on payroll tax for businesses with payrolls up to $10.0 million and deferrals of payroll tax for all businesses for up to six months.

Building upon these measures, the Government will reduce the payroll tax rate from 5.45 per cent to 4.85 per cent for all New South Wales businesses in 2020-21 and 2021-22. This is equal to the lowest headline rate of payroll tax payable by businesses in any metropolitan area across Australia. Matching New South Wales to the lowest headline tax rate benefits businesses due to the lower compliance costs associated with more harmonized tax settings. It also complements the Government's efforts in pursuing harmonised payroll tax administration reform nationally, in line with recommendations of the 2018 Review of Payroll Tax Administration and of the NSW Review of Federal Financial Relations.

When combined with the higher payroll tax threshold in New South Wales, these tax cuts also mean that while a lower headline payroll tax rate applies to businesses in regional Victoria in 2020-21, a business with a payroll of below $1.59 million will pay less payroll tax in New South Wales than an equivalent business in regional Victoria. These tax cuts are expected to benefit around 36,000 payroll taxpayers across the State in both metropolitan and regional areas.

Following from payroll tax support provided through the earlier phase of the pandemic, this measure supports businesses to play their role in the economic recovery, by reducing the cost to business of increasing worker hours and employment.

All New South Wales' payroll taxpayers will benefit from paying less tax and, on average, a business liable for payroll tax could save around $34,000 each year, over 2020-21 and 2021-22 from measures announced in this Budget. These cost savings will help support increased working hours or additional employment in New South Wales, especially as the JobKeeper scheme is phased out in 2021, with around 8,000 jobs supported on average across 2020-21 and 2021-22 from increased hours or additional employment. Businesses will also be entitled to immediate tax savings as the lower tax rate applies retrospectively from 1 July 2020.

The lower tax rate is expected to provide New South Wales businesses with around $2.1 billion in savings in total across 2020-21 and 2021-22.

Other new revenue measures since 2019-20 Half-Yearly Review

Table 4.2 shows other new revenue measures announced since the 2019-20 Half-Yearly Review, including new transport, health and training measures announced in this Budget.

Table 4.2: Other new revenue measures

	2019-20 $m	2020-21 $m	2021-22 $m	2022-23 $m	2023-24 $m	Four years to 2023-24
Agency cost pressures primarily resulting from the COVID-19 pandemic	(77)	(100)	...	...	...	**(100)**
NSW Generations Fund (NGF) distributions	...	56	193	373	581	**1,203**
Additional Towards Zero Initiative	...	15	81	95	106	**298**
Revised Western Sydney City Deal	...	293	...	...	...	**293**
TAFE funding support	...	(228)	...	...	...	**(228)**
Expansion of Transport Access Program	...	10	111	59	12	**192**
Housing Industry Support - ePlanning Stage 4	...	2	14	14	14	**44**
Extension of Aboriginal Housing Office Asset Recycling Program	...	6	6	6	6	**24**
Other measures	17	52	64	67	119	**301**
Total - other new revenue measures	**(61)**	**106**	**469**	**614**	**838**	**2,027**

Agency cost pressures primarily resulting from the COVID-19 pandemic

Various measures provide funding support to Government agencies in recognition of the impact of the COVID-19 pandemic outbreak on their operations. This will decrease revenue by $100.3 million over the four years to 2023-24.

NSW Generations Fund (NGF) distributions

Distributions from State Owned Corporations and mining royalties will be directed into the NGF from 2020-21, which is expected to increase investment returns from the NGF by $1.2 billion over the four years to 2023-24.

Additional Towards Zero Initiative

The Government's Towards Zero initiative is expected to increase revenue from fines and fees by $298.1 million over the four years to 2023-24. This revenue is hypothecated to road safety initiatives.

Revised Western Sydney City Deal

The NSW Government is expecting to receive an additional $293.0 million in grant revenue from the Commonwealth over the four years to 2023-24 due to revisions to the Western Sydney City Deal.

TAFE funding support

There is expected to be a reduction in commercial revenue due to both changes to Commonwealth VET FEE-HELP loans and increasing demand for fee-free courses over commercial courses. These factors will decrease revenue from the sale of goods and services by $228.0 million in 2020-21.

Expansion of Transport Access Program

This measure provides funding for seven station upgrades to improve access to transport. This will increase revenue from the sale of goods and services by $192.0 million over the four years to 2023-24.

Housing Industry Support - ePlanning Stage 4

This measure will support the rollout of Stage 4 of ePlanning, which will increase revenue from the sale of goods and services by $44.0 million over the four years to 2023-24.

Extension of Aboriginal Housing Office Asset Recycling Program

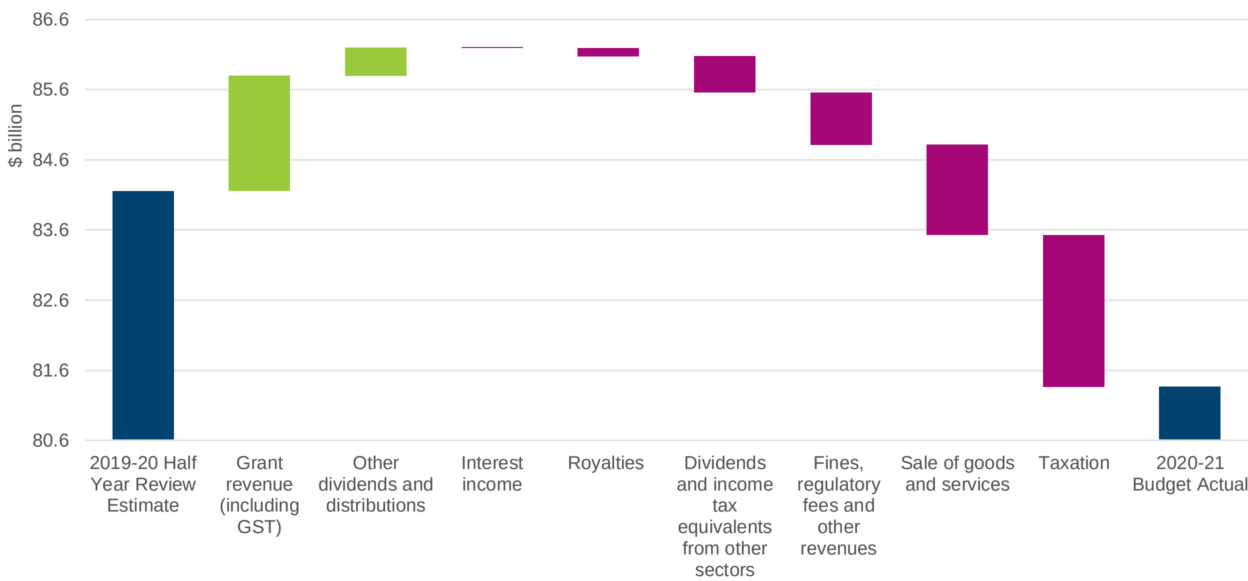
Insurance revenue will be retained within the Aboriginal Housing Office to replace properties lost through sale or major damage to ensure constant dwelling stock. This will increase other revenue by $24.0 million over the four years to 2023-24.

4.3 General government revenue

Revenue result for 2019-20

General government revenue was $81.4 billion in 2019-20, $2.8 billion lower than forecast in the 2019-20 Half-Yearly Review (see Chart 4.1). The main drivers of change since the 2019-20 Half-Yearly Review were a $1.3 billion reduction in payroll tax, a $578.4 million shortfall in transfer duty and $455.9 million in lower gambling taxes. In contrast, grant revenue was $1.6 billion higher than forecast at the 2019-20 Half-Yearly Review, primarily due to one-off Commonwealth payments to support the pandemic health response and bushfire recovery efforts.

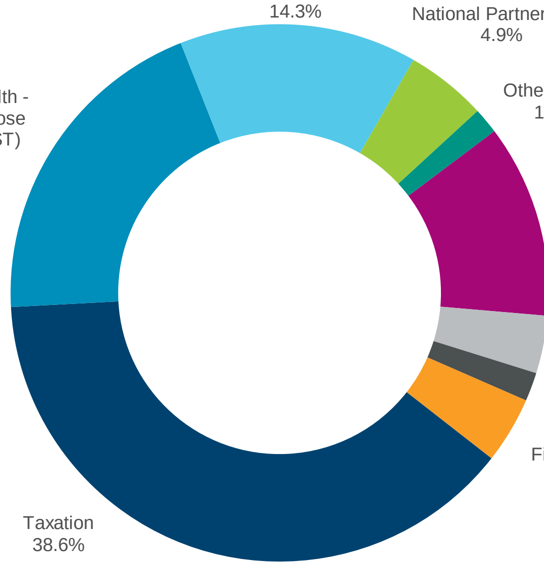
Chart 4.1: Changes in 2019-20 revenue – 2019-20 Half-Yearly Review to 2020-21 Budget



Forecast for 2020-21 and beyond

General government revenue is forecast to reach $82.1 billion in 2020-21, $782.5 million higher than 2019-20. Taxation revenue is expected to account for 38.6 per cent of this total, while Commonwealth and other grants, including GST, are forecast to provide 40.6 per cent (see Chart 4.2).

Chart 4.2: Composition of total revenue, 2020-21



General government revenue is expected to grow at a compound annual rate of 3.4 per cent over the four years to 2023-24 (Table 4.3), which is comparable to the previous forecast rate of 3.3 per cent over the four years to 2022-23 in the 2019-20 Half-Yearly Review, but now off a base that is $2.8 billion lower.

Taxation revenue is forecast to grow by 5.4 per cent per annum on average over the four years to 2023-24, while grant revenue is expected to grow at an average annual rate of only 2.8 per cent over the four years to 2023-24.

Table 4.3: General government sector - summary of revenue

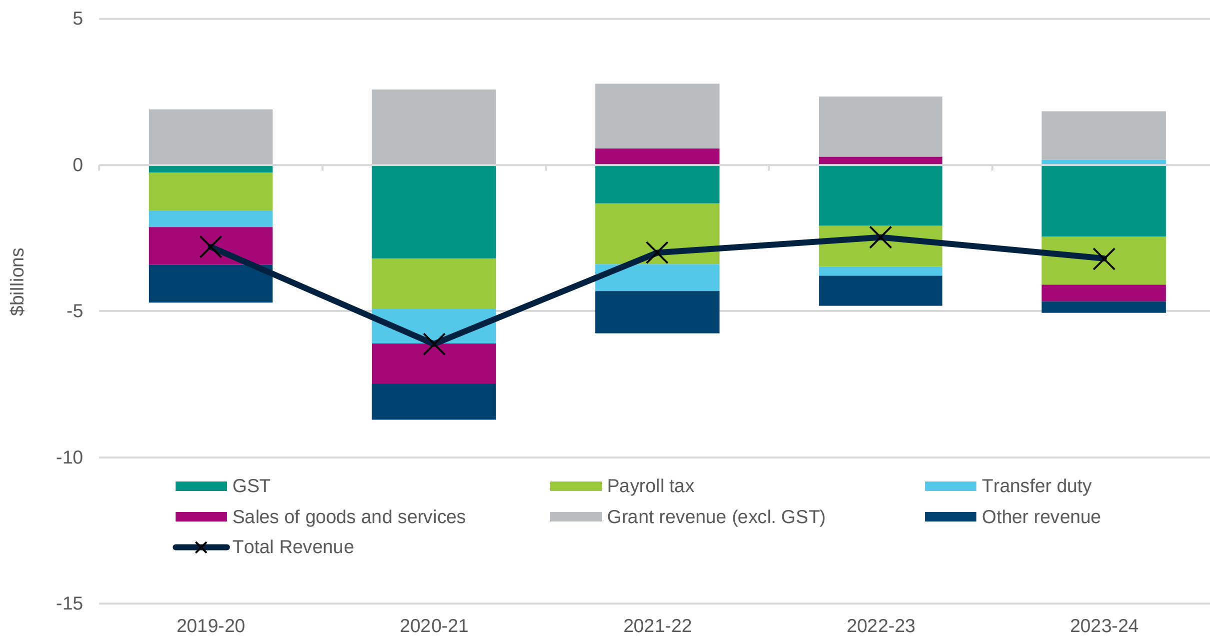
	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24	% Share of Revenue over 4 years to 2023-24
Revenue from transactions								
Taxation	31,026	29,941	31,711	32,552	35,211	36,885	5.4	38.6%
Grant revenue (including GST)	31,848	34,306	33,325	36,788	37,399	38,323	2.8	41.3%
Sale of goods and services	9,745	8,713	9,560	10,802	9,919	8,988	0.8	11.1%
Interest income	491	364	302	322	337	350	(1.0)	0.4%
Dividends and income tax equivalents from other sectors	1,932	1,354	1,070	723	933	1,044	(6.3)	1.1%
Other dividends and distributions	1,934	2,426	1,779	1,896	2,360	2,720	2.9	2.5%
Royalties	2,093	1,683	1,417	1,497	1,515	1,587	(1.5)	1.7%
Fines, regulatory fees and other revenues	2,586	2,578	2,985	3,108	2,927	3,034	4.2	3.4%
Total revenue	**81,655**	**81,367**	**82,149**	**87,689**	**90,601**	**92,930**	**3.4**	

General government revenue is forecast to be $14.8 billion lower over the four years to 2023-24 in comparison to forecasts at the 2019-20 Half-Yearly Review (See Chart 4.3 and Table 4.4). Significant downgrades, largely due to the impacts of the pandemic, include:

- a downward revision to forecast GST revenue (including “no worse off” payments) of $8.7 billion, mostly due to downward revisions of the GST pool
- a downward revision to payroll tax revenue of $6.8 billion, due to the projected cost of tax relief and lower expected employment and wages

- a downward revision to transfer duty revenue of $2.3 billion, reflecting weaker than previously expected property prices growth and lower transaction volumes, notably in the near term
- a reduction in land tax of $1.7 billion, largely reflecting lower forecasts for average land values
- a reduction in revenue from the sales of goods and services of $1.1 billion, largely due to weaker transport revenue.

Chart 4.3: Deviations in total revenue since 2019-20 Half-Yearly Review



Box 4.2: GST revenues under pressure from the pandemic and spending trends

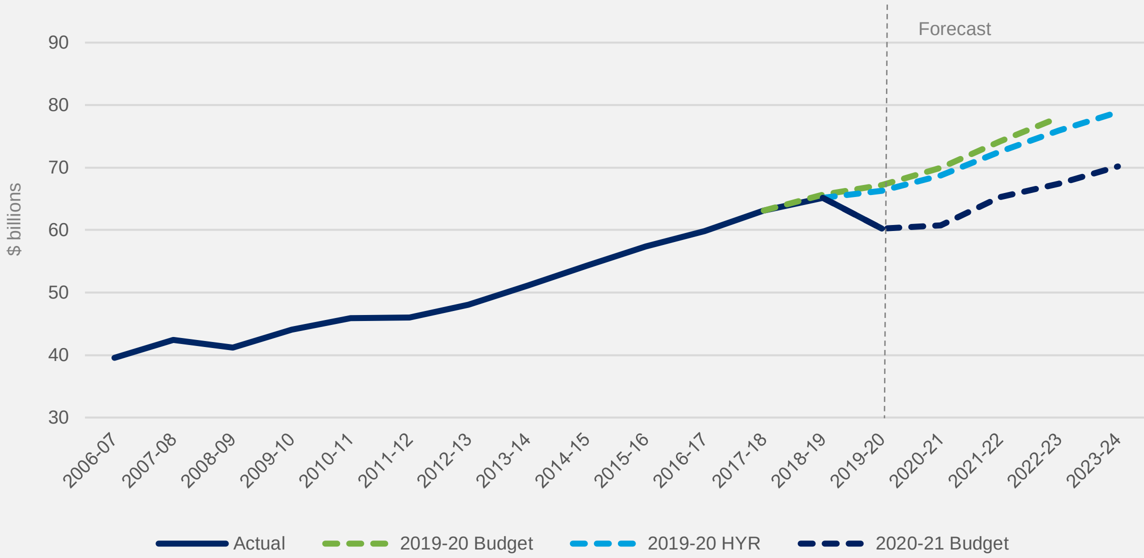
GST revenue has come under pressure in recent years from weak consumption growth and shifting trends in household spending. These effects were compounded by the COVID-19 pandemic, which is expected to result in the GST pool remaining well below what was forecast at the 2019-20 Half-Yearly Review.

The downgrade to the GST pool is expected to result in a loss of revenue (including "no worse off" payments) to New South Wales of $3.2 billion in 2020-21 and $8.7 billion over the four years to 2023-24. This comes after a downgrade of $922.8 million in GST revenue over the four years to 2022-23 from the 2019-20 Budget to the 2019-20 Half-Yearly Review.

The national GST pool fell by 7.6 per cent in 2019-20, as:

- across Australia, people spent less during the period from March to June 2020 (nominal household consumption fell 13 per cent in the June quarter)
- household spending shifted towards items that do not attract GST (e.g. from entertainment and eating out to goods such as fresh food)
- the total GST collected by businesses but not yet paid to the Australian Tax Office increased.

Chart 4.4: National GST pool ($ billions)



The national GST pool is expected to:

- remain broadly flat in 2020-21, with the negative impact of the 'second wave' of COVID-19 in Victoria offset by a modest recovery in consumption elsewhere
- grow strongly in 2021-22 – off a national GST pool that is $8.0 billion lower than the 2019-20 Half-Yearly Review forecast for the same period – due to the progressive removal of COVID-related measures
- grow modestly by an average of 3.7 per cent in the following two years.

On this trajectory the national GST pool will be $32.5 billion lower over the four years to 2023-24 in comparison to forecasts at the 2019-20 Half-Yearly Review. There are two factors driving this sustained deviation from 2019-20 Half-Yearly Review forecasts:

- weaker population growth, largely due to the closure of international borders, flowing to lower consumption and dwelling investment
- higher unemployment, relative to earlier forecasts, flowing through to a sustained period of weaker wages growth and lower household spending capacity.

Looking ahead, the pace of future growth in the national GST pool (and New South Wales' potential GST revenue) will be strongly influenced by a number of factors. These include management of further COVID-19 outbreaks (both domestically and globally), the responsiveness of the private sector to government stimulus, the distribution and effectiveness of vaccines against COVID-19 and the outlook for net overseas migration (which is heavily dependent on Commonwealth Government policy settings). Any adjustment to international border restrictions will impact population growth through changes to net overseas migration. See Appendix B for more information on these risks.

Table 4.4: Revenue reconciliation

	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Four years to 2023-24
	$m	$m	$m	$m	$m	$m
Revenue - 2019-20 Budget	**84,316**	**87,632**	**90,018**	**92,009**	**n.a.**	**n.a.**
Policy measures	(296)	(19)	(84)	76	n.a.	n.a.
Parameter and other variations	137	658	744	987	n.a.	n.a.
Revenue - 2019-20 Half-Yearly Review	**84,157**	**88,270**	**90,678**	**93,072**	**96,135**	**368,155**
Policy changes since 2019-20 Half-Yearly Review						
New policy measures						
Taxation	(598)	(1,488)	(1,250)	(150)	(196)	(3,084)
Other measures	(61)	106	469	614	838	2,027
Parameter changes since 2019-20 Half-Yearly Review						
Taxation						
Payroll tax	(697)	(327)	(832)	(1,205)	(1,430)	(3,795)
Transfer duty	(578)	(1,137)	(900)	(324)	174	(2,187)
Other taxes	(289)	(358)	(665)	(806)	(900)	(2,729)
Grant revenue						
GST	(264)	(3,164)	(1,298)	(1,857)	(2,313)	(8,633)
National Agreement payments	847	656	42	25	203	926
National Partnership payments	990	1,343	1,901	1,747	1,392	6,383
Other grant revenue	65	226	253	79	(69)	488
Sale of goods and services	(1,233)	(1,132)	419	192	(591)	(1,112)
Interest income	(3)	(142)	(126)	(96)	(55)	(419)
Dividends and income tax equivalents	(516)	(259)	(45)	116	196	8
Other dividends and distributions	402	(80)	(264)	(158)	(216)	(718)
Royalties	(120)	(349)	(356)	(383)	(320)	(1,407)
Fines, regulatory fees and other revenues	(736)	(16)	(337)	(264)	84	(533)
Total changes since 2019-20 Half-Yearly Review	**(2,791)**	**(6,121)**	**(2,988)**	**(2,470)**	**(3,205)**	**(14,785)**
Revenue - 2020-21 Budget	**81,367**	**82,149**	**87,689**	**90,601**	**92,930**	**353,370**

4.4 Taxation revenue

State taxation revenue is expected to be $31.7 billion in 2020-21 (see Table 4.5), $3.3 billion lower than forecast at the 2019-20 Half-Yearly Review.

Payroll tax remains the largest single source of taxation revenue, accounting for 26.9 per cent in 2020-21 (see Chart 4.4), followed by transfer duty, which is forecast to account for 25.0 per cent. Taxation revenue is expected to grow by 5.4 per cent per annum, on average, over the four years to 2023-24.

Table 4.5: General government sector – summary of taxation revenue

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24
Stamp duties							
Transfer duty	7,430	6,955	7,926	8,642	9,659	10,542	11.0
Insurance	1,022	1,091	1,127	1,206	1,261	1,318	4.8
Motor vehicles	792	768	852	842	876	909	4.3
Other	1	1	0	0	0	0	…
	9,245	**8,815**	**9,905**	**10,690**	**11,796**	**12,769**	**9.7**
Payroll tax [a]	9,357	8,508	8,526	8,579	9,790	10,112	4.4
Land tax	4,216	4,477	4,639	4,547	4,574	4,646	0.9
Taxes on motor vehicle ownership and operation							
Weight tax	2,210	2,256	2,288	2,331	2,410	2,497	2.6
Vehicle transfer fees [b]	52	53	57	58	61	62	4.2
Other motor vehicle taxes	40	35	36	37	38	39	2.3
	2,302	**2,344**	**2,381**	**2,426**	**2,509**	**2,598**	**2.6**
Gambling and betting taxes							
Racing	127	174	212	163	175	189	2.1
Club gaming devices	783	625	846	796	810	824	7.1
Hotel gaming devices	862	756	1,056	1,087	1,144	1,212	12.5
Lotteries and lotto	454	473	481	488	504	521	2.4
Casino	394	169	158	239	298	311	16.6
Other gambling & betting	15	10	17	16	16	17	14.0
	2,634	**2,207**	**2,770**	**2,789**	**2,948**	**3,074**	**8.6**
Other taxes and levies							
Health insurance levy	210	214	221	226	230	235	2.4
Parking space levy	109	109	111	111	113	115	1.2
Emergency services levy contributions	785	907	1,090	1,040	1,040	1,029	3.2
Emergency services council contributions	143	175	162	161	169	167	(1.2)
Waste and environment levy	767	749	751	761	783	832	2.6
Government guarantee fee	300	322	317	366	391	422	6.9
Private transport operators levy	77	68	85	17	8	8	(41.5)
Pollution control licences	18	18	26	26	27	18	(0.3)
Other taxes	862	1,027	726	813	834	861	(4.3)
	3,272	**3,590**	**3,490**	**3,521**	**3,595**	**3,686**	**0.7**
Total taxation revenue	**31,026**	**29,941**	**31,711**	**32,552**	**35,211**	**36,885**	**5.4**
Annual change		*-3.5%*	*5.9%*	*2.7%*	*8.2%*	*4.8%*	

(a) Due to the deferral of payroll tax returns, deferred 2019-20 payroll tax for some businesses will not be confirmed until deferred annual reconciliations are finalised. This component of deferred 2019-20 payroll tax is recognised as revenue in 2020-21 instead of 2019-20.

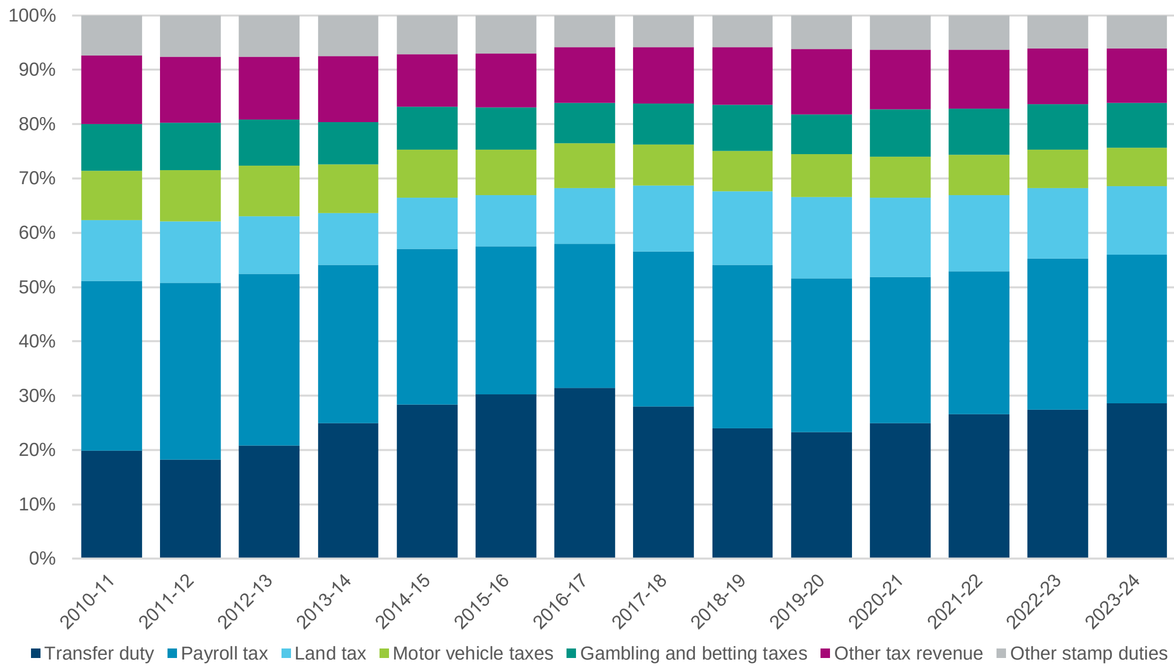
(b) Vehicle registration fees are no longer recorded as taxation revenue as they have been reclassified to fines, regulatory fees and other revenue to comply with accounting standard AASB 15.

Revenue volatility

Transfer duty revenue continues to exhibit significant volatility. In some years it has been the largest taxation revenue source. For example, in 2016-17 it contributed 31.4 per cent of tax revenue. In other years it was much lower, down to only 18.2 per cent in 2011-12.

The four-year forecast for transfer duty to 2023-24 inclusive was revised up by $4.0 billion in the 2019-20 Half-Yearly Review on the back of a much stronger outlook for the residential property market. However, the immediate and lasting effects of COVID-19 have resulted in a $2.3 billion downgrade to expectations over the four years to 2023-24.

Chart 4.5: The composition of annual taxation revenue can fluctuate



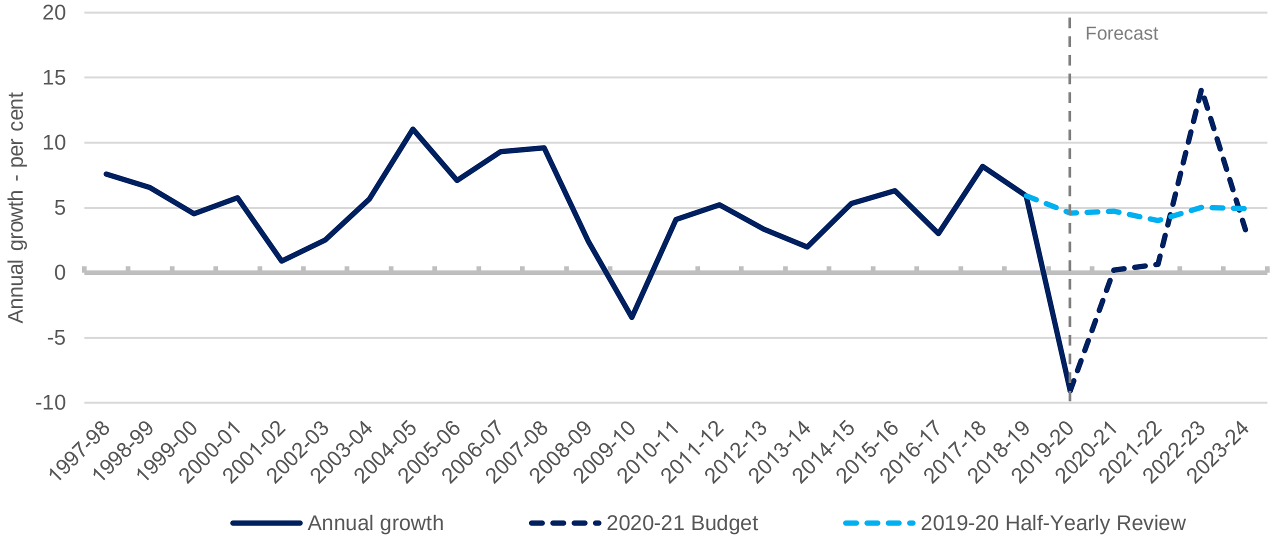
Payroll tax

Payroll tax, which remains the State's largest source of taxation revenue, is predicted to grow by only 0.2 per cent in 2020-21 to $8.5 billion, having been revised down by $6.8 billion over the four years to 2023-24 since the 2019-20 Half-Yearly Review. This reflects the cost of stimulus measures, increases to the threshold and expectations of sustained weak growth in wages and employment.

The Government gave all payroll tax-paying businesses in New South Wales the option to defer payroll tax returns and payments until 30 October 2020. As a result, deferred payroll tax for some businesses will not be confirmed until deferred annual reconciliations are finalised. This component of deferred 2019-20 payroll tax is recognised in 2020-21 instead of 2019-20.

Payroll tax revenue is forecast to grow at an average annual rate of 4.4 per cent over the four years to 2023-24, reflecting a rebound from exceptionally weak receipts in 2019-20. Growth in payroll tax is expected to accelerate in 2022-23 as the payroll tax rate reverts to 5.45 per cent.

Chart 4.6: Payroll tax annual growth

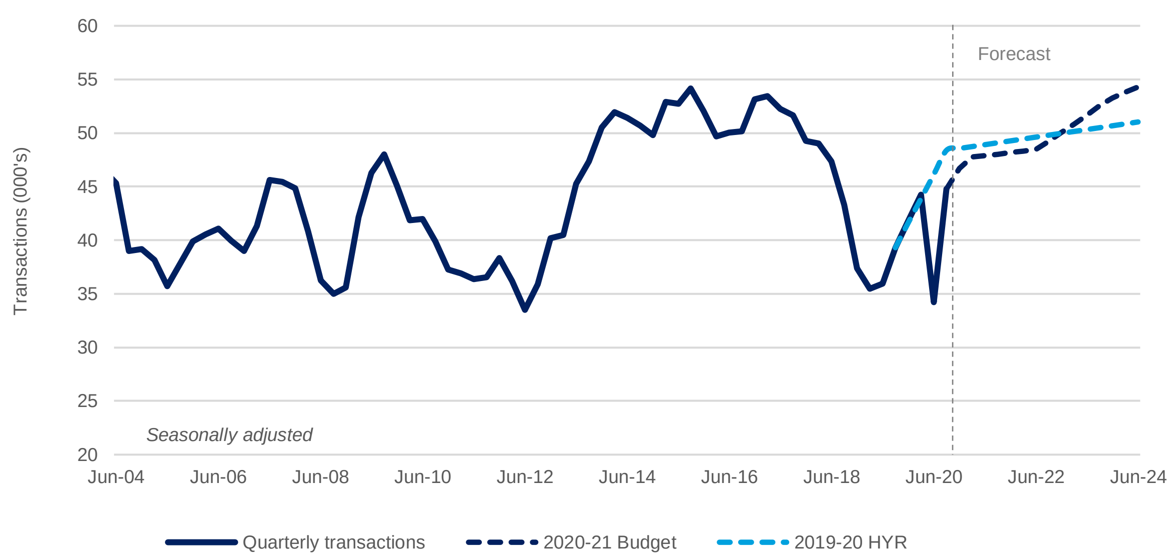


Transfer duty

The amount of transfer duty collected is a function of property prices and the volume of sales. Transfer duty is expected to be $7.9 billion in 2020-21. While this is $1.2 billion below forecast at the 2019-20 Half-Yearly Review, it still represents a growth rate of 14.0 per cent relative to 2019-20 (when COVID-19 interrupted on-site auctions and open house inspections).

Residential transfer duty is expected to grow at an average annual rate of 12.0 per cent over the four years to 2023-24, coming off a base for 2019-20 that is almost $400.0 million lower than expected at the 2019-20 Half-Yearly Review. This forecast is largely driven by historically low interest rates and rising incomes forecast from late 2021, partly offset by weaker population growth than previously forecast. Residential property transactions are expected to rise by around 16 per cent in 2020-21.

Chart 4.7: Residential transaction volumes (quarterly)



Transfer duty revenue on larger commercial property transactions is also expected to fall by $253.1 million in 2020-21, before recovering in 2022-23 and 2023-24 in response to stronger capital values.

Land tax

Land tax revenue is expected to be $4.6 billion in 2020-21, $139.4 million below expectations at the 2019-20 Half-Yearly Review. The forecast for land tax has been reduced by $1.7 billion over the four years to 2023-24, reflecting weaker than previously forecast increases in average land values.

Residential land values are now expected to rise by 2.0 per cent in 2020, while commercial land values are forecast to remain stationary.

Land tax is forecast to grow by 0.9 per cent over the four years to 2023-24.

Gambling and betting taxes

Gambling tax revenue is expected to be $2.8 billion in 2020-21, an increase of $49.7 million, or 1.8 per cent, since the 2019-20 Half-Yearly Review. Forecast gambling tax revenue has been revised downwards by $128.3 million over the four years to 2023-24.

Casino revenue has been revised down by $190.5 million over the four years to 2023-24, reflecting stricter border restrictions resulting from COVID-19.

Hotel and club gaming device revenue was $307.6 million lower in 2019-20 than expected at the 2019-20 Half-Yearly Review, due to the closure of venues and subsequent restrictions on activity. Hotel and club gaming device revenue has been revised up by $136.8 million in 2020-21, reflecting strong receipts since the relaxation of restrictions and are expected to be $181.6 million higher over the four years to 2023-24.

Taxes on motor vehicle ownership and operation

Motor vehicle taxes are expected to be $2.4 billion in 2020-21, $91.9 million lower than at the 2019-20 Half-Yearly Review. Forecast motor vehicle taxes have been reduced by $572.0 million over the four years to 2023-24, reflecting slower growth in the vehicle stock.

Motor vehicle taxes are forecast to grow by 2.6 per cent over the four years to 2023-24.

Other stamp duties

Other stamp duties include insurance duty and motor vehicle registration duty. Revenue from other stamp duties is forecast to reach $2.0 billion in 2020-21 – reflecting a minor downward revision of $4.6 million since the 2019-20 Half-Yearly Review.

Stronger-than-expected insurance duty revenue in 2019-20 has resulted in forecast duty revenue to be revised up by $179.2 million over the four years to 2023-24.

Motor vehicle registration duty has been revised downward by $7.9 million since the 2019-20 Half-Yearly Review to $852.1 million for 2020-21. This reflects lower than expected new vehicle registrations and vehicle price growth. Motor vehicle registration duty has been revised down by $128.5 million over the four years to 2023-24, reflecting a revised outlook for new vehicle sales.

Other taxes and levies

Other taxes and levies are expected to provide $3.5 billion in 2020-21, growing at an average annual rate of 0.7 per cent in the four years to 2023-24.

Revenue from the Emergency Services Levy (including insurer and council contributions) is forecast to be $1.3 billion in 2020-21 and $4.9 billion over the four years to 2023-24. The increase over the four years, relative to the 2019-20 Half-Yearly Review reflects the Government's adoption of recommendations from the NSW independent bushfire review.

They include investment in the State's emergency services agencies and fleet replacement, personal protective equipment, mental health support and aerial fire-fighting and training.

The Long Service Levy is paid on building and construction work to make long service payments available to construction workers. Revenue from the levy is forecast to be $152.9 million lower over the four years to 2023-24 since the 2019-20 Half-Yearly Review. Weaker than previously forecast building activity over the next four years is likely to result in lower payments for a smaller amount of completed work and result in lower total levy collections.

The decrease in other taxes and levies is also partly explained by a lower Compulsory Third Party (CTP) Premium Levy, due to the State Insurance Regulatory Authority (SIRA) recognising unclaimed CTP refunds as revenue.

In addition, lower interest rates since the 2019-20 Half-Yearly Review have also contributed to lower Government Guarantee Fee being paid by Sydney Water.

4.5 Grant revenue

Grant revenue is comprised primarily of general purpose grants (including GST) and specific purpose payments in the form of funding under National Agreements and National Partnerships. Total Commonwealth grant revenue is expected to fall by $1.0 billion in 2020-21 to $32.7 billion, but then rise to $37.7 billion by 2023-24.

Table 4.6: Grant revenue

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24
Commonwealth - general purpose	17,907	18,073	16,308	19,612	19,913	20,057	2.6
GST revenue	17,851	18,066	16,272	19,554	18,868	19,125	1.4
Other general purpose grants	56	8	36	58	1,045	932	232.9
Commonwealth - National Agreements	10,224	11,278	11,740	11,721	12,385	13,053	3.7
Commonwealth - National Partnerships	2,737	3,886	3,996	4,166	3,955	3,984	0.6
Other Commonwealth payments	414	455	644	687	535	572	5.8
Total Commonwealth grants	**31,282**	**33,694**	**32,687**	**36,185**	**36,788**	**37,665**	**2.8**
Annual change in Commonwealth grants	*1.7%*	*7.7%*	*-3.0%*	*10.7%*	*1.7%*	*2.4%*	
Other grants	567	613	638	604	612	657	1.8
Total grant revenue	**31,848**	**34,306**	**33,325**	**36,788**	**37,399**	**38,323**	**2.8**

General purpose grants

The pandemic is expected to significantly reduce New South Wales' GST-derived revenue over the coming years.

New South Wales GST revenue (including "no worse off" payments) is expected to be $16.3 billion in 2020-21, 9.9 per cent lower than in 2019-20. Over the four years to 2023-24, GST revenue is forecast to grow by an average of 2.6 per cent per year and be $8.7 billion lower than expected at the 2019-20 Half-Yearly Review.

The main cause of the downgrade is a weaker national GST pool, which is forecast to be $32.5 billion lower over the four years to 2023-24 than expected at the 2019-20 Half-Yearly Review (see Box 4.2). This downgrade is driven by large downward revisions to forecasts for taxable consumption and private dwelling investment. In addition, unpaid GST debt (GST collected by businesses but not yet paid to the Australian Tax Office) was much higher than expected in 2019-20, which has also reduced the GST pool.

Weaker forecasts for the GST pool will be partly offset by an increase in New South Wales' forecast relative GST share following completion of the Commonwealth Grants Commission 2020 Review and strong Western Australian royalties revenue.

Table 4.7: GST (including "no worse off") revenues to NSW – reconciliation statement[(a)]

	2019-20	2020-21	2021-22	2022-23	Four-year total
	Actual	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
2019-20 Budget	**18,684**	**19,789**	**20,953**	**21,981**	**81,407**
Change due to:					
2019-20 adjustment	(126)	…	…	…	(126)
Change in population	30	49	65	85	228
Change in pool	(255)	(365)	(456)	(579)	(1,654)
Change in relativities	…	(1)	331	140	471
'No worse off' payments	…	…	17	142	159
2019-20 Half-Yearly Review	**18,332**	**19,472**	**20,910**	**21,770**	**80,484**
Change due to:					
2019-20 adjustment	…	(1,469)	…	…	(1,469)
Change in population	(24)	(115)	(177)	(259)	(574)
Change in pool	(243)	(2,256)	(2,068)	(2,326)	(6,893)
Change in relativities	…	640	933	518	2,090
'No worse off' payments	…	…	(5)	189	184
2020-21 Budget	**18,066**	**16,272**	**19,593**	**19,892**	**73,823**
Change since 2019-20 Half-Yearly Review	**(266)**	**(3,200)**	**(1,317)**	**(1,878)**	**(6,661)**

(a) The Commonwealth Government will provide separate untied grants from 2021-22 to 2026-27 so that states and territories are not adversely affected by changes to horizontal fiscal equalisation in the form of "no worse off" payments. These payments are not part of the GST pool, are counted as other general purpose grant revenue and are not assessed by the Commonwealth Grants Commission.

Box 4.3: Changes to horizontal fiscal equalisation are proving to be unfair and unsustainable

In 2018 following a Productivity Commission inquiry into horizontal fiscal equalisation (HFE), the Commonwealth Government made profound changes to how GST is distributed between the states and territories.

The practical effect of these changes is now becoming evident.

Over the next four years, Western Australia is set to receive an additional $10.8 billion because of these changes. This amount comprises top up payments from the Commonwealth of $3.5 billion in 2020-21 and 2021-22 and $7.3 billion in additional GST revenue in 2022-23 and 2023-24. At the same time, Western Australia continues to enjoy significant fiscal advantage from its mineral royalties due to the strength of global iron ore prices.

This means the Western Australian Government is being insulated from the economic and fiscal impacts of the COVID-19 pandemic. At a time when all other state and territory governments are dealing with the economic and fiscal costs of the COVID-19 pandemic on their respective economies, the Western Australian Government 2020-21 Budget released on 8 October 2020 forecasts that the State will have a general government operating surplus of $1.2 billion in 2020-21. This means the Western Australian Government can provide greater access to potentially higher quality services and more infrastructure to its residents, and a lower taxation burden, relative to any other state or territory.

More and more, the Australian Government's HFE changes appear fiscally unsustainable, as well as being profoundly unfair. For the Commonwealth, the cost is rising. In laying out its changes to HFE in 2018, the Commonwealth Government projected that implementing its HFE changes would cost it $2.8 billion over the four years to 2023-24. The difference between the projected and actual cost is now forecast to reach $8.0 billion over the next four years.

For New South Wales, a transitional no worse off legislated guarantee is helping safeguard the State's GST revenue share by securing $2.0 billion in the form of "no worse off payments" for the State from 2021-22 to 2034-24. However, the no worse off guarantee will come to an end in 2026-27 and presents longer term GST revenue risks for all states and territories other than Western Australia.

Council on Federal Financial Relations (CFFR)

Earlier in 2020, National Cabinet tasked CFFR with responsibility for the negotiation and development of all Commonwealth-state funding agreements under the Intergovernmental Agreement on Federal Financial Relations 2008. At the same time, CFFR was also asked to conduct a review to streamline and rationalise the existing stock of National Partnership Agreements (NPAs) and Project Agreements (PAs).

CFFR's review has led to a reduction in the stock of tied funding agreements – 82 NPAs and PAs have now been consolidated into five sector-based umbrella Federation Funding Agreements (FFAs) spanning health, environment, infrastructure, education and skills, affordable housing, community services and other.

The four existing National Agreements (National Health Reform Agreement, the National School Reform Agreement, the National Housing and Homelessness Agreement, the National Agreement on Skills and Workforce Development) were unchanged by the review.

The objectives of CFFR's review were to:

- provide states with budget autonomy and greater flexibility
- provide states with greater funding certainty where possible
- reduce the administrative burden on all jurisdictions.

This was consistent with the key themes explored through the NSW Federal Financial Relations Review, chaired by Mr David Thodey AO (see Box 4.3 below). Fully realising these objectives will continue to be a key focus for the NSW Government and its engagement with the Government through CFFR and its role on the Board of Treasurers.

National Agreements

This category comprises payments for specific purposes from the Commonwealth to the states and territories under the National Health Reform Agreement, National School Reform Agreement, National Housing and Homelessness Agreement and the Specific Purpose Payment made relating to the National Agreement for Skills and Workforce Development.

Revenue from National Agreements is forecast to total $11.7 billion in 2020-21, an increase of 4.1 per cent on 2019-20. These revenues are expected to grow at an average annual rate of 3.7 per cent over the four years to 2023-24. Table 4.8 summarises national agreement payments by key service delivery area.

Since the 2019 Half-Yearly Review, revenue from National Agreements have increased by $963.6 million over the four years to 2023-24. This is primarily due to anticipated payments in 2020-21 to New South Wales under the COVID-19 Response National Partnership which directs funds through the National Health Reform Agreement. These funds are supporting costs incurred in public hospitals to treat and manage COVID-19 cases, as well as other costs incurred by the State in preventing the spread of COVID-19 in the community, such as the purchase of personal protective equipment. Further growth over the forward estimates since the 2019 Half-Yearly Review is primarily due to growth in activity and operating costs associated with hospital projects across the State.

A $227.5 million increase in forecast payments under the National School Reform Agreement over the four years to 2023-24 since the 2019 Half-Yearly review has also contributed to the increase in forecast revenue from National Agreements. This largely reflects technical adjustments and revised student enrolment estimates following the release of the 2020-21 Commonwealth Budget.

Table 4.8: National Agreement payments to New South Wales

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24
Health	6,741	7,667	7,947	7,743	8,207	8,698	3.2
Education	2,428	2,637	2,808	2,993	3,185	3,349	6.2
Skills and workforce development	578	491	496	499	504	510	0.9
Affordable housing	477	483	489	485	490	496	0.7
Disability	(0)	...	...	...	...	...	-
Total National Agreements	**10,224**	**11,278**	**11,740**	**11,721**	**12,385**	**13,053**	**3.7**

National Partnerships (incorporating Federation Funding Agreements)

The Commonwealth provides National Partnership payments to support specified projects, ongoing service delivery or service delivery improvements. This also includes schedules under the five new sector-based Federation Funding Agreements.

NSW Government revenue from National Partnerships is expected to be $4.0 billion in 2020-21, an increase of $109.1 million from 2019-20, driven largely by increased transport infrastructure funding. Revenue from National Partnerships is expected to grow at 0.6 per cent per annum on average over the four years to 2023-24. This overall modest growth reflects forecast stronger growth in transport over the forward estimates, mostly offset by reductions in Disaster Recovery Funding Arrangements (DRFA) payments and the declining payment profile of the DisabilityCare Australia Fund. The expiry of a number of National Partnerships such as the Skilling Australians Fund, Universal Access to Early Childhood Education and Public Dental Services for Adults also lowers the revenue profile over the forward estimates.

Transport revenue comprises the largest component of total National Partnership revenues, with $11.9 billion over the four years to 2023-24 with growth expected at an average annual rate of 12.3 per cent over the same period (see Table 4.9).

Since the 2019-20 Half-Yearly Review, revenue from National Partnerships has increased by $6.7 billion over the four years to 2023-24. This is primarily driven by the inclusion of transport infrastructure announcements contained in the Commonwealth's 2020-21 Budget and earlier announcements, as well as an additional $379.0 million to New South Wales expected under DRFA following the 2019-20 bushfires.

Key transport infrastructure projects driving increased Commonwealth revenues over the forward estimates since the 2019-20 Half-Yearly Review include:

- $2.6 billion of new, and a revised profile of Commonwealth funding for the Sydney Metro - Western Sydney Airport
- $2.3 billion for new and accelerated road projects such as the Coffs Harbour Bypass, Newcastle Inner City Bypass, New England Highway Upgrades including Bolivia Hill and Singleton Bypass and Newell Highway Upgrades
- an additional $451.0 million for the NSW Infrastructure Package for the Pinch Point Program, Fixing Local Roads and Safer Roads Program.

Other significant National Partnerships signed since the 2019 Half-Yearly Review include:

- the National Legal Assistance Partnership (NLAP), with New South Wales forecast to receive $554.6 million over five years to 2024-25
- Homebuilder, with $187.0 million expected to be received in 2020-21
- the JobTrainer Fund, with receipts of $159.3 million forecast in 2020-21.

Table 4.9: National Partnership payments to New South Wales

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m	% Average growth p.a. 2019-20 to 2023-24
Transport [(a)]	1,717	2,126	2,432	3,068	3,028	3,378	12.3
Education and skills	130	244	371	177	...	...	(100.0)
Disability	547	607	618	630	350	362	(12.1)
Health	145	115	113	55	36	83	(7.9)
Housing	...	...	187	...	...	...	
Environment	60	696	54	113	419	37	(51.9)
Other	138	99	221	123	122	124	6.0
Total National Partnership payments	**2,737**	**3,886**	**3,996**	**4,166**	**3,955**	**3,984**	**0.6**

(a) Includes Asset Recycling Initiative payments.

Other Commonwealth payments

Other Commonwealth payments are forecast to be $643.7 million in 2020-21. This represents a $188.4 million increase in revenue since 2019-20. Over the four years to 2023-24, other Commonwealth payments have increased by $603.2 million since the 2019-20 Half-Yearly Review. These revisions reflect a forecast additional $270 million over 2020-21 and 2021-22 for Bushfire Local Economies Recovery funding and also the reclassification of $181 million over the four years to 2023-24 for the Aged Care Assessment Program to this category.

Other grants

Other grants are expected to provide $638.3 million in 2020-21 and grow by 1.8 per cent per annum on average over the four years to 2023-24.

Box 4.4: Driving federation reform: the NSW Review of Federal Financial Relations

As the Nation's largest State economy, it is incumbent on New South Wales to take a leading role in driving a stronger, more effective Federation, where Commonwealth-state relations support the autonomy and ability of states to sustainably fund and deliver services and critical infrastructure to benefit the people of New South Wales.

In the 2019-20 Budget, the NSW Government announced an independent review into federal financial relations, appointing a panel of pre-eminent experts to lead the review. The panel was chaired by Mr David Thodey AO and included the Rt Hon Sir Bill English KNZM, the Hon John Anderson AO, Professor Anne Twomey, Professor John Freebairn AO and Ms Jane Halton AO PSM. The panel drew together leading experts in public policy reform, microeconomics and tax, constitutional law and federal financial relations.

The Review explored the key challenges and opportunities for the New South Wales revenue system and Commonwealth-state relations. Extensive consultation, supported by a discussion paper and draft report, spanned a broad range of viewpoints across the community, industry, think tanks, academia and all levels of government.

In the context of the devastating 2019-20 bushfires, COVID-19 pandemic and subsequent economic and fiscal downturn across states and territories, the recommendations of the Review's final report focus on reform of the tax system and federal financial relations to better support the State's economic recovery, sustainably fund and deliver essential services and infrastructure, and shore up the State's financial capacity to respond to future crises. The Review also focused on the need for taxes to be as low as possible and changing the tax mix to reduce reliance on inefficient and harmful taxes.

The Review recommended the following areas of reform:

- phase out some of the State's most inefficient taxes, including transfer duties and insurance taxes
- work with other states to address the hollowing out of payroll tax, support harmonisation and reduce complexity
- transition to the use of broad-based land taxes, to promote a more equitable and efficient tax system
- work with other states to modernise the way that roads are used and funded.

By commissioning this independent Review and by actively driving forums such as the Board of Treasurers in our intergovernmental landscape, New South Wales is at the forefront of federation reform.

Through wide-ranging consultation and public discourse, the Review has generated a renewed national conversation on federation reform and promoted wide-reading public debate. In the coming months, the Government will continue to explore reform opportunities informed by the Review and its recommendations.

4.6 Non-tax revenues

The NSW Government collects revenue through a number of sources beyond taxation. This section outlines current forecasts.

Sale of goods and services

After falling by 10.6 per cent in 2019-20, sales of goods and services revenue is forecast to grow by only 0.8 per cent per annum on average over the four years to 2023-24. Revenue has been downgraded by $1.4 billion in 2020-21 compared to the 2019-20 Half-Yearly Review, driven partly by lower fare revenue collected by Transport NSW. This reflects lower patronage on public transport resulting from the COVID-19 pandemic.

From 2021-22, forecast revenue is $280.6 million higher over the three years to 2023-24 in comparison to forecasts at the 2019-20 Half-Yearly Review. This largely reflects a $1.8 billion upgrade to expected revenue from Transport NSW, driven by an increase in fee for service revenue from the Transport Asset Holding Entity (TAHE). This is associated with increased spending on rail projects - including the Regional Rail Fleet program, New Intercity Fleet, More Trains, More Services, and Transport Access Program.

The upgrade from Transport NSW is mostly offset by downgrades to forecast revenue collected by the Ministry of Health and the Department of Education. Forecast revenue collected by the Ministry of Health is $826.0 million lower over the four years to 2023-24. This primarily reflects revised estimates of infrastructure and facility charges collected from private practitioners, and the estimated impact of reduced single room supplement payments from private health funds.

Revenue collected by the Department of Education is also forecast to be $646.4 million lower over the four years to 2023-24. This is due to a combination of downgrades in fee for service revenue and a shift in recognition from sales of goods and services to fees and fines.

Table 4.10: Sale of goods and services

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m	% Average growth p.a. 2019-20 to 2023-24
Rents and leases	343	325	251	251	256	250	(6.4)
Fee for service	2,605	2,145	3,091	4,053	3,011	1,918	(2.8)
Entry fees	64	43	23	53	58	59	8.2
Patient fees and hospital charges	1,070	975	1,088	1,110	1,151	1,163	4.5
Department of Veterans' Affairs	252	210	188	177	166	156	(7.1)
Court fees	134	138	137	128	127	126	(2.3)
Road tolls	158	138	136	163	164	173	5.7
Other sales of goods and services	5,119	4,739	4,646	4,867	4,985	5,144	2.1
Sale of goods and services	**9,745**	**8,713**	**9,560**	**10,802**	**9,919**	**8,988**	**0.8**

Interest income

Interest income includes returns on managed bond investments, including investments made by TCorp, and interest earned on bank deposits. This income is expected to be $301.8 million in 2020-21, or $111.9 million lower than forecast at the 2019-20 Half-Yearly Review. Forecast interest income is also $265.4 million lower over the four years to 2023-24, primarily due to lower interest rates which will flow through into lower expected returns on deposits.

Dividends and income tax equivalents

State-owned corporations pay dividends that provide a commercially appropriate return on government investment. These dividends support investment in essential government services.

Dividends and income tax equivalents have been revised down by $259.1 million for 2020-21 since the 2019-20 Half-Yearly Review. Revenue is expected to be $7.8 million higher over the four years to 2023-24.

The main driver of the downgrade in 2020-21 is the deferral of dividend income from Landcom from 2020-21 to 2022-23 and 2023-24. This is due to a slow-down in the sales market and the resultant deferral of forthcoming major transactions. The increase in revenue over the four years to 2023-24 is mostly driven by Landcom's decision to target a deferral of $400 million over 2022-23 and 2023-24.

The revenue increase in the forward years is partly offset by reduced forecast dividend income by Port Authority of NSW as a result of the COVID-19 pandemic and the interruption of cruise activity, and downturn of the bulk liquids, container, and vehicle trade. Forestry Corporation of NSW is also forecasting a reduction in dividend income over the four years following the 2019-20 bushfires.

Other dividends and distributions

Other dividends and distributions are received from entities other than State Owned Corporations and investment distibutions and are expected to be $1.8 billion in 2020-21, or $23.8 million lower than forecast at the 2019-20 Half-Yearly Review. Forecast revenue from other dividends and distributions is $485.4 million higher over the four years to 2023-24. This is due to updated assumptions around future expected investment return rates, shifts in underlying fund cashflows and, for the NSW Generations Fund, the impacts of additional contributions in accordance with the Government's fiscal repair strategy.

Fines, regulatory fees, licences and other revenue (excluding royalties)

Total revenue from fines, regulatory fees, licences and other revenue is forecast to be $3.0 billion in 2020-21, and is forecast to grow at an average annual rate of 4.2 per cent over the four years to 2023-24.

Fines revenue is forecast to be $651.1 million in 2020-21 and $3.2 billion over the four years to 2023-24, an upward revision since the 2019-20 Half-Yearly Review. The additional fines revenue is due to the Government's Towards Zero initiative to reduce trauma on New South Wales roads, which includes a roll out of red light speed cameras and optimising mobile speed cameras.

Other revenues are expected to be $6.3 billion over the four years to 2023-24, which is a $2.2 billion decrease since the 2019-20 Half-Yearly Review. This is partially explained by lower Special Infrastructure Contributions (SIC) than forecast at the 2019-20 Half-Yearly Review; reflecting weaker building activity and therefore fewer SIC payments to the State from developers. Revenue from donations has also been revised down due to a reduction in voluntary parental donations and contributions as a result of drought, bushfire and COVID-19 related hardship.

Table 4.11: Fines, regulatory fees, licences and other revenues

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 $m	2023-24 $m	% Average growth p.a. 2019-20 to 2023-24
Fines	653	596	651	864	868	864	9.7
Regulatory fees	117	174	145	198	161	175	0.2
Licences	623	655	687	650	663	696	1.6
Other revenues	1,193	1,153	1,502	1,395	1,236	1,298	3.0
Total fines, regulatory fees, licences and other revenues	**2,586**	**2,578**	**2,985**	**3,108**	**2,927**	**3,034**	**4.2**

Royalties

Mining royalties are forecast to fall to $1.4 billion in 2020-21, with a further $4.6 billion revenue over the three years to 2023-24. This reflects a $1.4 billion downgrade over the four years to 2023-24 in comparison to expectations at the 2019-20 Half-Yearly Review.

The much weaker outlook for coal royalties is due to a combination of lower than previously forecast thermal coal prices and a higher than anticipated Australian dollar. Improvements to the expectations for gold and copper prices and production volumes provide a minor offset.

Global coal markets are facing significant long-term structural challenges. Demand for thermal coal as an energy source has been weakening, driven by competition from other sources, the widespread substitution away from coal-fired electricity generation into technologies fuelled by increasingly competitive liquid natural gas and renewable energy sources.

5. EXPENDITURE

- Throughout 2020, the Government placed the economy before the budget, providing an unprecedented level of fiscal support to families, communities and businesses during the COVID-19 pandemic. The response has included:
  - more than $3.0 billion for our doctors, nurses and health system, to boost our hospital capacity, ensure the effective containment of COVID-19 and protect the community through the pandemic
  - over $4.4 billion to support our state emergency services and help communities across the State to rebuild after the devastating bushfire season, in partnership with the Commonwealth.[1]
- The Government is sustaining its response through the 2020-21 Budget, taking total COVID-19 stimulus and support to almost $29.0 billion.[2] General government sector expenses in 2020-21 are forecast to be $98.1 billion, an increase of $9.9 billion compared to 2019-20. The infrastructure program continues to grow, with $107.1 billion committed over the budget and forward estimates.
- The Government's economic and fiscal strategy is firmly focused on delivering short-term stimulus to the economy that is timely, temporary and targeted, while maintaining a balanced commitment to fiscal discipline as the economy recovers from the pandemic. As a result, annual expense growth is forecast to fall from 11.2 per cent in 2020-21 to 0.8 per cent in 2023-24. This reflects a return to business-as-usual levels of expenditure by the end of the forward estimates, as stimulus measures progressively phase out.
- The 2020-21 Budget also incorporates $5.6 billion in new savings measures over four years to 2023-24, including changes to public sector wages growth and procurement reform. These measures reflect the Government's strong commitment to fiscal discipline, with tight control on expense growth returning over the forward estimates, while making critical investments in our economic recovery now.

5.1 General government recurrent expenses

The Government's response to the COVID-19 pandemic and devastating bushfires has been decisive and on an unprecedented scale for a state government. This strong fiscal support continues in the 2020-21 Budget, with further temporary and targeted stimulus measures to drive job creation, the economic recovery, and additional investment in service delivery.

Recurrent expenses have materially increased in 2019-20 and 2020-21, predominantly driven by the COVID-19 and bushfire response effort, as well as service delivery investment:

- expenditure in 2019-20 was $88.3 billion, up 9.7 per cent on the previous year
- expenditure in 2020-21 is forecast to be $98.1 billion, or 11.2 per cent higher than 2019-20.

The Government's response to the health and economic crisis has seen expenditure growth rise above the long-run average revenue growth rate of 5.6 per cent in 2019-20 and 2020-21.

Further out, annual expense growth is forecast to be negative in 2021-22 as temporary and targeted stimulus measures are wound back, in line with the expected economic recovery, and as fiscal repair measures begin to be implemented. Expense growth then gradually rises to 0.8 per cent in 2023-24, in line with the Government's fiscal target in the *Fiscal Responsibility Act 2012* (FRA).

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[1] Includes Commonwealth contributions and investments that do not have an impact on general government expenditure.
[2] Includes revenue, recurrent and capital expenditure impacts, and impacts outside the general government sector.

In total, the Government has committed almost $29.0 billion in support through the immediate response and to drive a sustained economic recovery.[3] See Boxes 5.1 and 5.2 for the Government's key stimulus and support expenditure measures.

Box 5.1: The Government moved quickly to implement pandemic response measures, cushioning the health and economic impact

At the onset of the pandemic the Government moved swiftly to support both the economy and communities. Immediate initiatives were rolled out to boost our health system, support job retention and protect the vulnerable. Measures already underway include:[4]

Health

- over $1.0 billion to purchase personal protective equipment (PPE) to protect frontline emergency services workers and the public
- $700.0 million to assist in quadrupling ICU capacity, undertake additional COVID-19 testing, and purchase additional medical equipment.

Capital and maintenance

- $3.0 billion for the Jobs and Infrastructure Acceleration Fund, accelerating projects across the State, including commencing the $385.0 million St George Hospital Integrated Ambulatory Care Precinct two years earlier than planned, and new public schools in Googong, Murrumbateman and Edmondson Park.

Business and the economy

- $1.0 billion for the Working for NSW Fund to sustain businesses, create new jobs and retain employees, including $250.0 million for new and redeployed cleaners to undertake additional cleaning of schools, transport and other public infrastructure
- $750.0 million for a Small Business Support Fund to provide grants of up to $10,000 for unavoidable expenses for small businesses, and $3,000 to support businesses to safely relaunch their operations, with $45.0 million for the Southern Border Small Business Support Grant, designed to support small businesses during the border restrictions between Victoria and New South Wales
- $450.0 million allocated for land tax relief for landlords who provide rent relief to commercial and residential tenants in financial distress due to COVID-19.

Communities and families

- $101.6 million for housing and support services for the homeless, including temporary accommodation and wraparound support to rough sleepers
- $30.0 million to expand the Energy Accounts Payment Assistance (EAPA) scheme to provide energy bill relief to people experiencing short-term financial distress.

Supporting government services

- $3.3 billion to ensure essential services are maintained, and public sector jobs are supported, during the COVID-19 pandemic.

[3] Includes revenue, recurrent and capital expenditure impacts, and impacts outside the general government sector.
[4] Figures are for recurrent and capital expenditure over five years to 2023-24.

Box 5.2: This Budget announces a comprehensive plan for the State's recovery

The Government's stimulus and reform measures, announced in this Budget, will stimulate job creation, while providing support to the most vulnerable cohorts in our community.[5]

Building a better New South Wales

- $812.0 million to deliver new social housing and undertake significant maintenance and upgrades of social and Aboriginal housing
- $256.0 million for upgrades and maintenance works across National Parks, the Royal Botanic Gardens, Centennial Park, Sydney Olympic Park and the Crown Land portfolio
- $167.7 million for capital works and maintenance of courts, police stations and corrective services, as well as upgrades to the Goulburn Police Academy
- $104.5 million for an Arts Maintenance and Upgrade Fund to stimulate jobs through improving accessibility, sustainability and functionality of our cultural assets.

Investing in our people and their future

- $337.0 million to provide free small group tutoring to boost learning for vulnerable school children who have been left behind while remote learning during the pandemic
- $318.6 million for Skilling for Recovery, with $159.3 million from the NSW Government, to help job seekers retrain or upskill, and to support school leavers to enter the workforce
- $80.0 million for 300 new housing sector pre-apprenticeships and cadetships to provide career pathways for young people and social housing tenants
- $19.0 million for the Skill and Employment Generation program to significantly increase the apprenticeship intake for trade skills across road and rail industry sectors
- $10.0 million to help women return to work via grants and Return to Work Coordinators
- $2.5 million to develop a strategic business case for a dedicated TAFE Aged Care Centre of Excellence Training Facility.

Making it easier to run a business

- $500.0 million in 2020-21 to provide digital vouchers for each NSW adult resident to stimulate spending at restaurants, visitor sites and cultural attractions
- $472.0 million to provide small and medium sized businesses, which do not pay payroll tax, with a $1,500 digital voucher for the cost of government fees and charges.

Delivering quality services for everyone in New South Wales

- $169.4 million in mental health support measures, including additional community health workers, 100 additional wellbeing and in-reach nurses, and to establish 12 mental health and wellbeing community collaboratives
- $120.0 million to continue fee relief for community and mobile preschools
- $55.9 million for palliative care measures, including to provide an additional 5,000 End of Life home support packages and specialist allied health professionals
- $29.0 million to extend the Together Home program to transition rough sleepers into permanent housing with wraparound support services.

Strong local industry, big global outlook

- $250.0 million for the Jobs Plus Program, to entice companies from interstate and across the globe to New South Wales if they create at least 30 new net jobs
- $175.0 million in additional funding for the Made in NSW program, focusing on investment in new film and TV projects.

[5] Figures are for recurrent and capital expenditure over five years to 2023-24.

Table 5.1 outlines movements in Government expenses between the 2019-20 Half-Yearly Review and 2020-21 Budget.

Table 5.1: Expense reconciliation since the 2019-20 Half-Yearly Review

	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m
Expenses – 2019-20 Budget	**83,300**	**86,405**	**88,016**	**89,410**	**n.a.**
Policy measures	(109)	25	(123)	15	n.a.
Parameter and technical adjustments	265	469	182	710	n.a.
Expenses – 2019-20 Half-Yearly Review	**83,455**	**86,899**	**88,075**	**90,135**	**n.a.**
Policy measures	5,720	11,937	5,465	3,288	2,607
Parameter and other budget variations[(a)]	(893)	72	2,255	981	n.a.
Savings, reprioritisations and offsets	...	(775)	(1,276)	(1,712)	(1,908)
Expenses – 2020-21 Budget	**88,283**	**98,133**	**94,519**	**92,692**	**93,390**

(a) The increase in parameter and other variation expenses in 2021-22 is primarily driven by movements in Transport Asset Holding Entity expenditure, which is offset by equivalent revenue, and other technical adjustments.

Since the 2019-20 Half-Yearly Review, expenses from 2019-20 to 2022-23 have increased by $25.1 billion, including an additional $11.2 billion in 2020-21.

Over four years to 2023-24, the major drivers of the change in recurrent expenditure are:

- $11.8 billion for COVID-19 stimulus and support measures (see Boxes 5.1 and 5.2)[6]
- $1.6 billion to assist regional communities to recover from the 2019-20 bushfires (see Box 5.3)[7]
- $9.8 billion for other new policy measures, including supporting critical service delivery in Stronger Communities, TAFE NSW, Service NSW, Transport and Health
- $5.7 billion for expense savings ($5.6 billion budget result impact), reprioritisation and offset measures, including changes to wages growth for public sector workers (see Box 5.5)
- parameter and other budget variations associated with the implementation of accounting standards, actuarial adjustments, the reprofiling of expenditure to align with updated program delivery schedules, and the allocation of centrally held expenditure into agency budgets.

6 Includes depreciation expenses and expenditure associated with Commonwealth co-contributions. Excludes measures identified as both bushfire response and COVID-19 stimulus and support measures.

7 Further bushfire response measures have capital expenditure impacts and impacts outside the general government sector.

The Government continues to support communities in regional New South Wales, helping them recover from drought, the 2019-20 bushfires, and the COVID-19 pandemic. This support is detailed in Box 5.3.

Box 5.3: Supporting regional New South Wales through 2020

The three crises have hit regional New South Wales hard over the last 12 months.

The Government, in partnership with the Commonwealth, has announced $4.4 billion over five years to 2023-24 to assist communities recover from the 2019-20 summer bushfires.[8] This includes:

- $1.0 billion to rebuild bushfire impacted communities across New South Wales, including to repair and rebuild vital infrastructure
- $540.0 million committed in partnership with the Commonwealth Government for the Bushfire Local Economic Recovery Fund, to drive economic recovery in areas affected by the bushfires
- $335.0 million for small business bushfire recovery grants, supporting over 20,000 businesses impacted by bushfires to help them keep their doors open and maintain jobs
- $192.2 million to 2024-25 in response to recommendations from the NSW Bushfire Inquiry, including to support frontline firefighters and implement a mental health strategy for emergency services, with a further $68.0 million to enhance hazard reduction and for fleet upgrades to prepare for the next bushfire season[9]
- $187.5 million to 2024-25 for Resilience NSW to deliver the best possible whole-of-government approach to prevention, preparedness, response and recovery from disasters and emergencies[10]
- $140.0 million for the Bushfire Industry Recovery Package to support industries impacted by bushfires
- $110.0 million for Primary Producer Recovery grants, supporting 1,800 farmers so far.

The Government is also supporting regional New South Wales during the COVID-19 pandemic, including:

- $1.8 billion from the $3.0 billion Jobs and Infrastructure Acceleration Fund, including additional funding to accelerate the Fixing Country Bridges and Fixing Local Roads programs
- $198.8 million from the $750.0 million Small Business Support Fund, which has flowed through to small businesses in regional New South Wales via the Small Business Support, Small Business Recovery and the Southern Border Support Grants programs.

A further $300.0 million has been invested for a Regional Growth Fund 2.0, bringing the total investment to $2.0 billion, and supporting the economic growth and development of regional New South Wales.

Drought has lifted in large parts of the State but there are still areas, particularly in the north and north west, which continue to suffer. A further $310.0 million has been provided for drought relief since the 2019-20 Half-Yearly Review, which brings the State's total commitment for drought and water security to around $4.5 billion since 2015.

[8] Bushfire response measures include Commonwealth contributions and investments that do not have an impact on general government expenditure. Includes $349.0 million over five years for Crown Lands fencing repair and the Bushfire Industry Recovery Package, which are also included as COVID-19 stimulus and support measures.

[9] Figure for the response to the NSW Bushfire Inquiry to 2023-24 is $168.3 million.

[10] Figure to 2023-24 is $147.7 million.

New policy measures

The 2020-21 Budget includes the financial impact of policy decisions made since the 2019-20 Half-Yearly Review.

New policy measures since the Half-Yearly Review include:

- protecting the community from COVID-19, and supporting healthcare workers during the pandemic
- supporting bushfire and drought affected communities in regional New South Wales
- helping small businesses experiencing financial difficulties during COVID-19
- helping vulnerable members of the community and supporting those in need during COVID-19
- investing in digital solutions to transform Government service delivery, including further investment in in the Digital Restart Fund (see Box 5.4)
- continuing to provide accessible, safe and reliable public transport
- supporting our justice system and protecting our communities
- investing in people by building skills across the workforce, including through TAFE NSW training and skills services.

Further information on new measures is provided in section 1.4 in Chapter 1 and in the *Measures Statement* in Appendix A5.

Box 5.4: Investing in digital transformation through the Digital Restart Fund

The Government is transforming service delivery through investment in digitisation, to drive productivity, efficiency and customer satisfaction across government services. A further $1.6 billion has been invested into a Digital Restart Fund (DRF), in addition to the $100.0 million in seed funding provided at the 2019-20 Budget.

This Budget includes additional investments from the DRF, including:

- closing the digital gap between regional and metropolitan schools through better integration of digital technology into the school curriculum and infrastructure, with $365.8 million over two years
- enhancing the efficiency and productivity of courts and tribunals, with a $54.5 million investment over three years to provide new digital technologies
- further improving the customer experience and reducing assessment times through ePlanning, with a $45.8 million investment over three years to implement the next phase of an end-to-end digital planning service
- improving the online customer experience for Revenue NSW online services through a $17.5 million investment over two years to ensure better integration of services with Service NSW for taxes and fines.

A further $240.0 million is also reserved in the DRF for cyber security initiatives, including $60.0 million over the next three years for CyberSecurity NSW to provide a centralised government response to incidents and proactively manage cyber security threats.

Parameter and other budget variations

Parameter and other budget variations are changes to the cost and timing of existing projects and services that are largely outside the Government's control. This includes changes to demand, changes to the timing of project delivery (for example, construction delays due to weather events), changes to input costings, variations in Commonwealth Government grants, actuarial variations (including for depreciation expenses) and changes associated with the implementation of new accounting standards.

Major parameter and other budget variations since the 2019-20 Half-Yearly Review, over the budget and forward estimates, which increase expenses include:

- $2.0 billion for the transfer of assets outside the general government sector, and the reclassification of capital expenditure to grants to local government, associated with the completion of major transport projects
- $1.5 billion in actuarial adjustments for NSW Self Insurance Corporation, largely associated with increased insurance scheme liabilities
- $1.5 billion in higher expenses related to the implementation of new accounting standards for AASB 1059 *Service Concession Arrangements: Grantors*, partially offset by increases in revenue
- $1.3 billion in higher interest expenses related to additional borrowings, largely to fund the Government's COVID-19 response and recovery, and the record infrastructure program
- $1.1 billion for expenditure associated with Commonwealth funding, primarily for Transport infrastructure projects
- additional expenses associated with the reprofiling of expenditure across the budget and forward estimates, to better align with planned service and project delivery schedules.

The above parameter and other budget variations are partially offset by other variations, including a decrease in superannuation expenses of $711.0 million over the budget and forward estimates, largely due to movements in the 10-year Commonwealth Government bond rate.

Fiscal discipline and sustainable expense growth

The 2020-21 Budget reflects the Government's fiscal strategy to support the economy in the short-term through temporary, timely and targeted stimulus, while ensuring expense growth returns to sustainable levels in the medium-term. This is demonstrated in this Budget through the inclusion of targeted reprioritisation and reform measures totalling $5.6 billion over four years to 2023-24.

As a result of this fiscal discipline, expense growth is expected to fall from 11.2 per cent in 2020-21 to 0.8 per cent by 2023-24. This equates to an average growth rate of 1.4 per cent per annum over the budget and forward estimates, which is under the long term average for revenue growth of 5.6 per cent and demonstrates the Government's unwavering commitment to the *Fiscal Responsibility Act 2012*.

Box 5.5 provides further details on these savings, reprioritisation and reform measures, including changes to the NSW Government's wages policy for public sector workers. This measure adjusts wages growth down across the budget and forward estimates. Because wages are a significant component of general government expenses (outlined further below), this saves $4.3 billion over four years to 2023-24.

Box 5.5: Redirecting expenditure to support businesses and employment

The Government has announced $29.0 billion in stimulus and support measures since March 2020. This includes targeted spending now, to create jobs and support the economic recovery. To help fund this unprecedented economic response, the Government needs to deliver services more efficiently and effectively, focusing on outcomes rather than how much is spent.

In this respect, the Government is starting to transform how public services are delivered through outcomes evaluations, which will lead to improved productivity, increased efficiency and a cutting of waste and duplication.

Decisions taken now on expense reform will deliver increasing benefits over time as the economy recovers from the pandemic. Expense reform also provides the Government with fiscal capacity to respond to any future natural disasters or economic shocks.

Savings, and reprioritisation measures in the 2020-21 Budget total $5.6 billion over four years to 2023-24 and include:

- $4.3 billion from lower wages growth for public sector workers and Members of Parliament, reflecting:
  - 0.3 per cent wages growth in 2020-21 for approximately 170,000 workers, as decided by the Industrial Relations Commission, and a 12-month pause to wages growth for both senior public servants and Members of Parliament, enabling the Government to reinvest these savings into job creating initiatives
  - no more than 1.5 per cent wages growth for all public servants over the forward estimates, which is in line with average underlying inflation forecasts up to 2023-24. The Government's wages policy will continue to allow increases beyond this level to be considered, where employee-related cost savings are achieved to fully offset the additional cost.
- $729.0 million from additional procurement savings across contingent labour, travel, events, marketing and training, facilities and fleet management, medical procurement, software licensing and maintenance, telecommunications, and ICT. These savings are to be achieved through leveraging whole-of-government economies of scale, renegotiating commercial rates, managing supplier performance, rationalising specifications and demand management
- $600.0 million in expenses across Government departments, redirected to partially fund the $1.6 billion Digital Restart Fund. This initiative creates incentives and a contestable pool for agencies to identify transformation opportunities.

As part of its fiscal reform program in 2020-21, the Government will also investigate options for further efficiencies in the way Government delivers services, including reviewing existing grants and subsidies, as well as Cluster outcomes and expenditure.

Table 5.2 outlines the targeted savings, reprioritisation and reform measures implemented in this Budget. These measures reduce expenditure by $5.7 billion ($5.6 billion budget result impact) over the budget and forward estimates and enable the Government to reprioritise expenditure to priority areas.

Table 5.2: Savings, reprioritisation and offset measures

	2020-21 Budget	2021-22	2022-23 Forward estimates	2023-24	Total
	$m	$m	$m	$m	$m
Changes to wages policy for public sector workers[(a)]	595	904	1,249	1,597	**4,344**
Procurement savings initiatives	...	164	254	312	**729**
Digital Restart Fund expense reprioritisation	180	210	210	...	**600**
Total reprioritisation, saving and offset measures	**775**	**1,276**	**1,712**	**1,908**	**5,670**

(a) The budget result impact of changes to wages policy is $4,311 million over four years to 2023-24, incorporating revenue changes.

Trends and outlook – expenses

Table 5.3: General governments sector expenses

	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	% Average growth p.a. 2019-20 to 2023-24
	$m	$m	$m	$m		
Employee Expenses	35,555	37,087	37,610	38,888	40,075	3.0
Superannuation	4,170	3,888	3,756	3,771	3,969	(1.2)
Other Operating	23,156	24,824	23,506	22,132	21,681	(1.6)
Depreciation & Amortisation	5,948	7,042	7,425	7,750	8,044	7.8
Grants and Subsidies	17,369	22,743	19,548	17,282	16,542	(1.2)
Interest	2,084	2,549	2,673	2,869	3,079	10.2
Total Expenses	**88,283**	**98,133**	**94,519**	**92,692**	**93,390**	**1.4**
Annual change	*9.7%*	*11.2%*	*-3.7%*	*-1.9%*	*0.8%*	

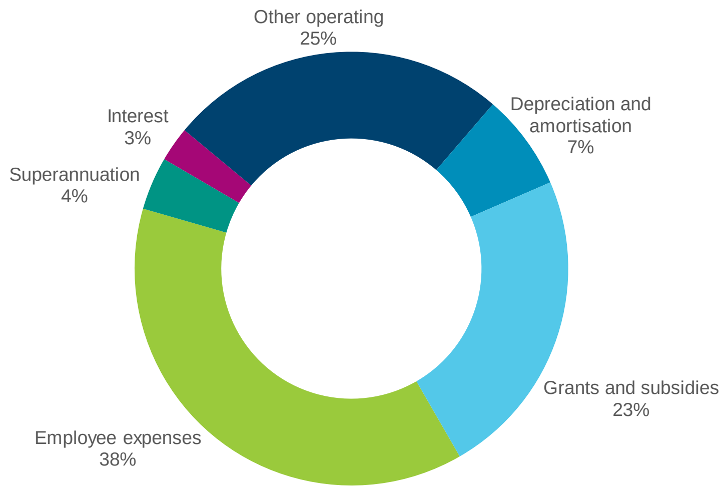
This section provides an expense line analysis of the Government's operating expenditure, as outlined in Table 5.3.

Consistent with past years, and reflecting the service-oriented nature of the State Government, employee-related expenses (excluding superannuation) account for the largest share of spend at 37.8 per cent of total expenses in 2020-21. This is consistent with other Australian states and territories.

Other operating expenses make up the second largest category (25.3 per cent) and include consultant and contractor fees, and repairs and maintenance costs.

Grants and subsidies make up almost a quarter of expenses (23.2 per cent), followed by depreciation and amortisation (7.2 per cent), superannuation expenses (4.0 per cent), and interest expenses (2.6 per cent).

Chart 5.1: Composition of 2020-21 expenses



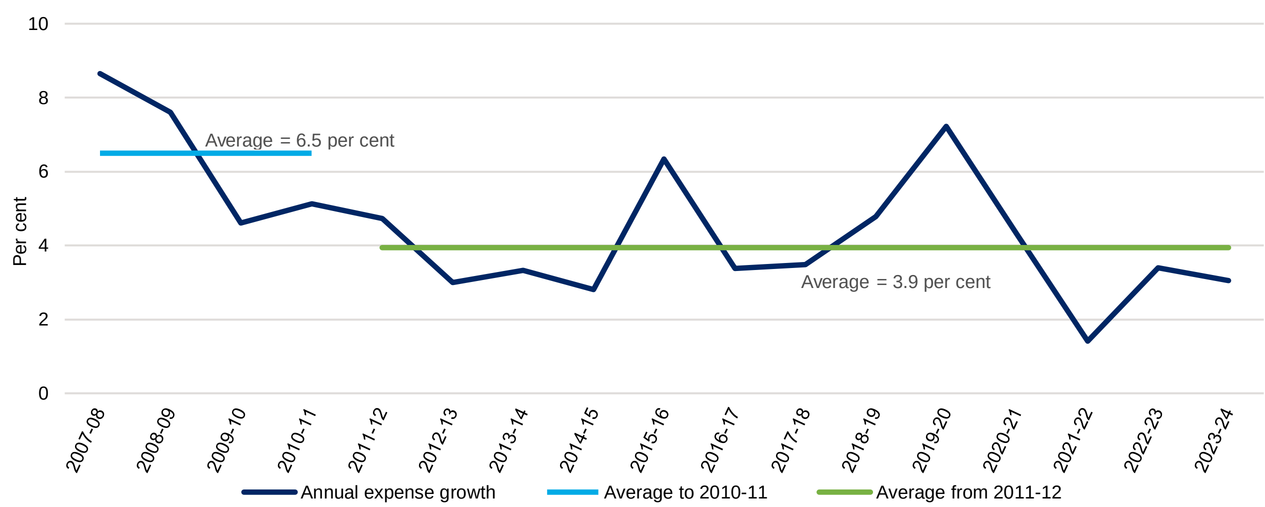
Employee expenses

Employee expenses, excluding superannuation, are projected to be $37.1 billion in 2020-21, comprising the largest share of Government operating expenses at 37.8 per cent of the total. This reflects the Government's focus on delivering essential services to support the community and includes expenditure for teachers, nurses and police.

Employee expenses are forecast to grow by 4.3 per cent in 2020-21, driven by additional frontline workers, including for the COVID-19 response. This growth is forecast to moderate over the budget and forward estimates, increasing by an average of 3.0 per cent per year. This growth is partially due to increases in frontline staff in health, education and police. It also incorporates the downward revision of wages growth to 0.3 per cent in 2020-21 for some public sector workers and 1.5 per cent over the forward estimates.

Chart 5.2 shows average annual employee expense growth falling from 6.5 per cent from 2007-08 to 2010-11, compared to forecast average annual growth of 3.9 per cent from 2011-12 to 2023-24.

Chart 5.2: Employee expense growth from 2007-08 to 2023-24



The Government continues to focus on efficient back-office operations so expenditure can be redirected towards frontline service delivery. Frontline numbers have increased as a proportion of the total New South Wales public sector from 2010-11 to 2019-20, comprising 87.2 per cent of the public sector in 2019-20. From 2010-11 to 2019-20, frontline staff increased by 20,273 full-time equivalents (FTEs), while non-frontline staff numbers fell by 1,784 FTEs. Frontline staff continued to grow by 7,785 FTEs from 2018-19 to 2019-20 as a result of an increase in teachers, school support staff, nurses, medical practitioners, ambulance officers, police and firefighters.

This Budget reflects the Government's significant investment in frontline workers to support the community during COVID-19. In addition to boosting healthcare, support and hospital security staff to protect the community during the pandemic, the Government is also providing:

- 5,295 new and redeployed cleaners (as at 31 July 2020) from the $250.0 million stimulus package to support additional cleaning of public infrastructure, including schools and public transport
- 1,000 additional Service NSW customer service staff from a $102.9 million investment in 2020-21 to enable families and businesses to readily access non-health related COVID-19 advice and support 24/7.

The Government is also supporting frontline staff during the pandemic by:

- ensuring continued access to childcare, particularly for frontline staff, by helping to maintain jobs for over 7,900 community preschool workers through the $120.0 million extension of the free preschool package
- investing over $1.0 billion to provide additional personal protective equipment (PPE) to keep our frontline workers safe throughout the duration of the pandemic.

Superannuation expenses

Superannuation expenses are projected to be $3.9 billion in 2020-21, or 4.0 per cent of total recurrent expenses. These costs are associated with defined benefit and defined contribution plans.

Superannuation expenses are forecast to decrease by 1.2 per cent on average each year over the budget and forward estimates. This is attributable to a decrease in forecast expenses for defined benefit superannuation liabilities, partially offset by an increase in expenses for defined contribution superannuation liabilities.

Changes in expenses for defined benefit superannuation liabilities are largely driven by movements in the 10-year Commonwealth Government bond rate. These expenses are expected to fall in 2021-22 and 2022-23 before beginning to rise in 2023-24, reflecting forecasts of the 10-year bond rate over those years.

Falls in defined benefit superannuation expenses are partially offset by increased defined contribution superannuation expenses across the budget and forward estimates, primarily associated with additional health, education and police employee costs.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs and comprise 25.3 per cent of total expenses in 2020-21.

Other operating expenses are forecast to be 7.2 per cent higher in 2020-21 compared to the prior year, largely due to COVID-19 response and recovery measures.

Other operating expenses are forecast to decline over the budget and forward estimates by an average of 1.6 per cent per annum to 2023-24. The decrease from 2020-21 to 2023-24 is driven by the temporary COVID-19 response and recovery measures ceasing in the forward estimates. Other drivers of the decrease are the completion of major transport projects being delivered in the public non-financial corporations sector, and the implementation of budgeted savings measures, including the increase in agency procurement savings.

Information on the Aboriginal Procurement Policy is provided in Box 5.6.

Box 5.6: Driving sustainable economic prosperity

The Aboriginal Procurement Policy leverages the NSW Government's procurement activities to support Aboriginal employment opportunities and participation along with growth of Aboriginal-owned businesses, to drive prosperity across Aboriginal communities.

Following significant consultation and review, the policy will be strengthened from 1 January 2021 by combining the Aboriginal Procurement Policy and the Aboriginal Participation in Construction Policy. This will concentrate Government's procurement activities through a single policy framework to improve outcomes. Government clusters have each been set a target to direct 1 per cent of addressable spend to Aboriginal businesses, a total of $59.0 million from 1 January to 30 June 2021.

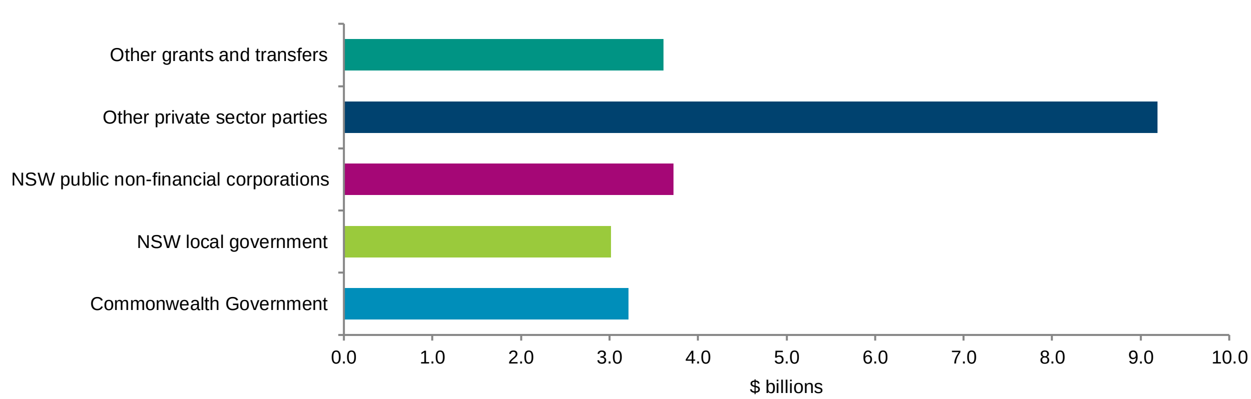
This new target aims to increase the spend with Aboriginal businesses by almost 30 per cent based on a 6-monthly average of the previous financial year spend with Aboriginal businesses. The target to award 3 per cent of goods and services contracts to Aboriginal businesses has been retained from the previous policy and targets assigned to each cluster to better assist clusters to understand their requirements and achieve their targets.

Grants, subsidies and other transfer expenses

Grants and subsidies include payments to other government sectors (for example State Owned Corporations), local government, community groups and non-profit organisations. They are for the delivery of services and infrastructure projects.

Grants and subsidies are forecast to be $22.7 billion in 2020-21 and comprise 23.2 per cent of total expenses. Chart 5.3 below outlines the composition of grants and subsidies in 2020-21 by recipient.

Chart 5.3: Composition of grants and subsidies in 2020-21 by recipient



Grants and subsidies are expected to increase by $5.4 billion (30.9 per cent) from 2019-20 to 2020-21. This is driven by the Government's bushfire and COVID-19 response and recovery measures.

Over the budget and forward estimates, grants and subsidies decrease by an average of 1.2 per cent annually. The decrease recognises the temporary COVID-19 stimulus and bushfire recovery measures in 2019-20 to 2020-21, which reduce across the forward estimates. This is partially offset by an increase in grants associated with the continued roll-out of the National Disability Insurance Scheme (NDIS).

Grants to local governments and councils are forecast to increase to $3.0 billion in 2020-21 and comprise 13.3 per cent of grants and subsidies. These payments include Restart NSW grants and support local councils to deliver infrastructure and services. They also provide targeted benefits to local communities, including repairing and upgrading local roads and airports, and providing sporting facilities and parks.

Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be $7.0 billion in 2020-21, comprising 7.2 per cent of total expenses. These expenses are forecast to grow by 18.4 per cent in 2020-21 and by an average of 7.8 per cent annually over the budget and forward estimates.

Depreciation and amortisation expenses are often correlated to the level of infrastructure investment. As the Government continues to make record infrastructure investments into schools, hospitals, transport projects and digital service delivery, higher depreciation expenses are forecast.

The introduction of accounting standard AASB1059: *Service Concession Arrangements: Grantor* has also increased depreciation and amortisation expenses across the four years to 2023-24. See the accompanying publication '*How to Read the Budget Papers*' for further detail.

Interest

Interest expenses in 2020-21 are forecast to be $2.5 billion (2.6 per cent of total expenses) and increase by an average of 10.2 per cent annually over the budget and forward estimates. This is associated with increased borrowings to offset a decline in revenue sources as a result of COVID-19, significant investment for COVID-19 recovery and response measures, and to fund the State's record infrastructure program.

The increase in borrowings is partially offset by historically low interest rates. The Government has leveraged these low interest rates to fund the State's infrastructure program, while keeping interest servicing costs at sustainable levels.

Even with the increase in borrowings to support the infrastructure program, the State's interest expenses are expected to average only 3.2 per cent of revenue over four years to 2023-24.

5.2 General government capital expenditure

This section provides analysis of capital expenditure in the general government sector, which excludes the investment program of Government-owned corporations such as Sydney Water, Water NSW, Transport Asset Holding Entity and Sydney Opera House Trust. Table 5.4 provides a reconciliation of the changes in capital expenditure between the 2019-20 Half-Yearly Review and 2020-21 Budget.

Table 5.4: Capital expenditure reconciliation

	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	Budget		Forward Estimates	
	$m	$m	$m	$m	$m
Capital – 2019-20 Budget	**22,345**	**17,750**	**17,247**	**14,349**	**n.a.**
Capital measures	706	834	810	1,038	n.a.
Parameter and other variations	631	237	69	20	n.a.
Capital – 2019-20 Half-Yearly Review	**23,683**	**18,821**	**18,126**	**15,407**	**n.a.**
Capital measures	(120)	4,135	5,032	4,592	1,907
Parameter and other variations	(2,578)	(311)	(228)	132	n.a
Capital – 2020-21 Budget	**20,985**	**22,644**	**22,930**	**20,131**	**18,523**

Capital expenditure in the general government sector is forecast to be $22.6 billion for 2020-21, an increase of 7.9 per cent from 2019-20. The four-year capital expenditure program to 2023-24 is expected to be $84.2 billion. This is an increase on the forecast program in the 2019-20 Half-Yearly Review and is driven by COVID-19 response and recovery measures and new project approvals including:

- $9.2 billion over the next four years for Sydney Metro – Western Sydney Airport
- $3.0 billion Jobs and Infrastructure Acceleration Fund, which has funded shovel ready projects across the State. Further information on the Jobs and Infrastructure Acceleration Fund is in Box 1.1 of Budget Paper No. 3 *Infrastructure Statement*
- $1.6 billion Digital Restart Fund ($1.2 billion capital and $400.0 million recurrent) to accelerate whole of government digital transformation (see Box 5.4).

Taking into account the investment program of the Public Non-Financial Corporations, total non-financial public sector capital expenditure is expected to be $107.1 billion over four years to 2023-24. See Box 5.7 and Budget Paper No 3. *Infrastructure Statement* for more information.

Box 5.7: Continuing record levels of infrastructure investment across the State

The Government's record four-year $107.1 billion capital program is creating much needed jobs during the pandemic and building up the productivity of our State. These investments will generate an economic dividend for decades. New schools upskill our kids, hospitals improve our health and quality of life and transport infrastructure connects people to jobs.

The infrastructure program in this Budget has a strong focus on improving the State's resilience. It recognises now that the decade ahead is different from the decade just finished. The program responds to challenges of bushfire and drought, which are not going away. It also focuses investment towards better digital services.

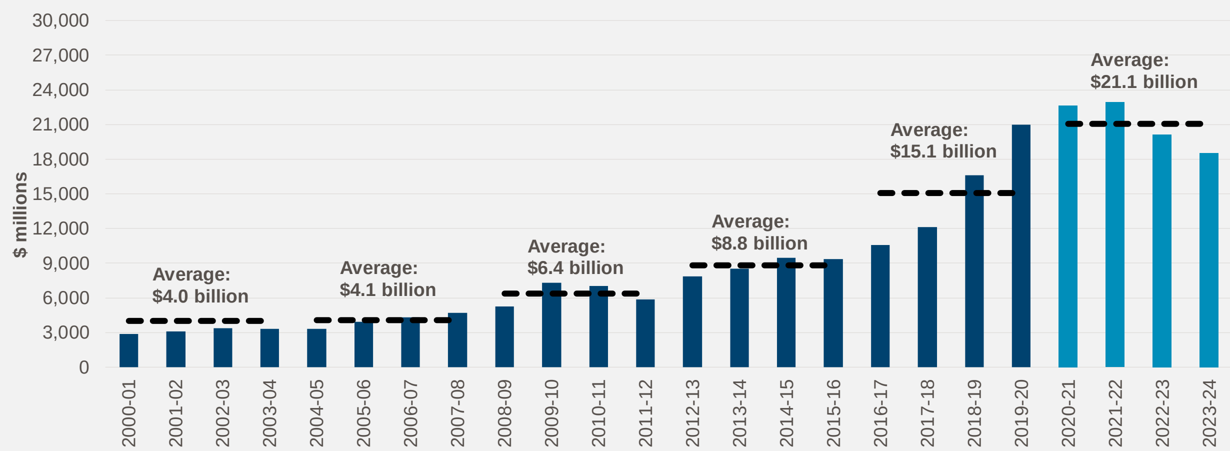
The 2020-21 Budget includes investment in new projects and acceleration of others:

- $10.4 billion over the next four years for the Sydney Metro West
- over $1.4 billion in new school infrastructure funding for new and upgraded schools
- $438.0 million for the Shoalhaven Hospital Redevelopment
- $104.5 million for an Arts Maintenance and Upgrade Fund to both stimulate jobs and the economy through improving accessibility, sustainability and functionality of our cultural assets.

New South Wales residents are also continuing to enjoy the benefits of the Government's infrastructure investment with major projects such as the CBD and South East Light Rail, the Arthur Phillip High School, the WestConnex M8 and NorthConnex are now complete and open. For the first time citizens in Sydney have access to a fast metro rail service – Sydney Metro Northwest.

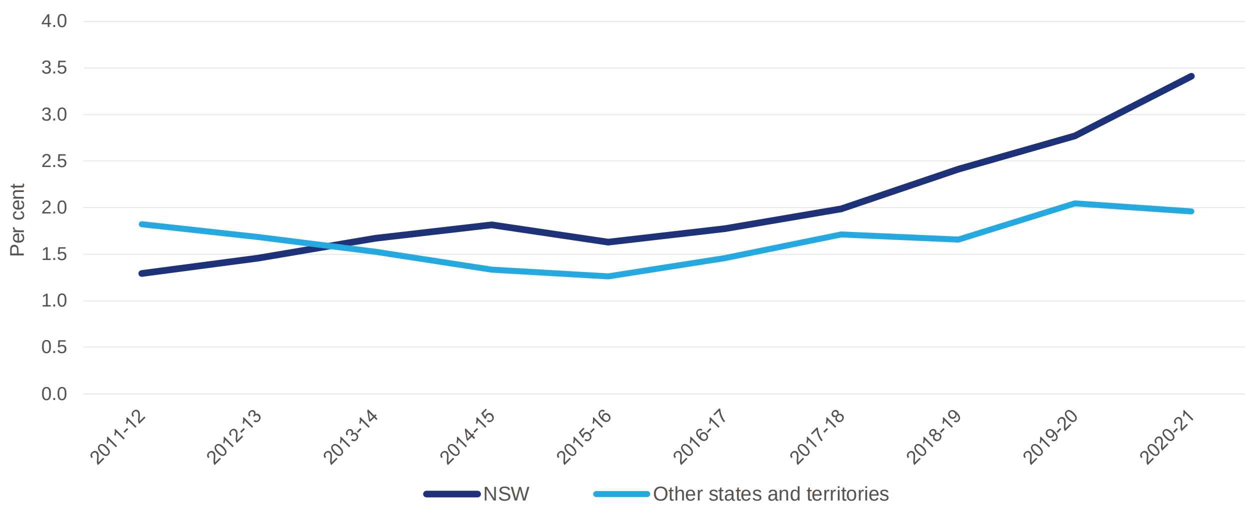
Chart 5.4 shows how general government sector capital expenditure has increased substantially since 2000-01. Since 2011, active balance sheet management, supported by the Government's successful asset recycling program, has allowed the Government to deliver a record infrastructure pipeline. This balance sheet strength and the use of operating surpluses means borrowings are maintained at manageable levels (see Box 3.4 in Chapter 3).

Chart 5.4: General government sector capital expenditure since 2000-01



As a share of GSP, general government capital expenditure has increased from 1.3 per cent in 2011-12 to 3.4 per cent[11] in 2020-21 and remains higher than the average of other states and territories (Chart 5.5).

Chart 5.5: General government sector capital spending relative to GSP(a)



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

Source: ABS cat no. 5220.0 and 5512.0 for years 2002-03 to 2018-19. State Budget papers and NSW Treasury calculations for 2019-20 and 2020-21.

5.3 Functional classification of government expenditure (COFOG-A)

This section provides advice on NSW Budget spending according to the categories in the international standard 'Classification of the Functions of Government – Australia' (COFOG-A). Further information on COFOG-A can be found at the Australian Bureau of Statistics website.

COFOG-A classification is an international standard, which allows for benchmarking and comparisons to be undertaken across jurisdictions. Its subcategories are different to the 37 State Outcomes and includes items, such as defence, which are less relevant to New South Wales service delivery priorities. The expenditure data discussed below is presented on a general government sector eliminated basis and will vary from the data presented on a cluster and State Outcome basis in Budget Paper No. 2 *Outcomes Statement*.

The 37 State Outcomes presented in Budget Paper No. 2 *Outcomes Statement* categorise expenditure with a greater level of consideration to the services delivered by the NSW Government and the priorities of our citizens. Analysis on State Outcomes can be found in Budget Paper No. 2 *Outcomes Statement*.

[11] Calculated as purchases of non-financial assets per the cash flow statement. For consistency with other states, assets acquired through finance leases are excluded.

Recurrent and capital expenditure by COFOG-A

Total recurrent expenditure in 2020-21 is $98.1 billion. In New South Wales, four categories make up 71.1 per cent of expenditure – health, education, transport and public order and safety (see Chart 5.6).

Total capital expenditure in 2020-21 is $22.6 billion. Transport, health and education represent 78.4 per cent of the total capital expenditure budget in 2020-21 (see Chart 5.7).

For further information on the Government's infrastructure program, refer to Budget Paper No. 3 *Infrastructure Statement*.

Chart 5.6: $98.1 billion in recurrent expenditure, by COFOG-A category (2020-21)

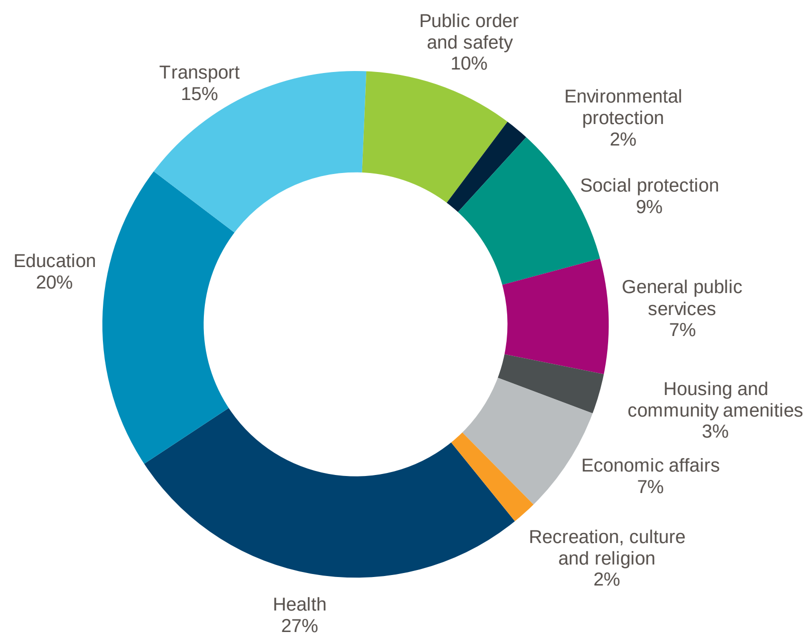
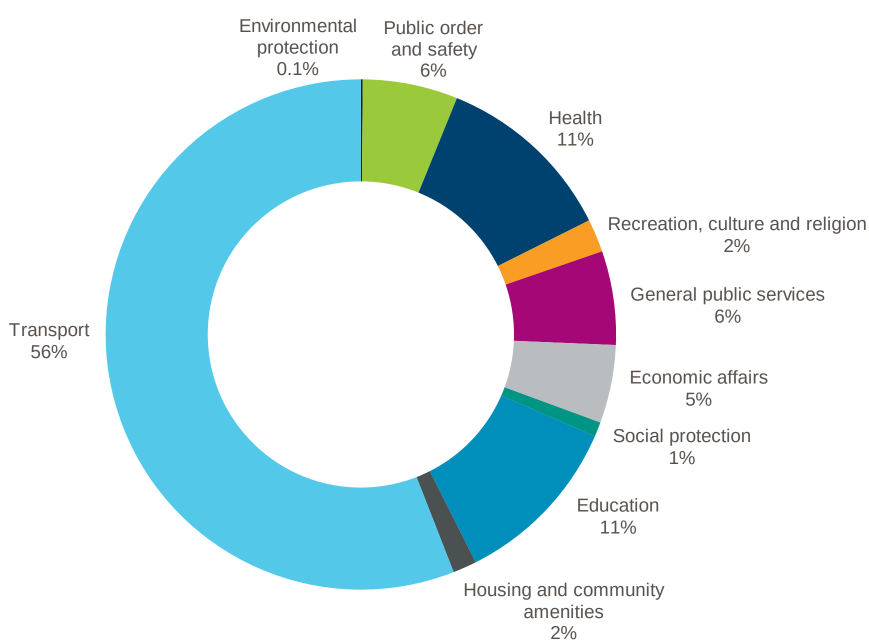


Chart 5.7: $22.6 billion in capital expenditure, by COFOG-A category (2020-21)



Analysis of expenditure by COFOG-A category

Health

Recurrent health expenses for 2020-21 are expected to be $26.1 billion, representing 26.6 per cent of total recurrent expenses. This is a $2.7 billion increase from 2019-20.

The 2020-21 Budget includes spending to provide high-quality care in public hospitals, ambulance and emergency health services, mental health services, as well as funding for recovery measures and for the continued public health response to the COVID-19 pandemic.

Capital expenditure for health in 2020-21 is $2.6 billion, or 11.5 per cent of total 2020-21 GGS capital expenditure. This is an increase of $73.4 million since 2019-20. This is largely attributable to the continued delivery and acceleration of hospital and health infrastructure projects, such as the redevelopments of the Campbelltown, Coffs Harbour, Goulburn, Maitland, Nepean, Randwick, Royal Prince Alfred, St George, Sydney Children's Hospital Randwick, Tweed and Wyong hospitals.

Education

Recurrent education expenses in 2020-21 are expected to be $19.2 billion, or 19.6 per cent of total recurrent expenses.

This covers investments in pre-primary, primary, secondary, technical and tertiary education and teacher training. This includes additional funding to address workforce challenges, through providing redeployment pathways and expanding training opportunities to support displaced workers impacted by COVID-19.

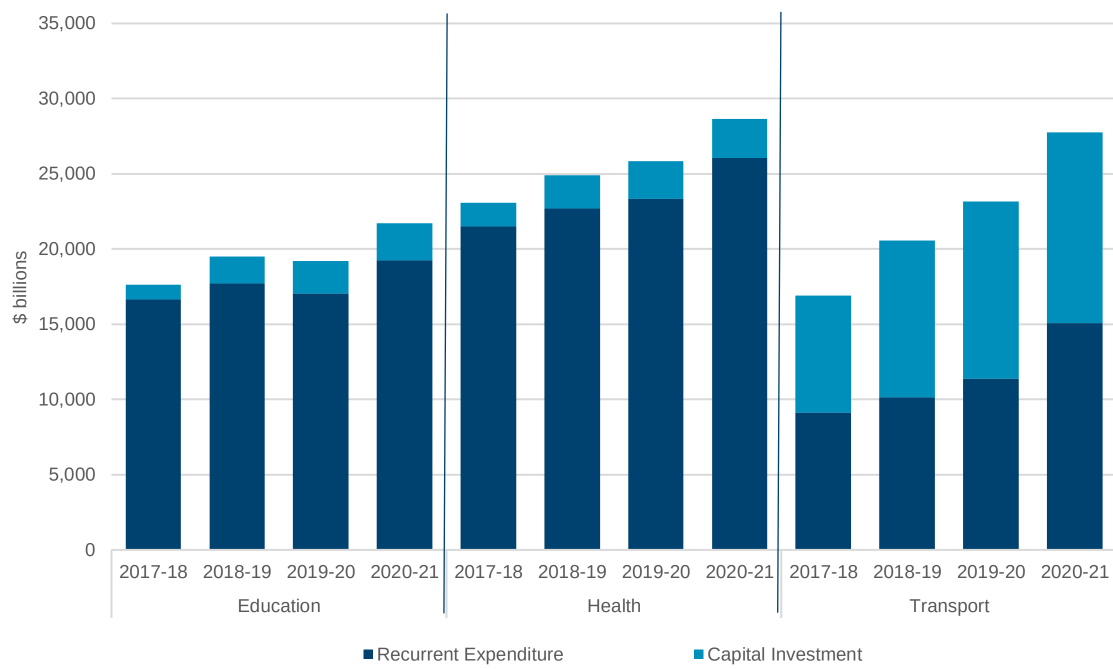
Education capital expenditure for 2020-21 is expected to be $2.5 billion, representing 11.0 per cent of total GGS capital expenditure. This continues the Government's record schools infrastructure program, including new funding for the upgrades of North Sydney Public School and Carlingford West Public School, as well as for the build of new primary schools in Murrumbateman, Googong and Edmondson Park. It also includes funding for the rebuild of Moruya High School in regional New South Wales.

Transport

Within the transport COFOG-A classification, recurrent expenditure in 2020-21 is expected to comprise of $15.1 billion, which is 15.4 per cent of total recurrent expenditure. This is an increase of 32.7 per cent from transport recurrent expenditure in 2019-20 of $11.4 billion. This spending covers the delivery of services and maintaining service levels across the transport system, including on roads, trains, buses, ferries and light rails.

Transport capital expenditure in 2020-21 is $12.7 billion, or 55.9 per cent of total capital expenditure. The Government continues to deliver major capital transport projects such as Sydney Metro West, Sydney Metro – Western Sydney Airport, Warringah Freeway Upgrade and the Western Harbour Tunnel, and Pacific Highway Upgrade - Woolgoolga to Ballina.

Chart 5.8: General government recurrent and capital expenditure by function [(a)(b)]



(a) The COFOG-A framework has replaced the former Government Purpose Classification framework under the new ABS GFS Manual. This was implemented for the first time in the 2017-18 Budget. Appendix A1 of this Budget Paper provides further information on the Uniform Presentation Framework and COFOG-A functions.

(b) Figures for 2020-21 are budget forecasts.

Chart 5.8 illustrates the Government's focus on delivering core services within the education, health and transport policy areas, with recurrent and capital expenditure totalling $268.9 billion since 2017-18. The Government's expenditure on education, health and transport has increased from $57.6 billion in 2017-18 to $68.2 billion in 2019-20. This is forecast to further increase to $78.1 billion in 2020-21.

Public order and safety

The 2020-21 Budget provides $9.4 billion in recurrent expenditure on the public order and safety government function, making up 9.6 per cent of total recurrent expenditure. Recurrent expenditure in 2020-21 is largely attributable to maintaining services for courts, prisons, fire and civil protections and police. It also includes support for border operations and hotel quarantining programs.

Capital spending on public order and safety is forecast to be $1.4 billion, or 6.0 per cent of total 2020-21 capital expenditure. This includes the continuation of the Prison Bed Capacity Program, a range of capital upgrades across the criminal justice network.

General public services

The Government will spend an estimated $7.2 billion in 2020-21 on recurrent services within general public services, representing 7.3 per cent of total recurrent expenditure. This includes the delivery of bushfire response measures, land tax concessions, small business recovery grants, digital voucher scheme, and the Jobs Plus program to support job creation and business growth.

Capital expenditure in general public services is $1.3 billion in 2020-21.

Social protection

The Government is committed to protecting the vulnerable, breaking the cycles of disadvantage and supporting people with disabilities.

In 2020-21, social protection recurrent expenses represent 9.0 per cent of total GGS expenditure at $8.9 billion. This includes the establishment of a Social Sector Transformation Fund to support charities and social enterprises, continuation of Out of Home Care support packages and contributions to the National Disability Insurance Scheme.

Capital investment for social protection in 2020-21 is $208.3 million, an increase of $121.6 million from 2019-20. This increase is largely attributable to Aboriginal Housing Office maintenance and capital works.

Economic affairs

The Government will spend an estimated $6.8 billion in recurrent expenses in 2020-21 on economic affairs and a further $1.1 billion in capital. This represents a $1.5 billion increase in recurrent expenses from 2019-20 or 28.3 per cent, and a $1.0 billion increase in capital expenses from 2019-20.

This functional classification includes expenditure in the following areas:

- commercial and labour affairs
- agriculture, forestry, fishing and hunting
- fuel and energy
- mining, manufacturing and constructions
- communication
- other industries
- research and development.

6. MANAGING THE STATE'S ASSETS AND LIABILITIES

- By leveraging the State's balance sheet, the Government has delivered temporary and targeted fiscal stimulus.
- The Government is also increasing its 4-year infrastructure program by $9.7 billion to a record $107.1 billion to support jobs and the economy through this downturn, leading to a stronger economic position over the medium term.
- NSW has the largest infrastructure program of any government in Australia, including the Commonwealth Government. This massive investment will see general government sector non-financial assets rise from $250.3 billion at June 2020 to a record $334.6 billion by June 2024.
- Natural disasters and COVID-19 have significantly reduced the amount of operating cash available to fund infrastructure. The Government will meet this shortfall with additional borrowings, which will contribute to net debt rising from 3.1 per cent of GSP at June 2020 to a peak of 14.7 per cent of GSP by June 2024.
- By continuing its successful asset recycling program (e.g. the sale of the Government's 49 per cent residual share of WestConnex) and its innovative balance sheet reform agenda (e.g. NGF), the Government will rebuild balance sheet capacity, bringing net debt back down towards 7 per cent of GSP over the medium term.
- This Budget includes $12.0 billion in balance sheet reform measures, initiating the fiscal repair task and building capacity to respond to any future natural disaster or economic shock.
- Overall, NSW's net worth is projected to grow from $238.7 billion by June 2020 to $258.7 billion by June 2024, with New South Wales having the highest net worth of any State or Territory in Australia.

6.1 A strong balance sheet helping NSW through crisis

With the challenges facing the NSW economy and the community from COVID-19, bushfires and drought, the Government is using its strong balance sheet to support the people of New South Wales and build productive infrastructure for the State's economic future.

Despite the economic uncertainties arising from this crisis, the Government is continuing its successful strategy of balance sheet reform. This will ensure the State's balance sheet remains resilient into the future, the 2020-21 Budget includes:

- diversification of debt funding sources – the Government has been able to broaden its investor base by issuing sustainability bonds, new long-dated bonds, and tapping into floating rate notes. The Government has issued a total of $5.2 billion in green and sustainable bonds to date, including $2.1 billion in a sustainability bond first issued in November 2019 and $3.1 billion in green bonds including a $1.3 billion green bond issued in October 2020. These funds are earmarked to finance projects and assets that deliver positive environmental and social outcomes (see Box 6.2)

- an ongoing program of cash management reforms – this includes cash internalisation which involves centralising as much cash as possible within the Treasury Banking System (TBS) thereby enabling the State to manage its overall cash position more efficiently and effectively. This program has seen another $0.7 billion in cash centralised into the TBS, bringing the total amount to around $4.3 billion to date
- growing the NSW Generations Fund to support the State's triple-A credit rating and sustainable debt position over the medium-term. In line with the *NSW Generations Funds Act 2018*, the Government will invest the proceeds of the planned sale of its 49 per cent residual share in WestConnex into the NGF. Additionally, the Government will direct SOC dividends and mining royalties into the NGF (see Box 3.2 in Chapter 3).

Overview of key changes since the 2019-20 Half-Yearly Review

Key balance sheet movements since the 2019-20 Half-Yearly Review (see Table 6.1) include:

- an increase in net debt to $19.3 billion at June 2020, from the earlier $12.9 billion forecast at the 2019-20 Half-Yearly Review. This is due to a $12.7 billion increase in borrowings in response to the crisis, partially offset by a $4.9 billion increase in cash reserves to help the State maintain adequate liquidity during the early period of the COVID-19 pandemic.
- a reduction in net worth from the $251.1 billion projected in the 2019-20 Half-Yearly Review to $238.7 billion at June 2020. This has been primarily driven by a large increase in additional expenses in response to COVID-19, bushfires and droughts and a large fall in taxation revenue. Additionally, there has been a $0.1 billion increase in the value of unfunded defined benefit superannuation liabilities due to the lower Commonwealth Bond rate (which is merely a valuation impact due to AASB 119 *Employee Benefits* requirements, not a cash funding shortfall).

Table 6.1: Key balance sheet aggregates of the general government sector

	June 2019	June 2020	June 2021	June 2022	June 2023	June 2024
	Actual	Actual	Budget		Forward Estimates	
Total Assets ($m)	401,181	425,651	459,731	480,748	501,788	529,974
Financial Assets ($m)	169,490	175,326	173,081	176,281	182,136	195,343
Non-Financial Assets ($m)	231,690	250,325	286,649	304,468	319,652	334,631
Total Liabilities ($m)	152,110	186,964	230,731	252,427	265,390	271,277
Net Worth ($m)	249,070	238,688	228,999	228,321	236,398	258,698
Net Worth as a per cent of GSP[(a)]	39.8	38.4	36.3	34.8	34.8	36.6
Net Debt ($m)	(10,401)	19,261	53,187	75,433	91,771	104,347
Net Debt as a per cent of GSP	(1.7)	3.1	8.4	11.5	13.5	14.7

(a) Gross State Product (GSP) for NSW from 2018-19 to 2023-24 is forecast by NSW Treasury

6.2 Delivering record infrastructure while maintaining sustainable net debt

A significant write-down in Government revenue and higher expenditure as a direct result of COVID-19, bushfires and drought has challenged the State's fiscal position. Even amidst this crisis, the Government has drawn on its balance sheet to borrow at record low interest rates to fund infrastructure.

General government net debt is projected to rise from $19.3 billion from June 2020 to $104.3 billion at June 2024, with a commensurate rise in non-financial assets of $84.3 billion over the same period. The Government aims to bring net debt back down towards 7 per cent of GSP over the medium-term.

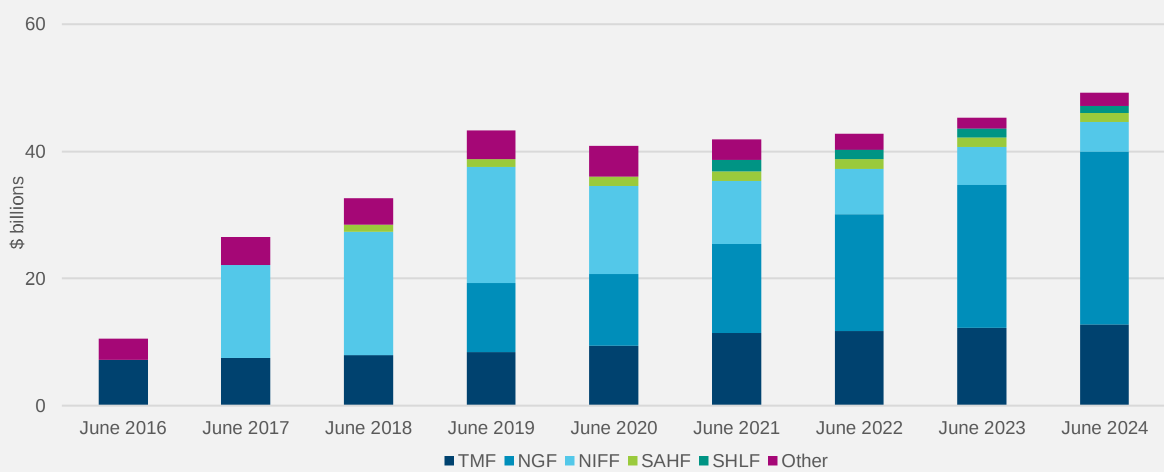
Box 6.1: The strong liquidity position of NSW leads the way in Australia

- The Government was well placed to support the economy as a result of strong fiscal and balance sheet management leading into the crisis.
- The Government's balance sheet reform agenda has ensured that every dollar of taxpayers' funds on the State's balance sheet continues to work for the people of New South Wales. Whilst borrowings will increase due to COVID-19, bushfires and drought, this is manageable due to the State's exceptional liquidity levels, highlighted by the Government's investment funds in conjunction with historically low interest rates.
- From June 2020 to June 2024, the Government's financial assets that contribute to its net debt position are projected to grow by $3.9 billion. With the sale of WestConnex in 2021 and the proceeds deposited into the NGF, this position will grow even further.

The State's financial assets included in the calculation of net debt are estimated to grow to $53.7 billion by June 2024. These financial assets comprise, among others:

- **NSW Generations Fund (NGF)** – a debt retirement fund that is treated as an offset to the State's gross debt by Moody's and S&P Global in their credit rating assessments
- **NSW Infrastructure Future Fund (NIFF)** – an investment vehicle to temporarily hold the net proceeds from the Government's past recycling transactions and supports the Restart NSW/Rebuilding NSW infrastructure programs
- **Social and Affordable Housing Fund (SAHF) –** an investment fund that provides much needed social and affordable housing to the community
- **Treasury Managed Fund (TMF)** – the State's Government self-insurance fund for a liability, injury, loss or damage that may be suffered by individuals who work for and assets owned and run by the NSW Government
- **Snowy Hydro Investment Fund** – announced in this Budget to support the Snowy Hydro Legacy Fund's economic investment in regional NSW.

Chart 6.1: Growth of investments used in the calculation of net debt[(a)(b)]



(a) WestConnex future proceeds have not been included in the projections
(b) The financial assets categorised under 'other' comprises Long Service Corporation (LSC), Worker's Compensation (Dust Diseases) Authority and SiCorp other funds (excluding TMF) among other smaller funds

Mitigating the increase in borrowings are historically low interest rates (see Box 6.3). One of the key factors of debt sustainability is interest servicing costs. Maintaining low interest expenses means the Government is able to allocate more resources to providing essential services and investing in productive infrastructure.

Prior to COVID-19, the State's interest servicing costs represented 2.8 per cent of revenue, on average, over the four years to 2023-24. Even with the increase in borrowings to support the record infrastructure program, the 2020-21 Budget shows a marginal increase in the State's interest expenses, which are expected to average 3.2 per cent of revenue over the four years to 2023-24.

Box 6.2: The State continues its successful Sustainability Bond Program

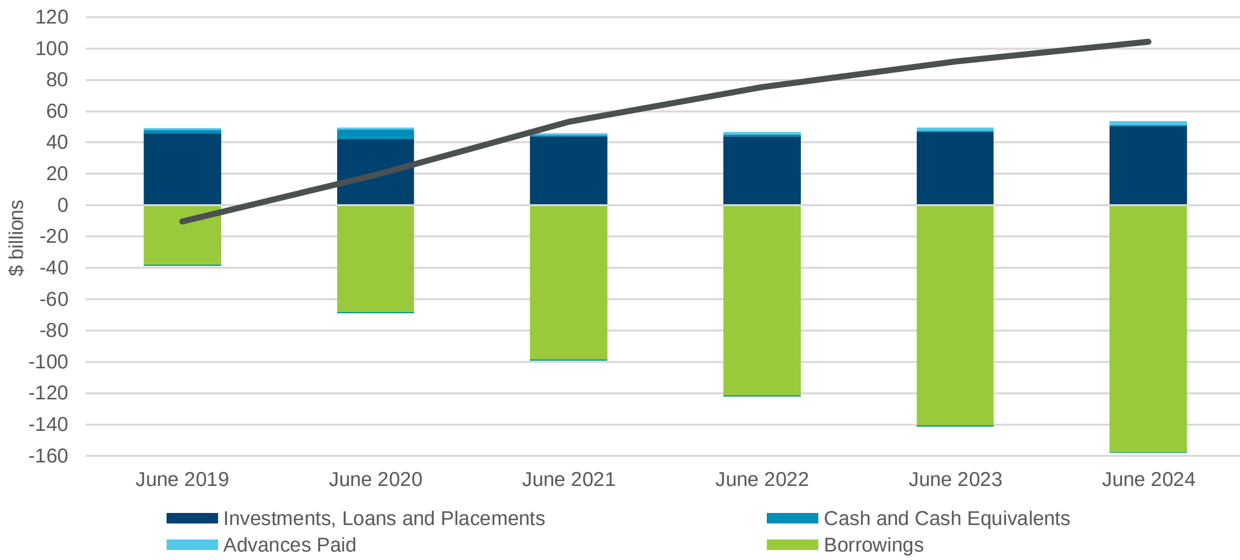
- The NSW Government's Sustainability Bond Program is the only program of its type amongst Commonwealth and semi-government issuers in Australia.
- Launched in 2018 the program is designed to support NSW Government environmental and social policies, strategies and goals, while providing a mechanism for investors to allocate capital to projects and assets that achieve a positive environmental or social outcome. The program draws on and contributes to global best practice in the discipline of outcomes measurement, reporting and transparent disclosure of sustainability outcomes.
- The program supports the UN Sustainable Development Goals, and is aligned with the International Capital Market Association's (ICMA's) Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. External assurance is actively sought and made available publicly with the program independently audited, second party opinions solicited and the green bonds issued so far being certified by the Climate Bonds Initiative.
- The program covers the issuance of 3 types of bonds:
  - **Green Bonds** – proceeds are exclusively applied to finance eligible Green Projects, in alignment with the four core components of the Green Bond Principles (GBP)
  - **Social Bonds** – proceeds are exclusively applied to finance eligible Social Projects, in alignment with the four core components of the Social Bond Principles (SBP)
  - **Sustainability Bonds** – proceeds will be exclusively applied to finance a combination of both Green and Social Projects, in alignment with both GBP and SBP.
- NSW Treasury Corporation (TCorp), on behalf of the Government, has issued a total of $5.2 billion in Green and Sustainability Bonds to date. The most recent bond issued was particularly noteworthy, attracting over $4.1 billion in bids for a $1.3 billion green bond in October 2020 at a yield of 1.11 per cent over 10 years, with offshore investors taking up around 40 per cent of the deal.
- New South Wales is the largest issuer of Green Bonds and Sustainability Bonds in Australia and the program has received multiple awards, including:
  - KangaNews Awards 2018 "Australian Sustainability Deal of the Year"
  - FinanceAsia Achievement Award 2018 "Best Sustainable Finance Deal"
  - Environmental Finance Bond Awards 2020 "Sustainability Bond of the Year"
  - Asset Triple A Infrastructure Awards 2020 "Green Project of the Year".

Financial assets included in the calculation of net debt were $49.8 billion at June 2020. These assets primarily consist of the NIFF, NGF, SAHF and the TMF (see Chart 6.1)[1].

[1] The asset side of net debt calculations consists of the sum of cash and deposits, advances paid and investments, loans and placements.

Over the four years to June 2024, these funds are projected to increase by $3.9 billion to $53.7 billion. This increase is largely being driven by an increase in the projected balance of the NGF, in line with projected investment returns and additional contributions. This is offset somewhat by reductions in the balance of the NIFF over the forward estimates in line with scheduled drawdowns to support the Restart NSW/Rebuilding NSW programs.

Chart 6.2: General government sector net debt



Liabilities included in the calculation of net debt were $69.0 billion at June 2020. Over the four years to June 2024, these liabilities are projected to increase to $158.1 billion mainly driven by increased borrowing to support the economy as it recovers from the impacts of COVID-19.

The Government is taking advantage of the historically low interest rate environment (see Chart 6.3). This supports the State's primary short-term focus of job creation with the intention of a shift towards fiscal repair in the medium term.

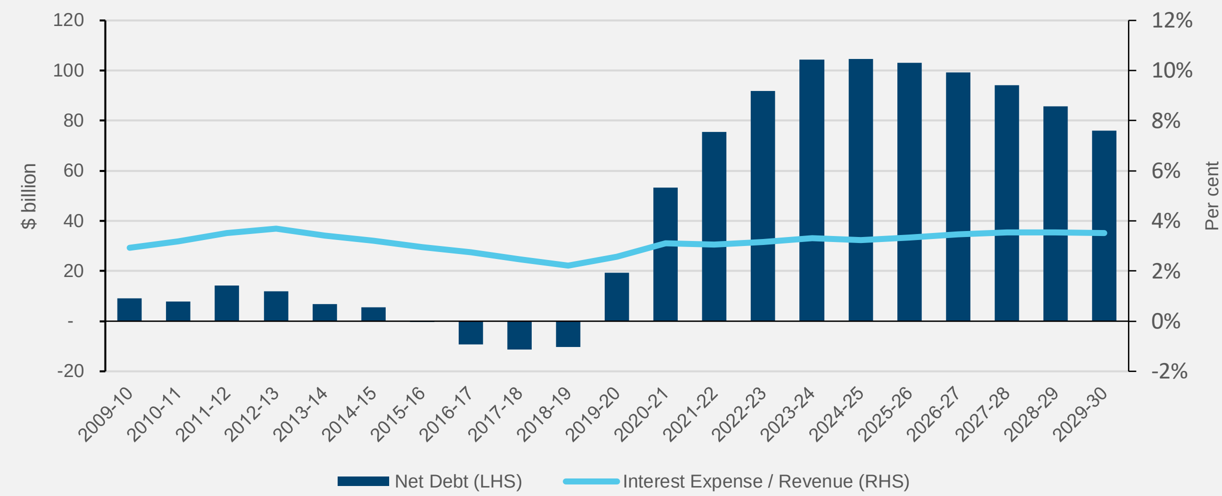
Box 6.3: Supporting the State's economy while taking advantage of historically low interest rates

The Government has monitored financial conditions closely in order to implement its investment task using favourable interest rates and has been able to lower the average interest cost on its borrowings. While there has been significant volatility in bond markets (due to the uncertainty of the pandemic), capital markets have responded well with a strong and sustained demand for NSW Government bonds during the COVID-19 period.

The Government has also been able to broaden its investor base by issuing into new long-dated tenors as well as further tapping into floating rate and sustainability bond lines.

The current borrowing environment supports leveraging the balance sheet to invest in productive infrastructure. The net debt to revenue level is forecast to increase over the four years to June 2024. At the same time the Government is keeping its debt serviceability levels (interest expenses to revenue) relatively constant (see Chart 6.3). NSW will aim to maintain interest expenses to revenue below 5 per cent over the medium term to help support its triple-A credit rating.

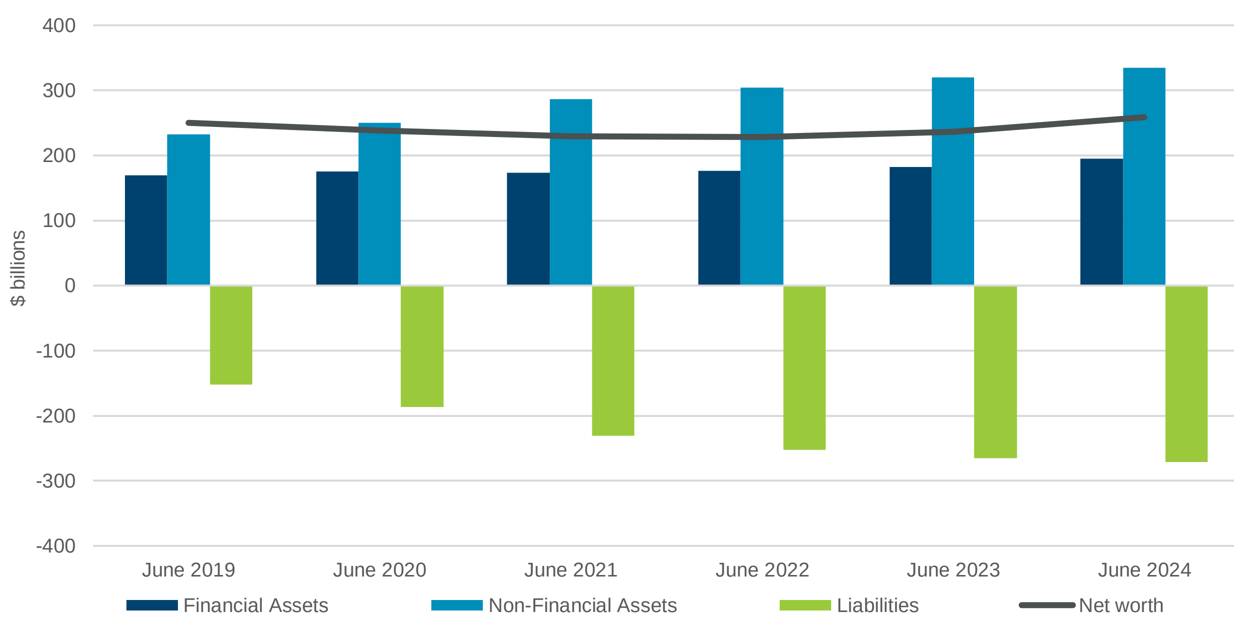
Chart 6.3: General government borrowings vs debt serviceability



6.3 The strongest net worth of all Australian states and territories

General government sector net worth fell to slightly under a quarter of a trillion dollars, sitting at $238.7 billion as at June 2020 (see Chart 6.4). Net worth is projected to recover, reaching $258.7 billion by June 2024.

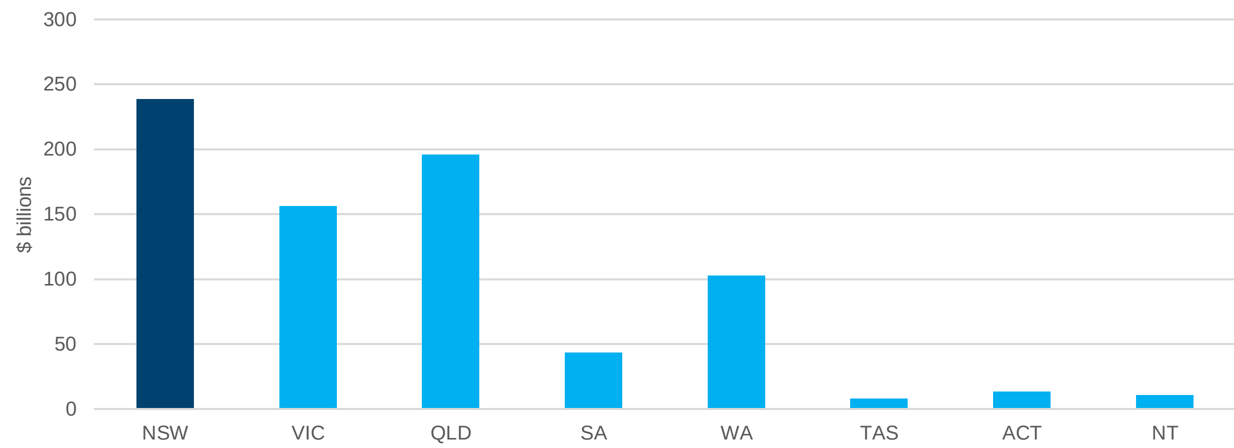
Chart 6.4: NSW general government sector net worth to increase by $20.0 billion over the next four years



The reduction in net worth in the short-term is driven by a significant increase in COVID-19 related stimulus expenses and revenue loss. The key components driving recovery from 2022-23 are:

- the Government's equity investments which are expected to increase from $112.1 billion at June 2020 to $127.6 billion by June 2024, driven by strong growth in the public non-financial corporations sector
- a reduction in the projected superannuation liabilities of the State by $17.6 billion from June 2020 to June 2024.

Chart 6.5: General government sector net worth of Australian States and Territories at June 2020

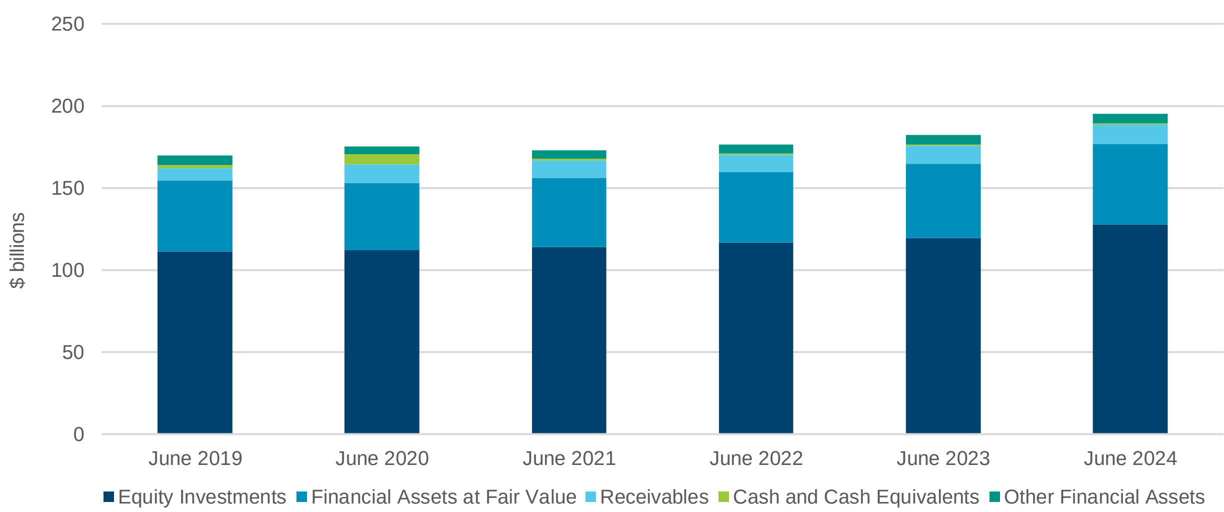


(a) Net worth for VIC, QLD and ACT as per their 2020-21 Pre-Budget update.

Financial assets

The State's total financial assets were $175.3 billion at June 2020, and are projected to increase to $195.3 billion by June 2024 (see Chart 6.6). This is largely represented by the growth in the value of the State's equity holdings in State Owned Corporations in addition to the growth in the State's financial assets at fair value.

Chart 6.6: General government sector financial assets reflect asset divestments and cash management reforms



Total financial assets at June 2020 were $5.6 billion higher compared to 2019-20 Half-Yearly Review estimates. This was driven mainly through a $4.9 billion increase in cash and cash equivalents and a $3.6 billion increase in receivables on the State's balance sheet. The increase in cash holdings is largely represented by maturities of term deposits and other financial assets held for liquidity purposes in response to COVID-19 uncertainties.

The variation in receivables results from the deferral of tax revenues from a cash perspective. The State's equity investments in other public-sector entities[2], which make up the majority of the State's financial assets, decreased by $3.7 billion as assets were transferred between the public non-financial corporation sector and general government sector.

Financial assets are projected to grow over the forward estimates to $195.3 billion by June 2024, primarily driven by growth in the size of the NGF, which remains a core element of the State's fiscal repair plan with proceeds of asset recycling initiatives, State Owned Corporation (SOC) dividends and mining royalties being deposited into it.

The Government's balance sheet strategy is to capitalise on historically low interest costs and leverage investment returns, so it can continue reaping benefits in the current environment. The NGF is projected to grow over the medium term to an expected balance of more than $70.0 billion by June 2030 (see Box 3.1 in Chapter 3).

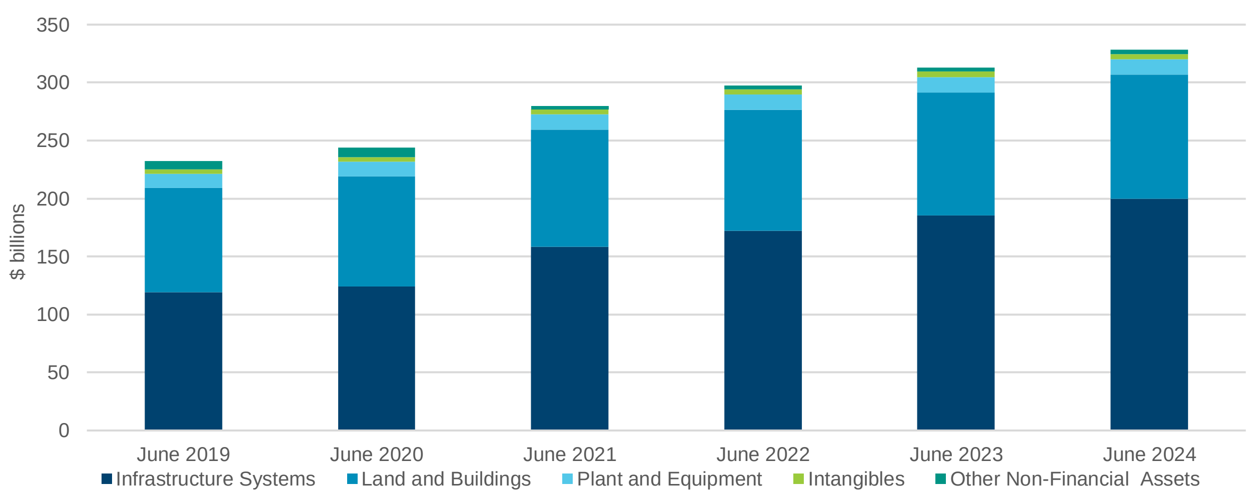
Non-financial assets

The State's non-financial assets were $250.3 billion at June 2020, a $1.8 billion decrease relative to the 2019-20 Half-Yearly Review. This figure is expected to increase to $334.6 billion by June 2024, due to the Government's ongoing infrastructure investment and asset revaluations (see Chart 6.7). This represents the largest non-financial assets profile across all State and Territory Governments in Australia.

Investment in productive infrastructure systems (e.g. public transport infrastructure) is projected to increase over the forward estimates from $124.4 billion at June 2020 to $200.0 billion in June 2024 as the delivery of State's record infrastructure program progresses.

Land and building assets are projected to grow from $94.8 billion at June 2020 to $107.0 billion in June 2024, driven by the Government's record investment in schools and hospitals, as well as asset revaluations in the education sector.

Chart 6.7: General government sector non-financial assets increasing over time

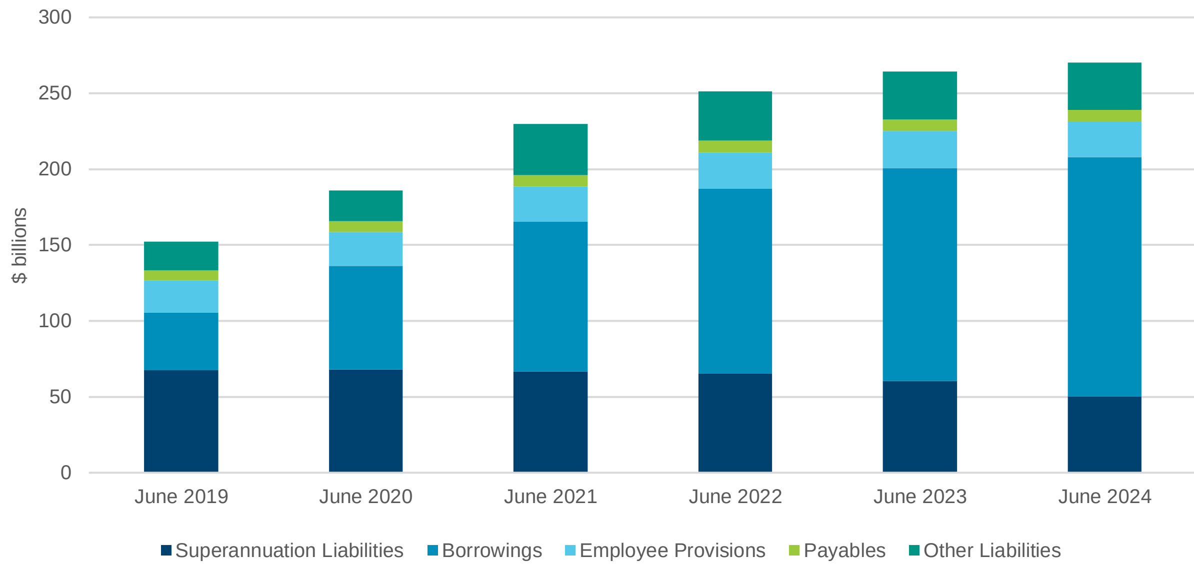


[2] Equity investments in other public-sector entities represents the general government sector's interest in the public non-financial corporation and public financial corporation sectors reflecting, in the absence of fair value, the carrying amount of net assets of those sectors (before consolidation adjustments), in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Liabilities

Total liabilities are projected to be $187.0 billion at June 2020 and are expected to increase to $271.3 billion by June 2024 (see Chart 6.8). This is mainly driven by increased borrowings as the State funds its economic response and recovery, and record infrastructure program.

Chart 6.8: Liabilities stable over the forward estimates



Due to the pandemic, government borrowings have marginally overtaken unfunded superannuation liabilities as the largest category of liability on the general government sector balance sheet as at June 2020.

As the government capitalises on the historically low interest rate environment to fund the record $107.1 billion infrastructure program and around $29.0 billion in economic support for the Governments COVID-19 package of response, recovery and reform measures, borrowings are projected to increase over the forward estimates to $157.5 billion at June 2024.

Mitigating the increase in borrowings are historically low interest rates (see Box 6.3). One of the key factors of debt sustainability is interest servicing costs. In 2023-24, interest expenses as a per cent of revenue remains low at 3.3 per cent – well below the previous historical peak of 3.7 per cent in 2012-13.

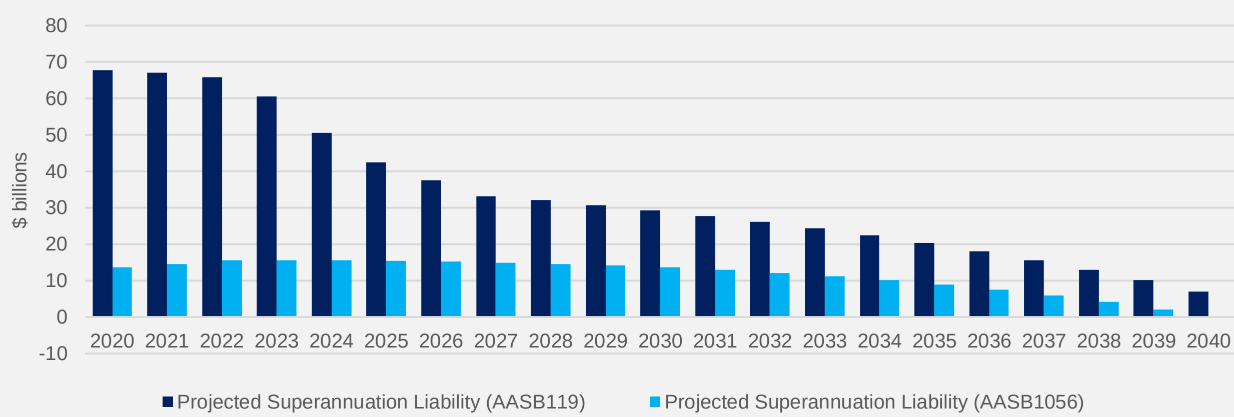
Superannuation liabilities are projected to decrease from $67.9 billion at June 2020 to $50.3 billion at June 2024 primarily driven by rising long-term bond rates (see Box 6.4).

Employee provisions, including long service leave, are projected to increase slightly over the forward estimates from $22.6 billion in June 2020 to $23.8 billion in June 2024.

Box 6.4: Fully funding the State's defined benefit superannuation liabilities

- The Government remains committed to fully funding its superannuation liabilities.
- In light of the pressure COVID-19 has placed on the State's finances, the Government is proposing a revised contribution plan that will allow the Government to fully fund these liabilities, while providing the financial flexibility necessary to navigate the current economic downturn. The revised contribution plan includes a two-year contribution holiday, after which the contributions resume and increase by 5 per cent per annum.
- The Government will also re-anchor its superannuation target to 2040. This will help spread contributions over a longer period of time. This initiative will require an amendment to the *Fiscal Responsibility Act 2012*. However, with some significant uncertainty remaining in the economic and fiscal outlook due to COVID-19, the NSW Government will aim to update the Act as a clearer picture of the broader outlook emerges.
- The superannuation liability reported on the State's balance sheet is the unfunded component of the liability and is governed by AASB 119 *Employee Benefits*. The Accounting Standard creates a larger and more volatile liability[3] due to very conservative valuation requirements. AASB 1056 *Superannuation Entities*[4] allows the target return on superannuation assets to be used to determine funding of the superannuation liability towards the 2040 target, creating a lower and less volatile liability as it reflects a more realistic cash-funding basis. Chart 6.9 below shows the difference between the two accounting standards.

Chart 6.9: General government superannuation liabilities – AASB 119 vs AASB 1056



3 AASB 119 requires the reported superannuation liability to be calculated using the ten-year Commonwealth bond rate as the discount rate to determine the present value of future payments. This approach can result in large fluctuations in the reported value of the liability: e.g. a 1 per cent decrease in this bond rate would increase the value of the liability by $14.1 billion.

4 For funding purposes, AASB 1056 Superannuation Entities allows the expected long-term return on the fund's assets to be used as the discount rate, resulting in a more appropriate measure of the present value of future payments. On this basis, the unfunded liability was estimated to be $14.7 billion at June 2020 and is projected to increase to $16.0 billion by June 2024. The target of fully funding the State's superannuation liabilities by 2040 is determined using the AASB 1056 basis.

7. COMMERCIAL PERFORMANCE IN THE BROADER PUBLIC SECTOR

- The Government owns a number of corporations. These corporations deliver services to the community but are market-orientated in nature and are governed by independent boards.
- Public corporations fall into two categories: Public Financial Corporations (PFCs) which deliver financial services, and Public Non-Financial Corporations (PNFCs) which deliver services or products. Both PFCs and PFNCs are guided by a commercial policy framework. This framework aims to replicate the discipline and incentives that encourage private sector businesses towards efficient and commercial outcomes.
- Like other areas of Government, Government corporations have been impacted by the drought, bushfires and COVID-19. The 2019-20 results and forward projections reflect these impacts.
- The total dividends and tax equivalent payments paid by PNFCs and PFCs to the general government sector was $1.4 billion in 2019-20. Dividends are projected to be $1.1 billion for 2020-21.

7.1 Overview of the broader public sector

The NSW Government adopts international best practice in grouping its entities into three main categories, the latter two of which are the focus of this chapter:

- the General Government Sector covers all entities which deliver non-market services and which are funded primarily through taxation. Most departments fall under this category
- the Public Non-Financial Corporation sector covers entities that operate on a more commercial basis and recover most of their costs by charging for services. Common examples include water and electricity utilities. This category includes State Owned Corporations (SOCs) set up under the *State Owned Corporations Act 1989*. These corporations are self-supporting commercial entities that operate with a greater degree of autonomy than entities in the General Government Sector and are governed by independent boards
- the Public Financial Corporation sector provides financial management services to the government, for example issuing bonds, as well as providing insurance services.

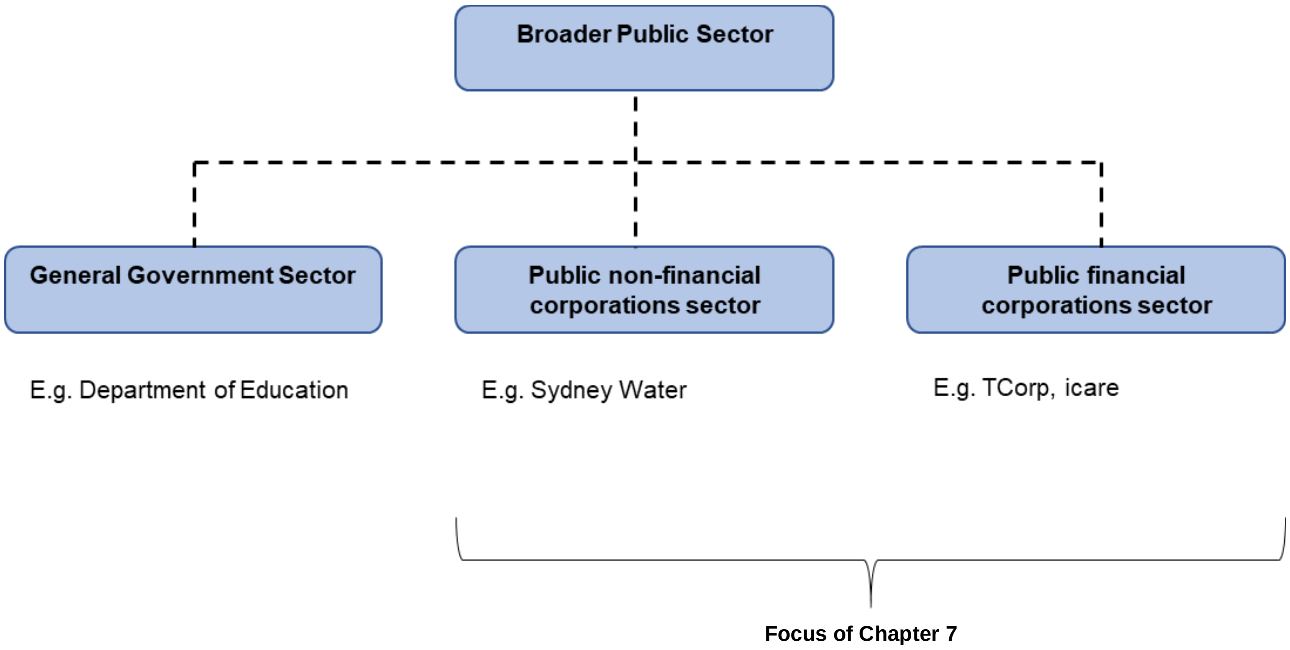
Appendix A.4 contains a full list of entities in the New South Wales public sector and their classification.

Box 7.1: Benefits of the Public Corporations

Public corporations are an effective structure for imposing private sector disciplines on government businesses. They have consistently delivered better service outcomes at a lower cost, while also having a net contribution to the State Budget.

Independent boards play a pivotal role in driving the performance of the SOCs, bringing best practice industry expertise and governance experience.

Figure 7.1 The public sector and its commercial operations



7.2 Reforms and initiatives of government businesses

Transport

On 1 July 2020, Rail Corporation New South Wales (RailCorp) was formally converted into the Transport Asset Holding Entity of New South Wales (TAHE). TAHE is a State Owned Corporation with a majority independent board.

TAHE holds significant rail property assets, rolling stock and rail infrastructure across the Sydney metropolitan area and in limited regional locations. These assets are made available to Sydney Trains and NSW Trains for their operations.

TAHE will aim to deliver the economic, productivity and consumer benefits of the SOC model. The operating model is being implemented progressively over time.

Water

Sydney Water, WaterNSW and Hunter Water play a key role in supplying water to metropolitan and regional areas.

These State owned water utilities have continued to deliver essential services amid recent bushfires, floods, drought and COVID-19, in addition to supporting the Government's response to these challenges.

Immediate COVID-19 responses included a focus on both customers and the supply chain, with increased hardship support and faster payments to suppliers. In addition, these entities are investing in significant capital programs to upgrade water systems to accommodate future growth, including exploring water recycling options. This investment is delivering jobs and economic stimulus, supporting an economic recovery.

Box 7.2: Recycled water in metropolitan NSW

The Government's State owned water utilities are investigating potential benefits from increased use of recycled water. Recycled water could significantly improve water security in metropolitan NSW. Recycled water schemes could diversify water supply, defer the need for significant water infrastructure spending and provide a source of climate-independent water supply.

Sydney Water has identified schemes that could collectively contribute 25 per cent of Sydney's water supply. This includes water supply options for key growth areas of Greater Sydney, such as Western Sydney. Recycled water also forms a focus of the Lower Hunter Water Security Plan, which is due for release in 2021.

While planning for the future, these water utilities continue to implement non-potable recycled water schemes. In 2019-20, Sydney Water supplied 47 billion litres of recycled water across 23 non-potable recycled water schemes. This water is used for residential, commercial and industrial uses, wastewater treatment and park irrigation. As such, these schemes save drinking water that would have otherwise been used for these purposes.

Hunter Water has been working with large customers to develop Water Efficiency Management Plans, incorporating the substitution of drinking water with recycled water where possible. These plans saved 377 million litres of drinking water in 2019-20. Additionally, two new recycled water schemes were implemented in November 2019, supplying over 1,100 properties with non-potable water. Hunter Water also plans to invest in recycled water infrastructure over the next four years to irrigate public open spaces.

The Independent Pricing and Regulatory Tribunal set prices for Sydney Water and Hunter Water from 1 July 2020, resulting in reduced customer charges. Accordingly, water customers in metropolitan NSW continue to pay amongst the lowest annual bills in the country.

The State owned water utilities continue their focus on water conservation in partnership with the community. During the recent drought, Hunter Water customers reduced water consumption by 15 per cent, or the equivalent water use of 52,000 homes. Meanwhile, Sydney Water's WaterFix programs included over 15,000 plumbing checks to reduce leaks and install environmentally friendly water fittings, resulting in an estimated annual saving of 347 million litres of water. Active leak detection remains a priority, with Sydney Water surveying over 18,000 kilometres of their water network, and Hunter Water surveying over 100 per cent of their network throughout 2019-20.

Sydney Water is working with Government agencies to support the Greater Sydney Commission's vision of a 'metropolis of three cities'. Sydney Water has signed landmark deals with the Western Sydney Airport and Sydney Science Park, both being key developments in Western Sydney's economic hub. In addition, Hunter Water is developing the Lower Hunter Water Security Plan (to be published in 2021) with key stakeholders and the community. This Plan explores new water sources and ways to save water, to ensure the Lower Hunter has an adaptable water system that can respond to future periods of drought.

WaterNSW is progressing critical and major infrastructure projects, including planning and business cases for:

- the construction of a new Dungowan Dam
- the raising of the Wyangala Dam wall
- a new dam on Mole River, in the Border Rivers region of NSW
- re-regulating structures and fishways along the Barwon-Darling river system and Macquarie River.

Energy

Essential Energy operates and maintains one of Australia's largest electricity networks, covering 95 per cent of New South Wales. The business serves more than 855,000 customers, including homes, hospitals, schools, businesses and community services, and is an economic enabler for regional, rural and remote communities.

Essential Energy is focused on continuing to drive network charges down, while delivering safe and reliable electricity to customers. In real terms, network charges for a typical residential customer have decreased by 40 per cent since their peak in 2012-13 and by 43 per cent for a typical business customer. By 2023-24, these charges are forecast to fall by a further four per cent for residential customers and six per cent for business customers.

Essential Energy continues to streamline its operations and invest in innovative and enabling technologies to ensure it can continue to deliver safe, reliable electricity long into the future.

Box 7.3: Bushfire and drought emergency response from the SOCs

The 2019-20 bushfires caused significant damage to Essential Energy's network, resulting in power outages for more than 104,000 customers and damaging more than 3,200 power poles. The response effort was significant, including the deployment of over 470 field employees to repair and rebuild the network. Customer support included loaning portable generators, waiving reconnection fees and installing emergency power systems for remote residential customers and key telecommunications towers.

Forestry Corporation was actively engaged in firefighting for many months following the bushfire crisis. It committed staff and significant resources to the firefighting response led by the NSW Rural Fire Service (RFS).

WaterNSW also contributed to the bushfire response, working alongside the RFS and National Parks and Wildlife Service. This has included responding to fire events, monitoring and managing the impacts of the fires on water quality, and repairing impacted assets and catchments.

Additionally, WaterNSW has been at the forefront of drought responses in regional NSW. Emergency drought projects that have been delivered to extend supply in regulated valleys include:

- construction of the Peel Valley Pipeline to prolong Tamworth town water supplies
- construction of the temporary Dungowan weir
- pumping for deeper water storage within Burrendong Dam.

Hunter Water, as part of its emergency drought response, has been progressing plans for a desalination plant that would be constructed should Lower Hunter dam levels reach certain trigger points. The proposed plant would have capacity to deliver 30 million litres of water per day to the drinking water network if required.

Ports

The Port Authority of NSW (Port Authority) is responsible for all commercial marine functions in the ports of Sydney Harbour, Port Botany, Newcastle Harbour, Port Kembla, Port of Eden and Port of Yamba. The Port Authority also has responsibility for the management of business activities and related assets in Sydney Harbour. These include the cruise activities at the Overseas Passenger Terminal (OPT) and White Bay Cruise Terminal, as well as management of the dry bulk facilities at Glebe Island.

These functions have been adversely impacted by COVID-19. The cruise business has been particularly impacted, along with container, bulk liquids and vehicle trades.

Port Authority has reprioritised its efforts in response to the unfolding health and economic crisis. Key initiatives include an accelerated capital expenditure program aiming to support the organisation post COVID-19, generating jobs and local stimulus. The accelerated capital program includes:

- construction of a multi-user facility at Glebe Island. This facility will provide a low cost, low impact and sustainable entry point to receive, store and distribute bulk construction materials imported by sea
- refurbishment and capacity upgrade of the OPT at Circular Quay
- construction of the Eden Welcome Centre to support regional cruise and development
- refurbishment of Newcastle's Macquarie Pier.

Port Authority has recently adopted a more flexible approach to its pricing and profitability strategy and will aim to maintain this flexibility until the impacts of COVID-19 to shipping become clearer. A freeze on all existing statutory and miscellaneous charges has been put in place to 30 June 2021 to support the shipping industry and the broader supply chain.

Other initiatives included a six-month rental abatement for all retail tenants and ongoing rental relief assistance.

Property

Landcom is the government's land and property development organisation, and aims to increase the supply of housing. Landcom's role includes unlocking surplus or underutilised government-owned sites, or large institutional land holdings, to create vibrant urban spaces.

Landcom projects delivered over 2,260 home sites in 2019-20. It has a goal of delivering 5-10 per cent affordable housing on all new projects, and Landcom remains on track to achieve this target. Landcom also continues to exceed its target of 10-15 per cent diverse housing in all new projects. Diverse housing includes housing that responds to local needs and varied housing types.

A key achievement for Landcom was being internationally recognised as fourth in the world and third across Asia Pacific in the Global Real Estate Sustainability Benchmark (GRESB) Developer Assessment. The Benchmark assesses environmental, social and governance management and implementation performance.

Box 7.4: 5,600 new home sites in South West Sydney

The Government recognises that new housing supply is critical to a liveable and vibrant state. It drives jobs and stimulates the economy.

Landcom has proceeded with the acquisition of 873 hectares of land at North Wilton to enable new housing. This project will create 5,600 new home sites, including a minimum of 10 per cent affordable dwellings.

The project will provide two sites for education purposes, 52 hectares of new open space including new sports fields, 360 hectares of dedicated environmental woodland and an 11 hectare lake.

It will also meet Landcom's sustainability and environmental standards and targets a 6 Star Green Star Communities rating.

This initiative is expected to generate an estimated 5,500 jobs within the community and an estimated 20,000 construction-related jobs over the life of the project. The project is also expected to generate over $1 billion in financial returns for the Government over the life of the project (26 years).

Forestry

Forestry Corporation of NSW (Forestry Corporation) manages over two million hectares of State forests, including the State's largest renewable timber production and plantation estate. The 2019-20 bushfires were unprecedented in both their intensity and their geographical coverage across the State. This natural disaster had a significant effect on the assets managed by Forestry Corporation. In total, more than 890,000 hectares of State Forest has been impacted as well as 65,000 hectares of hardwood and softwood timber plantations.

Forestry Corporation commenced salvage harvesting of the softwood plantations following the fires. As at 30 June 2020, approximately 1.5 million tonnes of fire-affected timber had been salvaged, with five to six million tonnes expected to be salvaged in total. Salvage operations have boosted local employment in timber regions such as Tumut and Bombala.

In early 2020, the NSW Government provided a $46 million equity injection to Forestry Corporation to allow it to accelerate recovery efforts. This enabled a substantial program including the repair of fire-damaged infrastructure and expansion of seedling nurseries.

Work has begun on the replanting of fire-affected plantations. Over 10 million seedlings were dispatched for planting in the winter of 2020. Work is also beginning on expansion of the two nurseries at Grafton and Tumut to bolster seedling supplies into the future.

7.3 Capital expenditure

The Public Non-Financial Corporation sector is an important driver of infrastructure across the State. It has played a critical role in job creation through the COVID-19 economic crisis.

In 2019-20 capital expenditure within the PNFC sector was $4.3 billion, which is $1.1 billion lower than forecast at the time of the 2019-20 Budget. This result was primarily driven by the reprofiling of spend on a number of TAHE projects from 2019-20 and 2020-21 into later years to align with contract awards and updated delivery profiles.

Capital expenditure within the PNFC sector over the budget and forward estimates will be $22.8 billion. This is $1.5 billion more than the comparative forecast in the 2019-20 Budget. Besides the initial decrease in spend on TAHE projects noted above, key movements between budgets include:

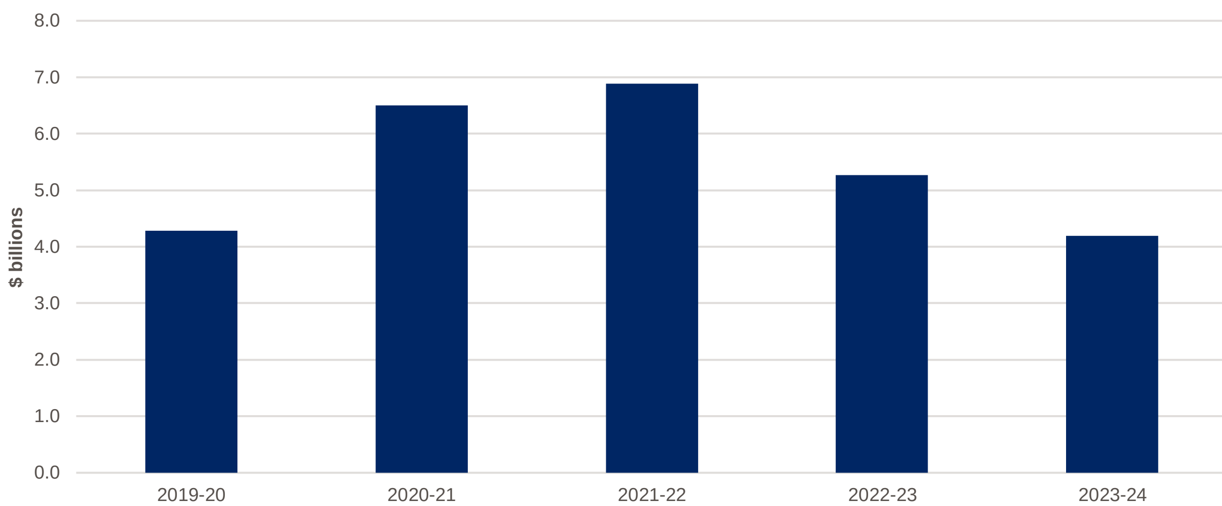
- $1 billion increased expenditure by Sydney Water for various projects including asset renewals to meet mandatory standards, and investment in water and wastewater infrastructure to cater for forecast increases in population and development

- $512.1 million increased expenditure by Essential Energy, driven by increased spend on the electricity network, bringing forward of major technology investment, public lighting programs and water infrastructure in Broken Hill
- $506.6 million higher expenditure from NSW Land and Housing Corporation projects driven by stimulus-related measures, primarily redevelopment. This spend includes preparation of vacant land lots for private sale, social housing new supply, as well as maintenance and upgrades.

Chart 7.1 shows capital expenditure in the PNFC sector 2019-20 to 2023-2024.

Further details on the Government's capital expenditure strategy are provided in Budget Paper No.3 *Infrastructure Statement*.

Chart 7.1: Capital expenditure of the public non-financial corporations sector



7.4 Public financial corporation sector

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

TCorp is the State's central financing authority and funds management agency. TCorp continued to manage financial risks for the State by providing foreign exchange, commodity and interest rate hedging services with $1.1 billion of transactions executed over the past year to 30 June 2020.

In 2019-20 TCorp raised $27.8 billion in debt funding, $13.3 billion more than planned at the start of that financial year, providing critical support to the State's needs during the COVID-19 pandemic. A further $11.9 billion was raised to 30 September 2020.

TCorp's total funds under management decreased by $3.7 billion to $103.0 billion over the past year to 30 June 2020. This change primarily reflects a $4.8 billion cash outflow from the NSW Infrastructure Future Fund to meet government infrastructure spending and $2.1 billion cash outflows to fund the governments defined benefit superannuation payments. These outflows were offset by $1.8 billion of positive investment returns during the same period, which were achieved despite difficult markets during the COVID-19 pandemic. This brings total absolute investment returns since 1 July 2015 to $24.9 billion as of 30 June 2020.

Box 7.5: NSW Infrastructure Future Fund

Delivery of the Government's infrastructure program has been supported by TCorp's successful management of the NSW Infrastructure Future Fund ("NIFF").

The NIFF was established in 2016 as the investment vehicle to temporarily hold the net proceeds from the Government's past asset sales. The capital, along with the investment earnings, are used to support the delivery of the Government's committed capital expenditure under the Restart NSW/Rebuilding NSW infrastructure programs.

Since its establishment, the NIFF has generated annualised returns of 5.0 per cent and has added $2.8 billion of value from investment returns (to September 2020). By effectively managing the NIFF, TCorp has generated a competitive rate of return for taxpayers.

In 2019-20, $4.8 billion was drawn down from the NIFF to fund infrastructure projects that will benefit the people of NSW over the long-term, including:

- continuing the expansion of Sydney Metro City and Southwest ($1.2 billion) and commencing the Parramatta Light Rail ($289 million)
- establishing a new, state-of-the-art fleet of intercity trains between Sydney and the Central Coast, Newcastle, the Blue Mountains and the South Coast ($381 million)
- regional Growth Roads ($290 million), Regional Road Freight Corridor ($285 million) and Fixing Country Roads ($89 million).

icare is the Government's social insurer with the purpose to protect, insure and care for the State's people, businesses and assets.

icare insures, supports and cares for over three million NSW workers and more than 328,000 employers, including 202 NSW Government agencies. In addition, icare cares for almost 1,600 Lifetime Care and 350 Workers Care participants, and almost 5,800 people with a dust disease and their dependents. icare also supports homeowners and protects more than $228 billion in NSW Government-owned assets.

Over the past 12 months, icare has kept workers compensation average base premiums at record lows of 1.4 per cent for 328,000 employers. It has also provided reduced premiums and payment deferrals for almost 20,000 businesses impacted by the 2019-20 bushfires and COVID-19. Toolkits have been developed to assist businesses establish safe work practices in the COVID-19 environment. The icare 'Lung Bus' also traversed the State providing important lung health monitoring in bushfire affected regions and in responding to the increasing incidence of silicosis.

A new Authorised Provider model was introduced, giving employers more choice of insurance provider for workers compensation claims management. In addition, Risk Education eXpress (REX), icare's learning program for NSW Government agencies, transitioned its full curriculum online to ensure our support continued for frontline workers.

icare also continues to work with the State Insurance Regulatory Authority (SIRA) to deliver on core actions arising from the 21 Point Action Plan and the independent Compliance and Performance Review of the Workers Compensation Nominal Insurer.

The Government has announced it will bring forward and broaden a scheduled statutory five-year review into workers compensation to include a comprehensive organisational review of icare. The Review is being led by the Hon Robert McDougall QC. The Review will ensure that the workers compensation system in NSW remains sustainable and continues to improve.

7.5 Dividends and tax equivalent payments

As a shareholder, the NSW Government receives dividends from entities in the PNFC and PFC sector.

PNFCs and PFCs also pay the Government tax equivalent payments and debt neutrality charges (government guarantee fees) to ensure they are not placed at a competitive advantage over private sector businesses that compete against them.

For 2020-21, the dividend and tax equivalent payments from the PNFC and PFC sectors are forecast at $1.1 billion and Government guarantee fees at $317 million. Over the budget and forward estimates, dividends and tax equivalent payments are forecast to be $3.8 billion.

- A recent capital structure optimisation initiative by Sydney Water has supported higher relative distribution levels from the water sector, with distributions in 2020-21 forecast to be $865.7 million. Distribution levels are expected to moderate over the three years to 2023-24, with estimated distributions over the budget and forward estimates of $2.2 billion being 27 per cent lower compared to the 2019-20 Budget.
- Distributions from the electricity sector over the budget and forward estimates are forecast to be $297.8 million, $102.5 million higher than the comparative estimate at the 2019-20 Budget. This is driven by ongoing operational efficiencies consistent with the expectations of the Australian Energy Regulator. Of this total amount, $202.6 million is tax equivalent payments.
- Distributions from the property and resources sector are forecast at $530 million over the budget and forward estimates. This is $268 million lower than forecast in the 2019-20 Budget. This is due to Landcom's deferral of dividends in 2019-20 and 2020-21, necessitated by the impacts of COVID-19 on the property market. Following the devastating 2019-20 bushfires, Forestry Corporation is also projecting greatly reduced profitability over the forward estimates which will limit their ability to pay dividends or tax equivalent payments during this period.
- The Port Authority's distributions are forecast at $118.8 million over the budget and forward estimates, a decrease of 24 per cent from the 2019-20 Budget. This is largely due to the impacts of COVID-19, in particular the Commonwealth Government cruise ship ban.
- TCorp's distributions over the budget and forward estimates are $659 million, a reduction of $46.7 million from the 2019-20 Budget. This is largely due to the deferral of a special dividend from TCorp which was partly offset by increased dividends and tax equivalents over the forward estimates due to higher revenue from funding activities.

Table 7.1: Dividends and tax equivalent payments from public non-financial corporations and public financial corporations

	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m
Electricity	29	24	72	85	118
Water	1,159	866	436	411	452
Property and Resources	48	33	42	224	231
Ports	20	13	23	36	46
Public Financial Corporations	98	135	150	177	197
Total Dividends and Tax Equivalent Payments	1,354	1,070	723	933	1,044

A1. STATEMENT OF FINANCES

This appendix presents the financial aggregates for the 2020-21 Budget.

Financial aggregates in this appendix are prepared in line with:

- the Uniform Presentation Framework (UPF) administered by the Council on Federal Financial Relations (CFFR)
- 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.

A six-year time series is provided from 2018-19 to 2023-24 for the general government sector (GGS), public non-financial corporations (PNFC) sector, and consolidated non-financial public sector (NFPS).

An analysis of general government expenses is presented in Chapter 5: Expenditure, and looks at each element of expenses by COFOG-A category.

"How to Read the Budget Papers" outlines the accounting policies and forecast assumptions adopted in the Budget. The UPF tables quantify the impact of these policies and assumptions on the forward estimates from 2020-21 to 2023-24. These forecasts include the impact from the adoption of new accounting standards from 2019-20 in accordance with:

- *AASB 15 Revenue from Contracts with Customers (AASB 15)*
- *AASB 16 Leases (AASB 16)*
- *AASB 1058 Income of Not-for-Profit Entities (AASB 1058).*

The 2021-24 forecasts include the impact from the adoption of:

- *AASB 1059 Service Concession Arrangements: Grantor (AASB 1059)*

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 Council on Federal Financial Relations in February 2019.

The objective of the UPF is to facilitate a better understanding of individual government's budget 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 are prepared under the UPF[1]. 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. For more information on other differences, see the primary financial statements later in this appendix. For details and amounts of the key 2019-20 convergence differences, refer to *Note 36: Key Fiscal Aggregates and Reconciliations to Government Finance Statistics* in the *2019-20 Report on State Finances*.

[1] The complete Uniform Presentation Framework is available on the Commonwealth Treasury website www.treasury.gov.au. Extracts from the manual are included in this appendix to explain key concepts while the glossary to "How to Read the Budget Papers" also includes key UPF terms.

Historical Series

To ensure a consistent historical series of fiscal aggregates, all jurisdictions have agreed to back cast 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)
- 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 in the "How to Read the Budget Papers" guide.

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

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 form the UPF's core reporting requirements.

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/borrowing (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.

The balance sheet:

- records the value of financial and non-financial assets and liabilities of the State, at the end of each financial year
- shows the resources at the State's disposal and the type and valuation of its liabilities
- reveals the make-up of the State's financial assets, its fixed asset holdings, and the extent of liabilities such as borrowings and unfunded superannuation.

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

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.

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

Institutional sectors

Appendix A4 lists entities within the NSW public sector. These NSW-controlled entities have been classified according to their government sector. These sectors are defined in the ABS GFS manual.

Uniform Presentation Tables

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 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 (COFOG-A)
- purchases of non-financial assets by function (COFOG-A).

Table A1.1: General government sector operating statement

	2018-19 Actual[(a)] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 $m	2023-24 $m
Revenue from Transactions						
Taxation	31,026	29,941	31,711	32,552	35,211	36,885
Grants and Subsidies						
- Commonwealth General Purpose	17,907	18,073	16,308	19,612	19,913	20,057
- Commonwealth Specific Purpose Payments	10,224	11,278	11,740	11,721	12,385	13,053
- Commonwealth National Partnership Payments	2,737	3,886	3,996	4,166	3,955	3,984
- Other Commonwealth Payments	414	455	644	687	535	572
- Other Grants and Subsidies	567	613	638	604	612	657
Sale of Goods and Services	9,745	8,713	9,560	10,802	9,919	8,988
Interest	491	364	302	322	337	350
Dividend and Income Tax Equivalents from Other Sectors	1,932	1,354	1,070	723	933	1,044
Other Dividends and Distributions	1,934	2,426	1,779	1,896	2,360	2,720
Fines, Regulatory Fees and Other	4,679	4,262	4,402	4,605	4,443	4,621
Total Revenue from Transactions	**81,655**	**81,367**	**82,149**	**87,689**	**90,601**	**92,930**
Expenses from Transactions						
Employee	33,158	35,555	37,087	37,610	38,888	40,075
Superannuation						
- Superannuation Interest Cost	1,412	882	585	500	487	595
- Other Superannuation	3,052	3,288	3,303	3,256	3,284	3,374
Depreciation and Amortisation	5,171	5,948	7,042	7,425	7,750	8,044
Interest	1,812	2,084	2,549	2,673	2,869	3,079
Other Operating Expense	21,146	23,156	24,824	23,506	22,132	21,681
Grants, Subsidies and Other Transfers	14,700	17,369	22,743	19,548	17,282	16,542
Total Expenses from Transactions	**80,450**	**88,283**	**98,133**	**94,519**	**92,692**	**93,390**
BUDGET RESULT - SURPLUS/(DEFICIT) [Net Operating Balance]	**1,206**	**(6,916)**	**(15,984)**	**(6,830)**	**(2,091)**	**(460)**

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

	2018-19 Actual[(a)] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(2,500)	(201)	(11)	1	313	884
Other Net Gains/(Losses)	13,700	(2,553)	113	153	164	990
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(1)	46	127	216	69	(22)
Dividends from Asset Sale Proceeds	(0)	31	(0)	...	...	...
Allowance for Impairment of Receivables	(69)	(212)	(39)	(35)	(35)	(35)
Deferred Income Tax from Other Sectors	(97)	(123)	10	22	21	9
Other	84	...	...	...	...	...
Other Economic Flows - included in Operating Result	**11,117**	**(3,013)**	**201**	**357**	**531**	**1,826**
Operating Result	**12,322**	**(9,929)**	**(15,782)**	**(6,473)**	**(1,559)**	**1,367**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(14,019)**	**(1,374)**	**3,886**	**5,836**	**9,672**	**20,947**
Revaluations	7,154	4,263	3,882	3,993	4,143	4,409
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result	(10)	...	(0)	...	...	...
Actuarial Gain/(Loss) from Superannuation	(13,364)	(673)	1,934	1,838	4,719	9,310
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(7,950)	(4,979)	(1,844)	(16)	780	7,221
Deferred Tax Direct to Equity	151	15	(86)	22	30	6
Items that may be Reclassified Subsequently to Operating Result	**(354)**	**920**	**2,208**	**(42)**	**(35)**	**(14)**
Net Gain/(Loss) on Financial Instruments at Fair Value	19	(8)	0	...	...	...
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	(538)	(243)	...	...	...	...
Other	165	1,171	2,208	(42)	(35)	(14)
Other Economic Flows - Other Comprehensive Income	**(14,372)**	**(454)**	**6,094**	**5,795**	**9,637**	**20,932**
Comprehensive Result - Total Change in Net Worth	**(2,050)**	**(10,382)**	**(9,688)**	**(678)**	**8,078**	**22,299**
Key Fiscal Aggregates						
Comprehensive Result - Total Change in Net Worth	**(2,050)**	**(10,382)**	**(9,688)**	**(678)**	**8,078**	**22,299**
Less: Net Other Economic Flows	3,256	3,466	(6,295)	(6,151)	(10,168)	(22,759)
Equals: Budget Result - Net Operating Balance	**1,206**	**(6,916)**	**(15,984)**	**(6,830)**	**(2,091)**	**(460)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(b)]	16,464	18,070	21,209	21,637	19,504	17,699
Sales of Non-Financial Assets	(966)	(639)	(617)	(1,003)	(481)	(1,200)
Less: Depreciation	(5,171)	(5,948)	(7,042)	(7,425)	(7,750)	(8,044)
Plus: Change in Inventories	38	839	(119)	(303)	(78)	(85)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(b)]	159	2,915	864	1,080	433	648
- Assets Acquired Using Service Concession Arrangements[(b)] (Financial Liability Model)	...	...	572	213	195	176
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	696	1,158	460	1,014
- Other	(38)	(92)	(727)	(613)	(772)	(451)
Equals: Total Net Acquisition of Non-Financial Assets	**10,485**	**15,145**	**14,835**	**14,744**	**11,510**	**9,756**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(9,280)**	**(22,061)**	**(30,819)**	**(21,574)**	**(13,601)**	**(10,216)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(b)]	16,623	20,985	22,644	22,930	20,131	18,523

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using leases and assets acquired using Service Concession Arrangements under the Financial Liability Model.

Table A1.2: General government sector balance sheet

	June 2019 Actual[(a)]	June 2020 Actual	June 2021 Budget	June 2022 Forward Estimates	June 2023	June 2024
	$m	$m	$m	$m	$m	$m
Assets						
Financial Assets						
Cash and Cash Equivalents	1,969	6,134	1,063	994	885	836
Receivables	7,491	11,281	10,716	10,551	10,786	11,596
Investments, Loans and Placements						
Financial Assets at Fair Value	43,333	40,874	41,870	42,786	45,274	49,197
Other Financial Assets	2,591	1,533	1,793	1,241	1,276	1,289
Advances Paid	1,193	1,239	1,303	1,688	2,011	2,401
Tax Equivalents Receivable	32	15	35	51	46	45
Deferred Tax Equivalents	2,245	2,127	2,171	2,236	2,322	2,420
Equity						
Investments in Other Public Sector Entities	98,573	100,249	101,962	105,344	108,154	116,335
Investments in Associates	12,055	11,866	12,163	11,383	11,377	11,218
Other	8	7	7	7	7	7
Total Financial Assets	**169,490**	**175,326**	**173,081**	**176,281**	**182,136**	**195,343**
Non-Financial Assets						
Contract Assets	...	24	24	24	24	25
Inventories	399	1,188	1,150	910	896	892
Forestry Stock and Other Biological Assets	10	14	14	14	14	14
Assets Classified as Held for Sale	222	286	131	129	127	125
Property, Plant and Equipment						
Land and Buildings	90,748	94,822	100,827	104,364	106,148	106,991
Plant and Equipment	12,162	12,538	13,099	13,421	13,317	13,260
Infrastructure Systems	118,190	124,406	158,563	172,044	185,475	200,008
Right of Use Assets	...	6,503	6,853	7,033	6,539	6,331
Intangibles	3,694	3,686	4,496	4,579	4,689	4,476
Other	6,266	6,858	1,492	1,949	2,423	2,511
Total Non-Financial Assets	**231,690**	**250,325**	**286,649**	**304,468**	**319,652**	**334,631**
Total Assets	**401,181**	**425,651**	**459,731**	**480,748**	**501,788**	**529,974**
Liabilities						
Deposits Held	67	69	69	69	69	69
Payables	7,079	7,031	7,428	7,775	7,592	7,580
Contract Liabilities	...	1,156	1,149	1,145	1,145	1,143
Borrowings and Derivatives at Fair Value	207	392	387	386	384	383
Borrowings at Amortised Cost	37,656	67,885	98,174	121,128	140,259	157,166
Advances Received	756	696	585	560	505	452
Employee Provisions	20,802	22,566	23,315	23,890	24,126	23,780
Superannuation Provision[(b)]	67,696	67,890	66,776	65,568	60,216	50,303
Tax Equivalents Payable	3	80	40	5	5	1
Deferred Tax Equivalent Provision	108	82	95	95	117	159
Other Provisions	11,604	14,101	13,457	13,002	12,676	12,465
Other	6,134	5,015	19,255	18,805	18,296	17,776
Total Liabilities	**152,110**	**186,964**	**230,731**	**252,427**	**265,390**	**271,277**
NET ASSETS	**249,070**	**238,688**	**228,999**	**228,321**	**236,398**	**258,698**
NET WORTH						
Accumulated Funds	75,722	67,479	54,818	50,148	53,279	63,928
Reserves	173,348	171,209	174,181	178,173	183,119	194,769
TOTAL NET WORTH	**249,070**	**238,688**	**228,999**	**228,321**	**236,398**	**258,698**
OTHER FISCAL AGGREGATES						
Net Debt[(c)]	**(10,401)**	**19,261**	**53,187**	**75,433**	**91,771**	**104,347**
Net Financial Liabilities[(d)]	**81,194**	**111,887**	**159,612**	**181,491**	**191,407**	**192,269**
Net Financial Worth[(e)]	**17,380**	**(11,638)**	**(57,650)**	**(76,147)**	**(83,254)**	**(75,934)**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) The Superannuation Provision is reported net of prepaid superannuation contribution assets.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(e) Net financial worth equals total financial assets minus total financial liabilities.

Table A1.3: General government sector cash flow statement

	2018-19 Actual[(a)] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Cash Receipts from Operating Activities						
Taxation	30,603	28,346	31,900	33,835	35,457	37,104
Sales of Goods and Services	9,908	8,878	9,893	11,179	10,124	9,169
Grant and Subsidies Received	31,810	33,775	33,289	36,074	37,164	37,455
Interest	518	291	192	227	251	270
Dividends and Income Tax Equivalents from Other Sectors	1,897	1,139	1,659	600	693	889
Other	12,094	12,559	8,499	7,502	8,134	6,799
Total Cash Receipts from Operating Activities	**86,830**	**84,988**	**85,432**	**89,417**	**91,823**	**91,686**
Cash Payments from Operating Activities						
Employee Related	(31,896)	(34,083)	(36,321)	(37,054)	(38,361)	(39,581)
Superannuation	(4,325)	(4,649)	(3,054)	(3,126)	(4,404)	(4,582)
Payments for Goods and Services	(20,874)	(21,291)	(25,776)	(23,424)	(22,204)	(21,258)
Grants and Subsidies	(13,739)	(16,180)	(21,407)	(18,683)	(16,265)	(15,831)
Interest	(1,455)	(1,839)	(2,543)	(2,880)	(3,301)	(3,543)
Other	(7,213)	(7,231)	(4,013)	(2,962)	(2,852)	(2,436)
Total Cash Payments from Operating Activities	**(79,502)**	**(85,272)**	**(93,114)**	**(88,129)**	**(87,388)**	**(87,231)**
Net Cash Flows from Operating Activities	**7,328**	**(284)**	**(7,683)**	**1,288**	**4,435**	**4,455**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	452	223	617	1,003	481	1,200
Purchases of Non-Financial Assets	(18,087)	(17,252)	(21,473)	(21,354)	(19,109)	(15,886)
Net Cash Flows from Investments in Non-Financial Assets	**(17,635)**	**(17,029)**	**(20,855)**	**(20,351)**	**(18,628)**	**(14,686)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	18,026	2,768	253	2,424	481	318
Payments	(2,341)	(4,739)	(3,952)	(5,001)	(2,635)	(1,544)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**15,685**	**(1,971)**	**(3,700)**	**(2,577)**	**(2,154)**	**(1,225)**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	10,029	6,131	6,699	4,976	2,505	639
Purchase of Investments	(23,904)	(4,313)	(7,570)	(5,147)	(4,771)	(4,274)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(13,875)**	**1,818**	**(871)**	**(171)**	**(2,266)**	**(3,635)**
Net Cash Flows from Investing Activities	**(15,825)**	**(17,181)**	**(25,426)**	**(23,099)**	**(23,049)**	**(19,547)**
Cash Flows from Financing Activities						
Advances (Net)	(69)	(77)	25	(67)	(76)	(30)
Proceeds from Borrowings	5,561	22,943	29,891	23,449	20,492	16,585
Repayment of Borrowings	(612)	(1,253)	(1,805)	(1,652)	(1,991)	(1,588)
Deposits Received (Net)	19	2	0	...	...	...
Other (Net)	151	15	(86)	22	30	6
Net Cash Flows from Financing Activities	**5,050**	**21,630**	**28,026**	**21,751**	**18,455**	**14,973**
Net Increase/(Decrease) in Cash Held	**(3,448)**	**4,165**	**(5,083)**	**(61)**	**(159)**	**(119)**
Derivation of Cash Result						
Net Cash Flows From Operating Activities	7,328	(284)	(7,683)	1,288	4,435	4,455
Net Cash Flows from Investments in Non-Financial Assets	(17,635)	(17,029)	(20,855)	(20,351)	(18,628)	(14,686)
Cash Surplus/(Deficit)	**(10,307)**	**(17,312)**	**(28,538)**	**(19,064)**	**(14,193)**	**(10,231)**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.

Table A1.4: General government sector taxes

	2018-19 Actual[a] $m	2019-20 Actual $m	2020-21 Budget $m
Taxes on Employers' Payroll and Labour Force	**9,546**	**8,671**	**8,682**
Taxes on Property			
Land Taxes	4,216	4,477	4,639
Other	121	123	127
Total Taxes on Property	**4,336**	**4,600**	**4,766**
Taxes on the Provision of Goods and Services			
Excises and Levies	...	...	...
Taxes on Gambling	2,634	2,207	2,770
Taxes on Insurance	2,787	3,118	3,121
Stamp Duties on Financial and Capital Transactions	7,732	7,278	8,243
Total Taxes on the Provision of Goods and Services	**13,153**	**12,603**	**14,134**
Taxes on Use of Goods and Performance of Activities			
Motor Vehicle Taxes	3,099	3,117	3,241
Franchise Taxes	...	...	0
Other	891	950	889
Total Taxes on Use of Goods and Performance of Activities	**3,990**	**4,067**	**4,130**
Total Taxation Revenue	**31,026**	**29,941**	**31,711**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.

Table A1.5: General government sector grant revenue and expense[(a)]

	2018-19 Actual[(b)] $m	2019-20 Actual $m	2020-21 Budget $m
Current Grants and Subsidies			
Current Grants from the Commonwealth[(a)]			
General Purpose Grants	17,907	18,073	16,308
Specific Purpose Payments	10,224	11,278	11,740
National Partnership Payments	1,027	1,746	1,564
Other Commonwealth Payments	410	454	639
Total	**29,568**	**31,551**	**30,250**
Other Grants and Subsidies	500	601	522
Total Current Grants and Subsidies Revenue	**30,068**	**32,152**	**30,772**
Capital Grants and Subsidies			
Capital Grants from the Commonwealth[(a)]			
General Purpose Payments	...	...	...
Specific Purpose Payments	...	...	...
National Partnership Payments	1,710	2,140	2,432
Other Commonwealth Payments	4	2	5
Total	**1,714**	**2,142**	**2,437**
Other Grants and Subsidies	66	12	116
Total Capital Grants and Subsidies Revenue	**1,780**	**2,154**	**2,553**
Total Grants and Subsidies Revenue	**31,848**	**34,306**	**33,325**
Current Grants, Subsidies and Transfer Payments Expense to:			
State/Territory Government	10	36	2
Local Government[(a)]	1,056	1,168	2,515
Private and Not-for-Profit Sector[(a)]	7,044	9,108	10,895
Other Sectors of Government	5,485	6,056	6,572
Total Current Grants, Subsidies and Transfer Payments Expense	**13,595**	**16,369**	**19,983**
Capital Grants, Subsidies and Transfer Payments to:			
State/Territory Government	0	0	0
Local Government[(a)]	345	402	1,377
Private and Not-for-Profit Sector[(a)]	396	437	611
Other Sectors of Government	364	162	525
Total Capital Grants, Subsidies and Transfer Payments Expense	**1,105**	**1,001**	**2,514**
Total Grants and Subsidies Expense	**14,700**	**17,369**	**22,743**
Transfer Receipts and Payments from the Commonwealth Government on-passed by New South Wales to Third Parties			
Transfer Receipts			
Current Transfer Receipts for Specific Purposes	4,845	5,500	4,311
Total Receipts	**4,845**	**5,500**	**4,311**
Current Transfer Payments to:			
Local Government	778	796	384
Private and Not-For-Profit Sector	4,067	4,704	3,927
Capital Transfer Payments to:			
Local Government	...	...	...
Private and Not-For-Profit Sector	...	...	...
Total Payments	**4,845**	**5,500**	**4,311**

(a) Grant revenue and expenses above exclude the following transfer payments from the Commonwealth government that New South Wales passes on to third parties. They are not recorded as New South Wales revenue and expense as the State has no control over the amounts that it passes on.
(b) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.

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

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m
Dividend and Income Tax Revenue from the PNFC Sector	1,629	1,256	936
Dividend and Income Tax Revenue from the PFC Sector	303	98	135
Other Dividend Income	1,934	2,426	1,779
Total Dividend and Income Tax Equivalent Income	**3,866**	**3,780**	**2,849**

Table A1.7: General government sector expenses by function

	2018-19 Actual [(a)] $m	2019-20 Actual $m	2020-21 Budget $m
General Public Services[(b)]	8,310	10,551	7,197
Defence	...	...	...
Public Order and Safety	8,232	8,643	9,387
Economic Affairs	3,097	5,261	6,751
Environmental Protection	1,144	1,509	1,497
Housing and Community Amenities	1,143	995	2,516
Health	22,683	23,315	26,058
Recreation, Culture and Religion	1,280	1,097	1,542
Education	17,050	17,024	19,233
Social Protection	7,419	8,533	8,879
Transport	10,090	11,356	15,073
Total Expenses	**80,450**	**88,283**	**98,133**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) 2020-21 Budget includes $100 million State Contingencies (previously known as Advance to the Treasurer) which will be allocated across functions as the funds are expended during the Budget Year. There is also a special appropriation to the Treasurer of $1.47 billion for potential COVID related expenditure during the Budget Year.

Table A1.8: General government sector purchases of non-financial assets by function

	2018-19 Actual $m	2019-20 Actual $m	2020-21 Budget $m
General public services[(a)]	237	2,126	1,344
Defence	...	...	...
Public order and safety	1,219	1,615	1,366
Economic affairs	197	133	1,121
Environmental protection	10	17	26
Housing and community amenities	131	242	340
Health	2,224	2,525	2,599
Recreation, culture and religion	197	238	475
Education	1,780	2,189	2,501
Social protection	207	87	208
Transport	10,421	11,814	12,665
Total Purchases of Non-Financial Assets	**16,623**	**20,985**	**22,644**

(a) 2020-21 Budget includes $20 million State Contingencies (previously known as Advance to the Treasurer) which will be allocated across functions as the funds are expended during the Budget Year.

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

	2018-19 Actual[(a)]	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Grants and Subsidies						
- Other Commonwealth Payments	...	3	3	3	3	3
- Other Grants and Subsidies	3,022	3,153	3,811	3,433	3,120	3,096
Sale of Goods and Services	8,357	7,836	7,159	7,664	8,117	8,566
Interest	76	51	51	52	53	54
Other Dividends and Distributions	15	6	6	6	6	6
Fines, Regulatory Fees and Other	621	620	637	618	637	639
Total Revenue from Transactions	**12,092**	**11,669**	**11,667**	**11,776**	**11,936**	**12,363**
Expenses from Transactions						
Employee	2,242	2,361	2,439	2,548	2,560	2,583
Personnel Services Expense	512	498	666	693	705	723
Superannuation						
- Superannuation Interest Cost	55	45	25	21	20	23
- Other Superannuation	187	215	221	218	222	231
Depreciation and Amortisation	2,815	3,206	3,377	3,487	3,593	3,708
Interest	1,042	1,040	914	915	894	907
Income Tax Expense	309	210	197	207	228	271
Other Operating Expense	5,852	5,580	5,224	5,205	5,331	5,527
Grants, Subsidies and Other Transfers	80	60	119	60	62	63
Total Expenses from Transactions	**13,094**	**13,215**	**13,184**	**13,354**	**13,616**	**14,037**
Transactions from Discontinuing Operations	40	...	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT) AFTER TAX	**(962)**	**(1,546)**	**(1,517)**	**(1,579)**	**(1,680)**	**(1,674)**

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

	2018-19 Actual[(a)] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(33)	(7)	...	...	...	...
Other Net Gains/(Losses)	(3,146)	(655)	(141)	(89)	(181)	(248)
Allowance for Impairment of Receivables	(5)	(6)	(3)	(6)	(6)	(6)
Deferred Income Tax	(42)	120	(10)	(22)	(21)	(9)
Discontinuing Operations - Other Economic Flows	...	...	...	...	...	...
Other Economic Flows - included in Operating Result	**(3,226)**	**(547)**	**(155)**	**(117)**	**(208)**	**(263)**
Operating Result	**(4,188)**	**(2,094)**	**(1,671)**	**(1,696)**	**(1,889)**	**(1,937)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(881)**	**245**	**(252)**	**2,083**	**2,071**	**2,723**
Revaluations	26	278	(137)	1,926	1,732	2,075
Share of Associate's Other Comprehensive Income/(Loss) that will not be Reclassified Subsequently to Operating Result	...	...	...	...	...	...
Actuarial Gain/(Loss) from Superannuation	(756)	(17)	(200)	179	369	655
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	...	...	...	...	...	...
Deferred Tax Direct to Equity	(151)	(15)	86	(22)	(30)	(6)
Items that may be Reclassified Subsequently to Operating Result	**2**	**(103)**	**(125)**	**7**	**6**	**7**
Net Gain/(Loss) on Financial Instruments at Fair Value	(3)	(6)	...	...	...	...
Other	6	(96)	(125)	7	6	7
Other Economic Flows - Other Comprehensive Income	**(879)**	**142**	**(377)**	**2,090**	**2,077**	**2,730**
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**(5,066)**	**(1,951)**	**(2,048)**	**394**	**189**	**792**
Dividends Distributed	(1,475)	(1,077)	(738)	(366)	(528)	(576)
Net Equity Injections	(3,240)	6,654	3,555	3,400	2,032	960
Total Change in Net Worth	**(9,781)**	**3,626**	**768**	**3,428**	**1,693**	**1,176**
Key Fiscal Aggregates						
Comprehensive Result - Before Transactions with Owners in their capacity as Owners	**(5,066)**	**(1,951)**	**(2,048)**	**394**	**189**	**792**
Less: Net Other Economic Flows	4,105	405	531	(1,973)	(1,869)	(2,466)
Equals: Budget Result - Net Operating Balance	**(962)**	**(1,546)**	**(1,517)**	**(1,579)**	**(1,680)**	**(1,674)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(b)]	5,202	4,205	6,417	6,805	5,184	3,879
Sales of Non-Financial Assets	(368)	(264)	(155)	(357)	(577)	(298)
Less: Depreciation	(2,815)	(3,206)	(3,377)	(3,487)	(3,593)	(3,708)
Plus: Change in Inventories	(72)	108	139	255	49	(142)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(b)]	...	75	79	82	86	314
- Assets Acquired Using Service Concession Arrangements[(b)] (Financial Liability Model)	...	...	...	...	...	...
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	...	...	...	...
- Other	402	357	297	315	322	328
Equals: Total Net Acquisition of Non-Financial Assets	**2,349**	**1,275**	**3,401**	**3,614**	**1,470**	**373**
Equals: Net Lending/(Borrowing) [Fiscal Balance]	**(3,311)**	**(2,821)**	**(4,918)**	**(5,193)**	**(3,150)**	**(2,048)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(b)]	5,202	4,280	6,497	6,888	5,270	4,193
Dividends Accrued[(c)]	727	1,077	348	366	528	576

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) Capital expenditure comprises purchases of non-financial assets plus assets acquired using leases and assets acquired using Service Concession Arrangements under the Financial Liability Model.
(c) Net borrowing for the PNFC sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.

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

	2018-19 Actual[a] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Assets						
Financial Assets						
Cash and Cash Equivalents	2,548	2,110	1,050	798	686	471
Receivables	1,211	1,295	1,297	1,161	1,161	1,154
Investments, Loans and Placements						
Financial Assets at Fair Value	240	243	243	243	243	243
Other Financial Assets	656	421	1,092	1,078	1,059	1,018
Advances Paid	0	0	0	0	0	0
Tax Equivalents Receivable	9	77	40	5	5	1
Deferred Tax Equivalents	109	84	95	95	117	159
Equity						
Other	189	181	181	181	181	181
Total Financial Assets	**4,963**	**4,411**	**3,999**	**3,560**	**3,451**	**3,226**
Non-Financial Assets						
Contract Assets	...	...	...	...	...	...
Inventories	474	576	705	960	1,009	867
Forestry Stock and Other Biological Assets	1,171	827	828	828	828	828
Assets Classified as Held for Sale	61	49	48	49	49	50
Investment Properties	648	676	676	641	641	642
Property, Plant and Equipment						
Land and Buildings	75,775	73,668	75,013	76,451	77,090	78,504
Plant and Equipment	5,968	4,106	4,504	5,468	6,296	6,622
Infrastructure Systems	48,645	55,792	58,337	61,174	62,738	63,558
Right of Use Assets	...	2,969	2,882	2,818	2,761	2,685
Intangibles	1,108	1,070	1,153	1,140	1,086	1,037
Other	170	629	526	527	524	408
Total Non-Financial Assets	**134,020**	**140,363**	**144,672**	**150,057**	**153,022**	**155,200**
Total Assets	**138,983**	**144,774**	**148,671**	**153,616**	**156,473**	**158,427**
Liabilities						
Deposits Held	70	21	21	21	21	21
Payables	2,136	2,005	2,098	2,262	2,646	3,131
Contract Liabilities	...	108	140	133	85	82
Liabilities Directly Associated with Assets Held for Sale	...	...	...	...	...	...
Borrowings and Derivatives at Fair Value	3	7	7	7	7	7
Borrowings at Amortised Cost	24,558	26,707	29,804	31,315	32,446	33,331
Advances Received	478	463	448	432	297	282
Employee Provisions	1,150	1,227	1,256	1,254	1,250	1,252
Superannuation Provision[b]	3,010	3,057	3,269	3,083	2,699	2,027
Tax Equivalents Payable	32	0	24	40	32	30
Deferred Tax Equivalent Provision	2,246	2,129	2,171	2,236	2,322	2,420
Other Provisions	1,410	1,664	915	929	1,086	1,130
Other	322	192	556	515	500	455
Total Liabilities	**35,415**	**37,580**	**40,709**	**42,227**	**43,391**	**44,168**
NET ASSETS	**103,567**	**107,193**	**107,962**	**111,389**	**113,082**	**114,258**
NET WORTH						
Accumulated Funds	42,651	47,004	31,467	29,745	27,963	26,245
Reserves	60,916	60,190	76,495	81,644	85,119	88,013
TOTAL NET WORTH	**103,567**	**107,193**	**107,962**	**111,389**	**113,082**	**114,258**
OTHER FISCAL AGGREGATES						
Net Debt[c]	**21,664**	**24,424**	**27,895**	**29,657**	**30,782**	**31,909**
Net Financial Liabilities[d]	**30,453**	**33,170**	**36,710**	**38,667**	**39,940**	**40,942**
Net Financial Worth[e]	**(30,453)**	**(33,170)**	**(36,710)**	**(38,667)**	**(39,940)**	**(40,942)**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) The Superannuation Provision is reported net of prepaid superannuation contribution assets.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(e) Net financial worth equals total financial assets minus total financial liabilities.

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

	2018-19 Actual[(a)]	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m	$m
Cash Receipts from Operating Activities						
Sales of Goods and Services	8,954	7,728	7,153	7,709	8,087	8,601
Grant and Subsidies	3,017	3,151	3,811	3,433	3,119	3,095
Interest	70	51	30	49	64	82
Other	1,542	1,119	855	911	865	843
Total Cash Receipts from Operating Activities	**13,583**	**12,049**	**11,848**	**12,102**	**12,136**	**12,621**
Cash Payments from Operating Activities						
Employee Related	(2,323)	(2,420)	(2,569)	(2,705)	(2,723)	(2,744)
Personnel Services	(644)	(644)	(666)	(693)	(705)	(723)
Superannuation	(205)	(229)	(234)	(246)	(257)	(271)
Payments for Goods and Services	(5,555)	(5,380)	(5,283)	(5,309)	(5,247)	(5,264)
Grants and Subsidies	(78)	(60)	(108)	(60)	(62)	(63)
Interest	(922)	(946)	(853)	(771)	(820)	(819)
Distributions Paid	(423)	(301)	(304)	(114)	(171)	(179)
Other	(1,329)	(1,067)	(652)	(299)	(44)	(207)
Total Cash Payments from Operating Activities	**(11,479)**	**(11,046)**	**(10,669)**	**(10,196)**	**(10,028)**	**(10,271)**
Net Cash Flows from Operating Activities	**2,104**	**1,003**	**1,180**	**1,906**	**2,108**	**2,350**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	371	264	154	357	577	298
Purchases of Non-Financial Assets	(5,325)	(4,258)	(6,266)	(6,853)	(5,227)	(3,896)
Net Cash Flows from Investments in Non-Financial Assets	**(4,955)**	**(3,994)**	**(6,112)**	**(6,496)**	**(4,650)**	**(3,598)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	0	(26)	0	0	0	0
Payments	(810)	0	0	(0)	0	0
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**(810)**	**(26)**	**0**	**(0)**	**0**	**0**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	228	192	8	52	7	12
Purchase of Investments	(22)	(5)	...	...	...	...
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**206**	**186**	**8**	**52**	**7**	**12**
Net Cash Flows from Investing Activities	**(5,559)**	**(3,834)**	**(6,104)**	**(6,444)**	**(4,643)**	**(3,586)**
Cash Flows from Financing Activities						
Advances (Net)	1,994	1,933	3,524	3,369	1,881	930
Proceeds from Borrowings	2,067	1,841	2,384	1,757	1,541	1,323
Repayment of Borrowings	(211)	(643)	(398)	(471)	(580)	(657)
Dividends Paid	(1,611)	(727)	(1,437)	(348)	(366)	(528)
Deposits Received (Net)	(21)	(49)	0	...	...	...
Other (Net)	21	9	75	(21)	(52)	(48)
Net Cash Flows from Financing Activities	**2,238**	**2,364**	**4,148**	**4,285**	**2,424**	**1,020**
Net Increase/(Decrease) in Cash Held	**(1,216)**	**(468)**	**(777)**	**(253)**	**(111)**	**(216)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	2,104	1,003	1,180	1,906	2,108	2,350
Net Cash Flows from Investments in Non-Financial Assets	(4,955)	(3,994)	(6,112)	(6,496)	(4,650)	(3,598)
Dividends Paid	(1,611)	(727)	(1,437)	(348)	(366)	(528)
Cash Surplus/(Deficit)	**(4,462)**	**(3,718)**	**(6,370)**	**(4,938)**	**(2,908)**	**(1,775)**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.

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

	2018-19 Actual[(a)]	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m	$m
Revenue from Transactions						
Taxation	30,533	29,419	31,199	31,976	34,604	36,243
Grants and Subsidies						
- Commonwealth General Purpose	17,907	18,073	16,308	19,612	19,913	20,057
- Commonwealth Specific Purpose Payments	10,224	11,278	11,740	11,721	12,385	13,053
- Commonwealth National Partnership Payments	2,737	3,886	3,996	4,166	3,955	3,984
- Other Commonwealth Payments	418	458	647	689	538	574
- Other Grants and Subsidies	483	531	548	516	530	576
Sale of Goods and Services	14,678	13,525	12,982	13,860	14,521	15,182
Interest	503	361	307	324	327	323
Dividend and Income Tax Equivalents from Other Sectors	303	98	135	150	177	197
Other Dividends and Distributions	1,949	2,432	1,785	1,902	2,366	2,726
Fines, Regulatory Fees and Other	5,235	4,729	4,915	5,167	5,024	5,203
Total Revenue from Transactions	**84,969**	**84,791**	**84,559**	**90,082**	**94,339**	**98,117**
Expenses from Transactions						
Employee	35,386	37,905	39,512	40,145	41,435	42,644
Superannuation						
- Superannuation Interest Cost	1,466	927	611	521	507	619
- Other Superannuation	3,238	3,502	3,523	3,474	3,506	3,604
Depreciation and Amortisation	7,955	9,139	10,401	10,895	11,326	11,736
Interest	2,789	3,069	3,417	3,538	3,701	3,905
Other Operating Expense	23,571	25,654	26,391	24,226	24,051	24,921
Grants, Subsidies and Other Transfers	11,654	14,124	18,937	16,045	14,099	13,386
Total Expenses from Transactions	**86,059**	**94,320**	**102,793**	**98,844**	**98,625**	**100,814**
Transactions from Discontinuing Operations	41	...	...	...	...	...
NET OPERATING BALANCE - SURPLUS/(DEFICIT)	**(1,050)**	**(9,529)**	**(18,233)**	**(8,761)**	**(4,285)**	**(2,697)**

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

	2018-19 Actual[(a)]	2019-20 Actual	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24
	$m	$m	$m	$m	$m	$m
Other Economic Flows - Included in the Operating Result						
Gain/(Loss) from Other Liabilities	(2,533)	(208)	(11)	1	313	884
Other Net Gains/(Losses)	10,554	(3,189)	(28)	64	(17)	743
Share of Earnings/Losses from Equity Investments (excluding Dividends)	(1)	46	127	216	69	(22)
Allowance for Impairment of Receivables	(74)	(218)	(42)	(41)	(41)	(42)
Deferred Income Tax from Other Sectors	(0)	(0)	0	0	0	0
Others	84	...	...	...	...	...
Discontinuing Operations - Other Economic Flows	(0)	...	...	...	...	...
Other Economic Flows - included in Operating Result	**8,030**	**(3,569)**	**47**	**240**	**323**	**1,563**
Operating Result	**6,980**	**(13,098)**	**(18,187)**	**(8,522)**	**(3,962)**	**(1,133)**
Other Economic Flows - Other Comprehensive Income						
Items that will not be Reclassified to Operating Result	**(11,008)**	**2,254**	**6,399**	**7,873**	**12,063**	**23,436**
Revaluations	7,275	4,541	3,745	5,919	5,875	6,484
Share of Earnings from Associates from Revaluations	...	...	(0)	...	...	...
Actuarial Gain/(Loss) from Superannuation	(14,119)	(690)	1,734	2,017	5,088	9,965
Net Gain/(Loss) on Financial Assets at Fair Value through Other Comprehensive Income	(4,161)	(1,596)	921	(63)	1,100	6,988
Deferred Tax Direct to Equity	(2)	...	0	(0)	0	0
Items that may be Reclassified Subsequently to Operating Result	**(3,918)**	**462**	**2,099**	**(30)**	**(23)**	**(4)**
Net Gain/(Loss) on Financial Instruments at Fair Value	16	(14)	0	...	...	...
Share of Associate's Other Comprehensive Income/(Loss) that may be Reclassified Subsequently to Operating Result	(548)	(243)	(0)	...	...	...
Other	(3,385)	720	2,099	(30)	(23)	(4)
Other Economic Flows - Other Comprehensive Income	**(14,926)**	**2,716**	**8,498**	**7,843**	**12,040**	**23,433**
Total Change in Net Worth	**(7,945)**	**(10,382)**	**(9,689)**	**(678)**	**8,078**	**22,299**
Key Fiscal Aggregates						
Total Change in Net Worth	**(7,945)**	**(10,382)**	**(9,689)**	**(678)**	**8,078**	**22,299**
Less: Net Other Economic Flows	6,896	853	(8,545)	(8,083)	(12,363)	(24,996)
Equals: Budget Result - Net Operating Balance	**(1,050)**	**(9,529)**	**(18,233)**	**(8,761)**	**(4,285)**	**(2,697)**
Less: Net Acquisition of Non-Financials Assets						
Purchases of Non-Financials Assets[(c)]	21,667	22,275	27,626	28,443	24,687	21,577
Sales of Non-Financial Assets	(1,398)	(903)	(772)	(1,360)	(1,058)	(1,498)
Less: Depreciation	(7,955)	(9,139)	(10,401)	(10,895)	(11,326)	(11,736)
Plus: Change in Inventories	(34)	927	20	(48)	(29)	(227)
Plus: Other Movements in Non-Financials Assets						
- Assets Acquired Using Leases[(c)]	159	2,988	949	1,162	519	969
- Assets Acquired Using Service Concession Arrangements[(c)] (Financial Liability Model)	...	...	572	213	195	176
- Assets Acquired Using Service Concession Arrangements (Grant of Right to the Operator Model)	...	...	696	1,158	460	1,014
- Other	357	259	(426)	(301)	(453)	(126)
Equals: Total Net Acquisition of Non-Financial Assets	**12,794**	**16,407**	**18,263**	**18,373**	**12,995**	**10,150**
Equals: Net Lending/(Borrowing) [Fiscal Balance][(b)]	**(13,843)**	**(25,936)**	**(36,497)**	**(27,134)**	**(17,281)**	**(12,847)**
OTHER FISCAL AGGREGATES						
Capital Expenditure[(c)]	21,825	25,264	29,146	29,818	25,401	22,722

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) Net borrowing for the NFPS sector excludes the impact of dividends accrued, and so may not fully reflect the sector's call on the financial markets.
(c) Capital expenditure comprises purchases of non-financial assets plus assets acquired using leases and assets acquired using Service Concession Arrangements under the Financial Liability Model.

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

	2018-19 Actual[(a)] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 $m	2022-23 Forward Estimates $m	2023-24 $m
Assets						
Financial Assets						
Cash and Cash Equivalents	4,517	8,244	2,114	1,784	1,563	1,299
Receivables	6,973	10,578	10,753	10,387	10,456	11,186
Investments, Loans and Placements						
Financial Assets at Fair Value	43,573	41,117	42,113	43,029	45,517	49,439
Other Financial Assets	3,247	1,879	2,814	2,257	2,283	2,254
Advances Paid	715	776	855	1,078	1,123	1,105
Tax Equivalents Receivable	7	12	10	11	13	15
Deferred Tax Equivalents	0	0	(0)	(0)	(0)	(0)
Equity						
Investments in Other Public Sector Entities	(4,734)	(6,747)	(5,827)	(5,889)	(4,790)	2,198
Investments in Associates	12,055	11,866	12,163	11,383	11,377	11,218
Other	196	187	187	187	187	187
Total Financial Assets	**66,550**	**67,912**	**65,183**	**64,227**	**67,728**	**78,900**
Non-Financial Assets						
Contract Assets	2	24	24	24	24	25
Inventories	873	1,743	1,855	1,870	1,905	1,759
Forestry Stock and Other Biological Assets	1,181	841	842	842	842	842
Assets Classified as Held for Sale	283	335	179	178	176	175
Investment Properties	648	676	676	641	641	642
Property, Plant and Equipment						
Land and Buildings	166,333	168,490	175,840	180,814	183,238	185,495
Plant and Equipment	18,056	16,644	17,603	18,889	19,612	19,882
Infrastructure Systems	166,835	180,197	216,900	233,218	248,214	263,565
Right of Use Assets	...	9,282	9,567	9,701	9,167	8,909
Intangibles	4,802	4,757	5,649	5,719	5,775	5,513
Other	6,416	7,468	2,014	2,472	2,942	2,915
Total Non-Financial Assets	**365,429**	**390,458**	**431,149**	**454,370**	**472,536**	**489,720**
Total Assets	**431,979**	**458,370**	**496,332**	**518,596**	**540,265**	**568,621**
Liabilities						
Deposits Held	137	90	90	90	90	90
Payables	8,504	8,374	8,921	9,197	8,978	9,001
Contract Liabilities	34	1,259	1,289	1,278	1,230	1,225
Borrowings and Derivatives at Fair Value	210	399	395	393	392	390
Borrowings at Amortised Cost	62,213	94,509	127,905	152,379	172,650	190,451
Advances Received	756	696	585	560	505	452
Employee Provisions	21,934	23,774	24,552	25,124	25,357	25,013
Superannuation Provision[(b)]	70,706	70,947	70,045	68,651	62,915	52,330
Deferred Tax Equivalent Provision	...	...	(0)	0	0	0
Other Provisions	11,996	14,430	13,740	13,283	12,955	12,740
Other	6,419	5,205	19,811	19,320	18,796	18,231
Total Liabilities	**182,908**	**219,682**	**267,333**	**290,276**	**303,866**	**309,923**
NET ASSETS	**249,070**	**238,688**	**228,999**	**228,321**	**236,398**	**258,698**
NET WORTH						
Accumulated Funds	121,116	110,728	79,008	69,223	68,559	76,549
Reserves	127,954	127,959	149,991	159,098	167,839	182,149
TOTAL NET WORTH	**249,070**	**238,688**	**228,999**	**228,321**	**236,398**	**258,698**
OTHER FISCAL AGGREGATES						
Net Debt[(c)]	**11,263**	**43,677**	**81,079**	**105,275**	**123,152**	**137,286**
Net Financial Liabilities[(d)]	**111,624**	**145,023**	**196,323**	**220,159**	**231,348**	**233,221**
Net Financial Worth[(e)]	**(116,358)**	**(151,770)**	**(202,150)**	**(226,049)**	**(236,138)**	**(231,023)**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.
(b) The Superannuation Provision is reported net of prepaid superannuation contribution assets.
(c) 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.
(d) Net financial liabilities equals total liabilities less financial assets excluding equity investments in other public sector entities.
(e) Net financial worth equals total financial assets minus total liabilities.

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

	2018-19 Actual[(a)] $m	2019-20 Actual $m	2020-21 Budget $m	2021-22 Forward Estimates $m	2022-23 Forward Estimates $m	2023-24 Forward Estimates $m
Cash Receipts from Operating Activities						
Taxation	30,123	27,854	31,408	33,308	34,879	36,497
Sales of Goods and Services	15,007	13,538	13,297	14,288	14,689	15,399
Grant and Subsidies	31,723	33,710	33,197	35,987	37,082	37,373
Interest	539	303	191	242	268	286
Dividends and Income Tax Equivalents	187	135	118	138	156	182
Other	13,550	13,519	9,270	8,401	8,986	7,630
Total Cash Receipts from Operating Activities	**91,129**	**89,059**	**87,481**	**92,364**	**96,059**	**97,366**
Cash Payments from Operating Activities						
Employee Related	(34,065)	(36,346)	(38,738)	(39,591)	(40,911)	(42,148)
Superannuation	(4,529)	(4,878)	(3,288)	(3,372)	(4,661)	(4,852)
Payments for Goods and Services	(23,268)	(23,844)	(27,586)	(24,418)	(24,219)	(24,417)
Grants and Subsidies	(10,693)	(12,975)	(17,628)	(15,208)	(13,111)	(12,703)
Interest	(2,328)	(2,746)	(3,366)	(3,617)	(4,074)	(4,297)
Distributions Paid	0	(0)	0	0	0	0
Other	(8,229)	(8,213)	(4,824)	(3,490)	(3,359)	(3,137)
Total Cash Payments from Operating Activities	**(83,112)**	**(89,003)**	**(95,430)**	**(89,695)**	**(90,335)**	**(91,555)**
Net Cash Flows from Operating Activities	**8,017**	**56**	**(7,950)**	**2,669**	**5,724**	**5,811**
Cash Flows from Investments in Non-Financial Assets						
Proceeds from Sale of Non-Financial Assets	807	487	771	1,360	1,058	1,498
Purchases of Non-Financial Assets	(21,534)	(21,547)	(27,746)	(28,216)	(24,319)	(19,768)
Net Cash Flows from Investments in Non-Financial Assets	**(20,727)**	**(21,060)**	**(26,974)**	**(26,856)**	**(23,262)**	**(18,270)**
Cash Flows from Investments in Financial Assets for Policy Purposes						
Receipts	17,995	2,711	222	2,393	330	278
Payments	(1,127)	(2,775)	(388)	(1,330)	(184)	(162)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	**16,869**	**(63)**	**(166)**	**1,063**	**146**	**116**
Cash Flows from Investments in Financial Assets for Liquidity Purposes						
Proceeds from Sale of Investments	10,253	6,309	6,689	5,021	2,504	624
Purchase of Investments	(23,926)	(4,314)	(7,567)	(5,148)	(4,770)	(4,268)
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	**(13,673)**	**1,996**	**(878)**	**(127)**	**(2,267)**	**(3,644)**
Net Cash Flows from Investing Activities	**(17,531)**	**(19,127)**	**(28,018)**	**(25,919)**	**(25,382)**	**(21,798)**
Cash Flows from Financing Activities						
Advances (Net)	(69)	(77)	25	(162)	(84)	(19)
Proceeds from Borrowings	5,865	24,784	32,275	25,206	22,033	17,908
Repayment of Borrowings	(820)	(1,886)	(2,192)	(2,114)	(2,562)	(2,237)
Dividends Paid	(154)	...	...	...	...	...
Deposits Received (Net)	(2)	(47)	0	...	...	...
Other (Net)	30	(4)	0	0	(0)	(0)
Net Cash Flows from Financing Activities	**4,850**	**22,769**	**30,109**	**22,929**	**19,388**	**15,652**
Net Increase/(Decrease) in Cash Held	**(4,664)**	**3,698**	**(5,859)**	**(321)**	**(270)**	**(335)**
Derivation of Cash Result						
Net Cash Flows from Operating Activities	8,017	56	(7,950)	2,669	5,724	5,811
Net Cash Flows from Investments in Non-Financial Assets	(20,727)	(21,060)	(26,974)	(26,856)	(23,262)	(18,270)
Dividends Paid	(154)	...	...	...	...	...
Cash Surplus/(Deficit)	**(12,865)**	**(21,004)**	**(34,924)**	**(24,187)**	**(17,537)**	**(12,459)**

(a) Refer Note 32: Restatement/Corrections to Prior Year Comparatives in the NSW Report on State Finances 2019-20, for details of corrections to 2018-19 financial information.

A2. 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, such as reducing the cost of living. 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 a reduction in agency retained earnings. These concessions have a budget cost, regardless of whether they are the subject of a specific intragovernment 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 a 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. Importantly, 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.

A2.1 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 2020-21, total measured tax expenditures and concessions provided by the New South Wales Government are expected to amount to $8.4 billion, equivalent to 10.2 per cent of total New South Wales revenue.

Tax expenditures

Table A2.1 provides a summary of the total value of major tax expenditures (those valued at $1.0 million or greater) for each of the main revenue sources. The estimates are for the financial years 2018-19 to 2020-21, except for land tax, which uses calendar years 2019, 2020, and 2021. The total value of major quantifiable tax expenditures is an estimated $6.4 billion or 20.3 per cent of tax revenue in 2020-21.

Table A2.1: Major tax expenditures by type

	2018-19		2019-20		2020-21	
Tax	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	670	9.0	766	11.0	839	10.6
General and Life Insurance Duty	1,056	103.3	1,063	97.5	1,100	97.6
Payroll Tax	1,771	18.9	2,336	27.5	1,665	19.5
Land Tax	1,114	26.4	1,146	25.6	1,138	24.5
Taxes on Motor Vehicles	683	29.7	711	30.3	764	32.1
Gambling and Betting Taxes	929	35.3	834	37.8	853	30.8
Parking Space Levy	72	65.8	72	65.9	72	64.8
Total	**6,296**	**20.3**	**6,929**	**23.1**	**6,431**	**20.3**

Changes to the estimates

The estimates in Table A2.1 include policy changes since the 2019-20 Budget. The NSW Government has announced a number of support measures to businesses and communities devastated by bushfires and COVID-19. Payroll tax waivers were introduced for smaller businesses, an exemption was applied to certain payroll amounts as a result of JobKeeper payments, the payroll tax rate has been temporarily reduced for two years to 4.85 per cent, and from 1 July 2020, the payroll tax threshold permanently increased to $1.2 million.

The Government has also increased first home buyer concessions by reducing transfer duty for new homes valued between $650,000 and $1.0 million. The increased concessions are in place from 1 August 2020 to 31 July 2021.

These policy changes affect the tax expenditure estimates for payroll tax and transfer duty.

For further information on new policy measures please refer to Chapter 4 Revenue and Chapter 5 Expenditure.

Concessions

Table A2.2 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 $1.9 billion in 2020-21.

Table A2.2: Concessions by function

Function	2018-19 $m	2019-20 $m	2020-21 $m
Public Order and Safety	13	10	14
Education	637	623	621
Health	277	288	308
Transport	463	441	355
Housing and Community	526	527	596
Economic Affairs	12	13	14
Recreation, Culture and Religion	4	4	4
Environmental Protection	12	12	13
Total	**1,944**	**1,918**	**1,925**

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. Housing and community concessions also account for almost a third 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. Transport concessions, the major component of which are concessions to pensioners, seniors and welfare beneficiaries, account for around a fifth of the total.

2018-19 and 2019-20 actuals for public transport concessions and the School Student Transport Scheme are down from last year's estimates following updated patronage data and due to the impacts of the COVID-19 pandemic on concession holder's travel behaviour. Patronage levels have decreased between 40 per cent and 60 per cent when comparing August 2019 and August 2020, as Public Health Orders have encouraged people to stay at home. 2019-20 public transport concessions declined by approximately 7 per cent and the School Student Transport Scheme by approximately 16 per cent.

A2.2 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 1997*, including New South Wales land, land use entitlements, transferable floor space, and partnership interests. Indirect acquisition of land under Chapter 4 of the *Duties Act 1997* (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.

The basis for determining the value of land that establishes the threshold for the purposes of triggering landholder duty on the acquisition of an interest in a landholder was changed so that unencumbered value is used instead of unimproved land value, effective from 24 June 2020.

Surcharge purchaser duty applies to purchases of residential land by foreign persons at a rate of 8 per cent.

From 1 August 2020 to 31 June 2021, transfer duty thresholds for first home buyer exemptions or concessions will be temporarily increased for the purchase of a new home up to a value of $1 million, or vacant land for homebuilding up to $500,000.

The *Duties Act 1997* includes a number of exemptions designed to exclude the application of duty (apart from a nominal charge) to transactions where:

- duty has already been applied to an associated legal instrument or
- the change in legal ownership does not produce a change in beneficial ownership.

Exemptions that fall under the first of these two categories are not included as a tax expenditure, as exemptions of this nature are designed to avoid the double taxation that could occur if the exemption were not provided. Exemptions that fall under the second of these two categories are also not included, as they are designed to support the underlying structure of transfer duty, rather than to provide a benefit to a particular group of taxpayers. Examples of this second category include exemptions for changes in trustees, and the rearranging of assets within subsidiaries of the same corporate group.

Table A2.3: Transfer duty – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Charitable/non-profit organisations/clubs			
An exemption is granted for transactions of charitable or benevolent organisations, as set out in Section 275 of the *Duties Act 1997*.	38	45	44
Government			
Councils and county councils The transfer of property to a council or county council is exempt under the *Local Government Act 1993*.	13	12	12
Individuals/families			
First Home Buyer concessions and exemptions From 1 August 2020 to 31 July 2021, temporary increases were made to exemptions or concessions available to first homebuyers for the purchase of a new home up to a value of $1,000,000, or vacant land for homebuilding up to $500,000. The previous arrangements remain unchanged, with exemptions or concessions available to first homebuyers for the purchase of a new or existing home up to a value of $800,000, or vacant land for homebuilding up to $450,000.	447	523	592
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.	98	100	99
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 *Family Law Act 1975 (Cwlth)*.	29	31	31
Purchases by tenants of Housing NSW and Aboriginal Housing Office An exemption is provided for purchases of a principal place of residence.	1	0	3
Rural			
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.	44	54	58

Table A2.3: Transfer duty – major tax expenditures (cont.)

	2018-19 $m	2019-20 $m	2020-21 $m
Other			
Other Legislation			
An exemption is granted in other legislation for certain transfers of dutiable property.	1	0	…

Transfer duty – other major tax expenditures (> $1.0 million)[1]

- 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 by owner occupiers, duty may be deferred until completion of the sale or 12 months after the contract, whichever occurs first.

Transfer duty – minor tax expenditures (< $1.0 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
- transfer 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 (Cwlth)* 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 State Insurance Regulatory Authority (SIRA) and licensed insurers, under the *Workers Compensation Act 1987*

[1] 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.

- acquisition of an interest in a primary producer that is not 'land rich'.

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 $2.0 million 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 three years.

The following are exempt from surcharge purchaser duty:

- Holders of subclass 410 (retirement) and 405 (investor retirement) visas from 1 July 2019
- Australian based developers subject to satisfying requirements relating to the construction and sale of new homes on the acquired land
- Developers of Build to Rent properties subject to satisfying requirements relating to the construction of such properties, from 1 July 2020.

A2.3 General insurance duty

The benchmark tax base for general insurance is all premiums paid for insurance policies, excluding life insurance, insurance covering property of the Crown in right of New South Wales, crop and livestock insurance and lenders mortgage insurance. The benchmark tax rate is 9 per cent of the premium paid.

Table A2.4: General insurance duty – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Business			
Exemption for workers compensation premiums	239	252	280
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.	9	8	8
Small business exemptions From 1 January 2018, an insurance duty exemption is provided to small businesses for commercial vehicles, professional indemnity, and product and public liability.	57	54	53
Individuals/families			
Concessional rates for Type B general insurance, as identified in Section 233 of the *Duties Act 1997* A concessional rate of 5 per cent is applied 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 insurers).	307	310	316
Compulsory third party motor vehicle insurance An exemption is provided for third party motor vehicle personal injury insurance (green slip), as per the *Motor Accidents Act 1988* and the *Motor Accidents Compensation Act 1999*.	205	198	202

General insurance duty – minor tax expenditures (< $1.0 million)

The following are exempt:

- insurance by non-profit organisations with the main aim being a charitable, benevolent, philanthropic, or patriotic purpose
- crop and livestock insurance taken out from 1 January 2018
- 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 objectives
- 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.

A2.4 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 A2.5: Life insurance duty – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Individuals/families			
Superannuation			
An exemption is granted to all group superannuation investment policies that are for the benefit of more than one member.	211	213	213
Annuities			
An exemption is granted to annuities.	28	28	28

A2.5 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 $44,999, and $1,350 plus $5 per $100 for vehicles valued at $45,000 or more.

Table A2.6: Motor vehicle stamp duty – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Business			
New demonstrator motor vehicle An exemption is granted to licensed motor dealers and wholesalers under the *Motor Dealers Act 1974.*	98	94	105
Individuals/families			
Caravans and camper trailers An exemption is provided for transfers of registration of caravans and camper trailers.	45	42	47
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.	9	9	10
Government/public amenities			
Local councils An exemption is granted for the transfer of registration into the name of a local council, not being for a trading undertaking.	10	11	12
Pensioners/concession card holders/disadvantaged			
War veterans and impaired members of the Defence Force An exemption is granted to DVA pensioners who meet certain pension or disability criteria.	2	2	2

Motor vehicle stamp duty – minor tax expenditures (< $1.0 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.

A2.6 Payroll tax

From 1 July 2019 to 30 June 2020 the payroll tax benchmark was aggregate annual gross remuneration in excess of $900,000 paid by a single or group taxpayer. From 1 July 2020 the payroll tax benchmark is aggregate annual gross remuneration in excess of $1.2 million paid by a single or group taxpayer. The benchmark tax rate has been reduced from 5.45 per cent to 4.85 per cent for all NSW businesses in 2020-21 and 2021-22. From 1 July 2022 the rate will revert back to 5.45 per cent.

Table A2.7: Payroll tax – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Business			
Payroll tax waiver for small businesses Payroll tax customers whose total grouped Australian wages for the 2019-20 financial year are $10 million or less, will have their annual tax liability for 2019-20 reduced by 25 per cent.	…	441	…
JobKeeper payments An exemption is granted for any additional wages paid to employees to meet the minimum fortnightly wage requirement under the JobKeeper Scheme.	…	65	90
Apprentices A full exemption/rebate applies to wages paid to apprentices or to employees in an approved non-profit group apprenticeship scheme.	61	60	48
Trainees A full exemption/rebate is provided for wages paid to trainees or to employees in an approved non-profit group traineeship scheme.	41	40	32
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.	39	40	35
Redundancy payments An exemption is provided for the Commonwealth tax-free part of a genuine redundancy or approved early retirement scheme payment.	5	6	5
Charitable/non-profit organisations/clubs			
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.	282	292	255
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.	20	21	18

Table A2.7: Payroll tax – major tax expenditures (cont.)

	2018-19 $m	2019-20 $m	2020-21 $m
Government/public amenities			
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.	775	802	700
Local councils 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 *Payroll Tax Act 2007*.	240	249	215
Schools and colleges 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.	263	275	226
Religious institutions An exemption is granted for wages paid to persons engaged exclusively in work of a kind ordinarily performed by religious bodies.	44	46	40

Payroll tax – minor tax expenditures (< $1.0 million)

The following are exempt:

- wages paid to an employee who is on leave from employment by reason of service in the Defence Force
- 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 in Australia representing 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, or its equivalent at a reduced rate of pay
- paternity leave payments for a period of up to 14 weeks, or its equivalent at a reduced rate of pay.

A2.7 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*). This excludes land used:

- for owner-occupied residences
- by the Commonwealth Government
- by the NSW Government.

The benchmark tax rate is $100 plus 1.6 per cent of the land value between the thresholds of $734,000 and $4,488,000 for the 2020 land tax year, and $755,000 and $4,616,000 for the 2021 land tax year, and $58,676 plus 2 per cent of land value thereafter. Surcharge land tax applies to residential land owned by foreign persons at the rate of 2 per cent per year. The benchmark tax base for surcharge land tax excludes certain commercial residential property.

Table A2.8: Land tax – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Business			
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.	15	16	15
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.	5	5	5
Co-operatives An exemption is granted for land owned by a co-operative under the Co-operatives National Law (NSW) that has its objects listed in the *Co-operation Act 1923*.	17	17	17
Child care centres and schools An exemption is granted for land used as a residential child care centre licensed under the *Children and Young Persons (Care and Protection) Act 1998* or a school registered under the *Education Act 1990*.	7	7	7
Government/public amenities			
Cemeteries and crematoriums An exemption is provided for land owned by or in trust for use as a cemetery or crematorium.	26	27	27
Public and private hospitals An exemption is provided for land owned by or in trust for public or private hospitals (including nursing homes) and Local Health Districts.	33	34	34
Individuals/families			
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.	35	35	35
Retirement Visa Holders An exemption from surcharge land tax for holders of subclass 410 (retirement) and 405 (investor retirement) visas.	…	…	3

Table A2.8: Land tax – major tax expenditures (cont.)

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders/disadvantaged			
Retirement villages An exemption is granted for land used as retirement villages, and residential parks predominantly occupied by retired persons.	190	195	194
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.	13	13	13
Religious institutions			
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.	24	24	24
Rural			
Land used for primary production An exemption is granted for land used for primary production. To qualify, land must be used for primary production for the purpose of profit on a continuous or repetitive basis.	749	771	764

Land tax – other major tax expenditures (> $1.0 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
- land owned by a society registered under the *Friendly Societies (NSW) Code*
- land used for the 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.

The following are exempt from surcharge land tax:

- Australian based developers subject to satisfying requirements relating to the construction and sale of new homes on the acquired land
- Developers of Build to Rent properties subject to satisfying requirements relating to the construction of such properties, from 1 July 2020.

Land tax – minor tax expenditures (< $1.0 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
- 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.

A2.8 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 the NSW Government.

From 1 January 2020, 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:

- $219 (0 - 975kg) to $1,221 (4,325 - 4,500kgs) for private use vehicles
- $356 (0 - 975kg) to $2,310 (4,325 - 4,500kgs) for business use vehicles.

From 1 January 2020, charges for trailers and caravans up to 4.5 tonnes Gross Vehicle Mass are based on a 12-step graduated weight scale, ranging from:

- $0 (0 - 254kg) to $1,221 (4,325 - 4,500kgs) for private use vehicles
- $106 (0 - 254kg) to $2,035 (4,325 - 4,500kgs) for business use vehicles.

Table A2.9: Vehicle weight tax – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Business			
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.	40	39	39
Government/public amenities			
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.	5	5	6
Commonwealth Government vehicles Any vehicle leased to a Commonwealth Authority is exempt from tax under Section 16, Part 3, (2) (d) of *Commonwealth Vehicles (Registration and Exemption from Taxation) Act 1997 (Cwlth)*.	1	1	1
Concessions provided under part 4, Sections 16 and 17 of the *Motor Vehicles Taxation Act 1988* 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
Pensioners/concession card holders/disadvantaged			
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.	311	322	333
Rural			
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.	52	62	67

Vehicle weight tax – minor tax expenditures (< $1.0 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.

A2.9 Motor vehicle registration fees

The benchmark tax base is all vehicles intended for private on-road use. From 1 July 2019, the standard registration fee for light vehicles (up to 4.5 tonnes Gross Vehicle Mass) is $67 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.

Registration administration fees and vehicle tax are reviewed annually and may increase as part of the annual NSW Treasury approved Consumer Price Index. There is currently no change to registration and licensing fees for the financial year starting 1 July 2020, and the annual increase has been deferred to a later date.

Table A2.10: Motor vehicle registration fees – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders/disadvantaged			
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.	58	60	63
Private Vehicles			
Toll Relief Program			
Toll Relief provides free vehicle registration for eligible NSW motorists who spend $26 a week or more on tolls, on average, in the previous financial year. NSW motorists who spend $16 a week or more on tolls, on average, in the previous financial year are eligible for half-price registration.	47	59	74

Motor vehicle registration fees – minor tax expenditures (< $1.0 million)

An exemption is provided for Mobile Disability Conveyance.

A2.10 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. The point of consumption (PoC) tax is levied on all bets placed with Australian based wagering operators by New South Wales residents. The benchmark rate for PoC tax is 10 per cent of New South Wales net wagering revenue.

Table A2.11: Gambling and betting taxes – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Charitable/non-profit organisations/clubs			
Club gaming machines Poker machines installed in clubs registered under the *Registered Clubs Act 1976* are taxed at lower rates than poker machines installed in hotels.	879	728	744
Business			
Totalizator licensee PoC tax offset A PoC tax credit will be provided to the totalizator licensee in recognition of existing betting taxes paid and racing parity arrangements to achieve a competitively neutral outcome.	50	106	109

Gambling and betting taxes – minor tax expenditures (< $1 million)

A full rebate of tax is provided to racing clubs operating non-TAB Ltd pools.

A2.11 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 2019-20 and 2020-21, the benchmark levy was $2,490 per space in Category 1 areas and $880 per space in Category 2 areas.

Table A2.12: Parking space levy – major tax expenditures

	2018-19 $m	2019-20 $m	2020-21 $m
Business			
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.	61	62	62
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	10	10

A2.12 Detailed estimates of concessions

Details of concessions by function are shown below for major concessions worth $1.0 million or more.

Table A2.13: Public order and safety – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders/disadvantaged			
Court interpreting and translation services Multicultural NSW provides translation and interpreting services in NSW courts.	5	5	7
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
Government/public amenities			
Concessions for NSW State 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.	5	2	4

Public order and safety – minor concessions (< $1.0 million)

- The NSW Police Force does not charge for additional policing services for minor sporting events, agricultural shows and rural field days in the northern, southern or western region. It also does not charge for some or all of the additional policing services provided for events run by charities and not-for-profit organisations sponsored by a Government agency, meeting appropriate criteria.

Table A2.14: Education – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Students			
School Student Transport Scheme 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.	534	526	503
Jobs of Tomorrow (STEM) Scholarships Students training in science, technology, engineering or maths-related courses through Smart and Skilled are eligible for a $1,000 scholarship.	6	3	…

Table A2.14: Education – major concessions (cont.)

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders/disadvantaged			
Smart and Skilled – VET concessions and exemptions 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.	85	94	95
Smart and Skilled – VET concessions and exemptions Skilling for Recovery – Full qualifications fee free training places	...	...	23
Smart and Skilled Fee-free scholarships 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	...	...

Table A2.15: Health – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders/disadvantaged			
Ambulance service for concessional patients Free ambulance transport is provided to holders of Pensioner, Health Care, or Department of Veterans' Affairs concession cards.	222	208	211
Ambulance service for bushfire-affected communities Free ambulance transport provided to bushfire-affected communities.	...	24	32
Outpatient Pharmaceutical Scheme for concessional patients Pharmaceuticals are provided to concessional patients at a discounted price or free of charge once the safety threshold is reached.	14	14	15
Outpatient Pharmaceutical Scheme for S100 Concessional Public Patients Concessions provided to concessional patients up to the safety threshold.	3	3	2
Outpatient Pharmaceutical Scheme for S100 General Public Patients Concessions provided to general patients up to the safety threshold.	6	7	12
Concessional car parking fees at NSW public hospitals Car parking concessions are provided to certain categories of patients, and their carers, which recognise regular or long-term hospitalisation and treatment.	14	14	16
Life Support and Medical Energy Rebates Scheme A rebate is provided for energy costs for eligible recipients and costs associated with certain life support systems.	11	11	12
Medical Energy Rebate Assistance is provided for households that use air conditioning to assist with a medically diagnosed inability to manage body temperature.	2	2	3
Spectacles Program The Stronger Communities Cluster assists those who are most vulnerable and disadvantaged in the community to acquire spectacles and other vision aids such as contact lenses.	5	4	5

Table A2.16: Transport – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders/disadvantaged			
Public transport concessions Pensioners, seniors, welfare beneficiaries and students travel for less than full fare on bus, rail, taxi and ferry services (excluding School Student Transport Scheme).	336	290	214
Home and Community Care Program & Community Transport Program 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.	87	87	91
Driver's licence fee exemption Transport for NSW 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.	40	64	50

Transport – minor concessions (< $1.0 million)

- Roads and Maritime Services offers a concession on private mooring licences to holders of Pensioner Concession Cards and Repatriation Health Cards.

Table A2.17: Housing and Community – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Charitable/non-profit organisations/clubs			
Crown land rent concessions Rent concessions to various Crown land tenure holders in circumstances where individuals or organisations experience difficulty making payments by the due date, and in circumstances to recognise the level of community benefit provided by groups and organisations.	12	15	12
Exempt properties water rate concession 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	17	19	20
• Hunter Water Corporation.	2	2	2
Pensioners/concession card holders/disadvantaged			
Low Income Household Rebate Energy bill rebates are available to customers who hold eligible concession cards.	223	222	226

Table A2.17: Housing and Community – major concessions (cont.)

	2018-19 $m	2019-20 $m	2020-21 $m
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.			
• Sydney Water pensioners receive a 100 per cent discount on the fixed water service charge, an 86 per cent discount on the wastewater service charge, and a 50 per cent discount on the stormwater service charge.	124	127	144
• Hunter Water pensioners receive a rebate on the water, sewerage and stormwater service charge. Environmental levy charges are also waived.	14	14	20
Local council rates concession Local council rates are reduced for holders of Pensioner Concession Cards.	76	75	79
Individuals/families			
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.	23	14	45
Family Energy Rebate Energy bill rebates are available to families who have received the Family Tax Benefit.	7	5	8
Gas Rebate A rebate is provided to eligible households to assist with gas bills.	27	27	29
Hardship and Low-Income Schemes Funding is provided to Sydney Water Corporation and Hunter Water Corporation to provide concessions through hardship and low-income schemes for customers in financial hardship.	1	1	1
Seniors Energy Rebate Assistance for independent retirees who hold a valid Commonwealth Seniors Health Card to help with the cost of living.	…	6	10

Housing and Community – minor concessions (< $1.0 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.
- DPIE funds Sydney Water Corporation to provide subsidies for a septic pump-out service to unsewered urban properties in the Blue Mountains.
- DPIE funds Hunter Water Corporation to provide concessions to customers in financial hardship.
- The Planning Ministerial Corporation provides rent rebates and waivers as a result of COVID-19.

Table A2.18: Economic affairs – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Pensioners/concession card holders			
Fishing licence concession Fishing licence concessions are provided to eligible persons.	9	9	9
Business			
Sydney Startup Hub rental subsidy Rental discounts to Sydney Startup Hub tenants who meet subsidy criteria	3	4	5

Economic affairs – minor concessions (< $1.0 million)

- Forestry Corporation of NSW provides discounts to charities seeking permits for non-profit events and provides discounts to pensioners for firewood.

Table A2.19: Recreation, culture and religion – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Seniors/children/disadvantaged/special groups			
Recreational vessel registration and boat driving licence Transport for NSW provide a 50 per cent concession on recreational vessel registration and recreational boating licences to holders of Pensioner Concession Cards and Repatriation Health Cards.	4	4	4

Recreation, culture and religion – minor concessions (< $1.0 million)

- The Sydney Living Museum offers concessional admission charges to the unemployed, children, pensioners, seniors and students. The Sydney Living Museum provides a sleep over program for regional and rural school students.
- 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 Sydney 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, and free admission for carers that hold a Companion Card. Country residents are entitled to a concession on the Museum's household membership.
- 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.

Table 2.20: Environmental protection – major concessions

	2018-19 $m	2019-20 $m	2020-21 $m
Seniors/children/disadvantaged/special groups			
Entry to national parks Holders of Pensioner Concession Cards, seniors, volunteers and community groups receive free or discounted entry to national parks.	12	12	13

Environmental protection – minor concessions (< $1.0 million)

- Game and Pest Management Trust Fund provides a discounted rate on game hunting licences for eligible pensioners and minors.
- NSW National Parks and Wildlife Service offer fee concessions for a range of activities.

A3. VARIATION DETAILS OF APPROPRIATIONS DURING 2019-20

Each year, an Appropriation Act, and an Appropriation (Parliament) Act, are passed in the NSW Parliament which appropriate out of the Consolidated Fund sums to Ministers, and the Legislature, for the services of the Government for that annual reporting period.

In certain circumstances, the *Government Sector Finance Act 2018* (GSF Act) enables the sum of appropriated money to be varied to meet the service objectives of the Government. For example, where an urgent need for additional funds arises during a financial year, section 4.13 of the GSF Act provides that the “Treasurer may, with the approval of the Governor, determine that additional money is to be paid out of the Consolidated Fund during the annual reporting period for the NSW Government in anticipation of appropriation by Parliament if it is required to meet any exigencies of Government.”

Where there is a variation to appropriations, the GSF Act requires the details of these payment variations to be included in the Budget Papers for the next annual reporting year.

As per the reporting requirements of the GSF Act, the following tables provide the variation details of annual appropriations during the 2019-20 reporting period.

Table A3.1: Details of Appropriations affected by transfer of functions between GSF agencies during 2019-20

	Sec. 4.9 GSF Act Amount $,000
Attorney General, and Minister for the Prevention of Domestic Violence	
Net appropriation transfer from Department of Communities and Justice	(211,220)
Total - Attorney General, and Minister for the Prevention of Domestic Violence	**(211,220)**
Minister for Customer Service	
Net appropriation transfer from Department of Customer Service	(80,821)
Total- Minister for Customer Service	**(80,821)**
Minister for Education and Early Childhood Learning	
Net appropriation transfer to Department of Education	5,369
Total - Minister for Education and Early Childhood Learning	**5,369**
Minister for Families, Communities and Disability Services	
Net appropriation transfer to Office of the Children's Guardian	1,678
Total - Minister for Families, Communities and Disability Services	**1,678**
Minister for Planning and Public Spaces	
Net appropriation transfer from Department of Planning, Industry and Environment	(279,197)
Total - Minister for Planning and Public Spaces	**(279,197)**
Deputy Premier, Minister for Regional New South Wales, Industry and Trade	
Net appropriation transfer to Regional NSW	284,064
Total - Deputy Premier, Minister for Regional New South Wales, Industry and Trade	**284,064**
Premier	
Net appropriation transfer to Department of Premier and Cabinet	253,990
Net appropriation transfer from Ombudsman's Office	(2,537)
Total - Premier	**251,453**
Treasurer	
Net appropriation transfer to The Treasury	28,674
Total - Treasurer	**28,674**
TOTAL - SECTION 4.9 GSF ACT	**...**

Table A3.2: Variation details of annual appropriations for Commonwealth Grants during 2019-20

	Sec. 4.11 GSF Act Amount $,000
Attorney General, and Minister for the Prevention of Domestic Violence	
Department of Communities and Justice	
Commonwealth Funding Adjustment - Bushfire Response	10,000
Commonwealth Funding Adjustment - COVID-19 Response	8,817
Family Law Information Sharing Project	92
Total Department of Communities and Justice	**18,909**
Total - Attorney General, and Minister for the Prevention of Domestic Violence	**18,909**
Minister for Education and Early Childhood Learning	
Department of Education	
Commonwealth Funding Adjustment - Mid-Year Economic and Fiscal Outlook (MYEFO) 2019-20	5,824
National School Chaplaincy Program National Partnership and Local Schools Community Fund	995
Total Department of Education	**6,819**
Total Minister for Education and Early Childhood Learning	**6,819**
Minister for Health and Medical Research	
Ministry of Health	
Establishment of Residential Eating Disorders Treatment Centre under the Community Health and Hospitals Program	6,500
Specialist Dementia Program for the provision of specialist clinical support to specialist dementia unit care providers and clients by NSW Health	185
Total Ministry of Health	**6,685**
Total - Minister for Health and Medical Research	**6,685**
Minister for Planning and Public Spaces	
Department of Planning, Industry and Environment	
Commonwealth Funding Adjustment - Bushfire Response	48,533
Total Department of Planning, Industry and Environment	**48,533**
Total - Minister for Planning and Public Spaces	**48,533**
Deputy Premier, Minister for Regional New South Wales, Industry and Trade	
Regional NSW	
Commonwealth Additional Funding for the Commonwealth On-Farm Water Infrastructure Rebate Scheme	9,250
Commonwealth Funding Adjustment - Drought Response	500
Total Regional NSW	**9,750**
Total - Deputy Premier, Minister for Regional New South Wales, Industry and Trade	**9,750**
Minister for Transport and Roads	
Transport for NSW	
Commonwealth Funding Adjustment - MYEFO 2019-20	29,018
TOTAL Transport for NSW	**29,018**
Total - Minister for Transport and Roads	**29,018**
Premier	
Department of Premier and Cabinet	
Commonwealth Funding Adjustment - Bushfire Response	146,000
Total Department of Premier and Cabinet	**146,000**
Total - Premier	**146,000**
TOTAL - SECTION 4.11 GSF ACT	**265,714**

Table A3.3: Details of the amounts authorised to be paid out of Consolidated Fund for exigencies of Government during 2019-20

	Sec. 4.13 GSF Act Amount $,000
Attorney General, and Minister for the Prevention of Domestic Violence	
Department of Communities and Justice	
Bushfire Response	872,000
COVID-19 Response	123,658
Total Department of Communities and Justice	**995,658**
Total - Attorney General, and Minister for the Prevention of Domestic Violence	**995,658**
Minister for Customer Service	
Department of Customer Service	
COVID-19 Response	318,592
Total Department of Customer Service	**318,592**
Total - Minister for Customer Service	**318,592**
Minister for Education and Early Childhood Learning	
Department of Education	
COVID-19 Response	98,400
Bushfire Response	5,000
Total Department of Education	**103,400**
Total - Minister for Education and Early Childhood Learning	**103,400**
Minister for Health and Medical Research	
Ministry of Health	
COVID-19 Response	859,800
Total Ministry of Health	**859,800**
Total - Minister for Health and Medical Research	**859,800**
Minister for Planning and Public Spaces	
Department of Planning, Industry and Environment	
COVID-19 Response	180,770
Digital access improvement to planning services across NSW	2,500
Total Department of Planning, Industry and Environment	**183,270**
Total - Minister for Planning and Public Spaces	**183,270**
Deputy Premier, Minister for Regional New South Wales, Industry and Trade	
Regional NSW	
COVID-19 Response	4,700
Bushfire Response	3,000
Total Regional NSW	**7,700**
Total - Deputy Premier, Minister for Regional New South Wales, Industry and Trade	**7,700**
Minister for Transport and Roads	
Transport for NSW	
COVID-19 Response	128,810
Total Transport for NSW	**128,810**
Total - Minister for Transport and Roads	**128,810**

Table A3.3: Details of the amounts authorised to be paid out of Consolidated Fund for exigencies of Government during 2019-20 (cont.)

	Sec. 4.13 GSF Act
	Amount $,000
Premier	
Department of Premier and Cabinet	
Bushfire Response	349,000
COVID-19 Response	4,800
Total Department of Premier and Cabinet	**353,800**
Ombudsman's Office	
COVID-19 Response	303
Total Ombudsman's Office	**303**
Total - Premier	**354,103**
Treasurer	
Appropriation to the Treasurer for State Contingencies	
COVID-19 Response	1,485,300
Total Appropriation to the Treasurer for State Contingencies	**1,485,300**
Crown Finance Entity	
Bushfire Response	46,000
COVID-19 Response	2,000
Total Crown Finance Entity	**48,000**
The Treasury	
COVID-19 Response	751,000
Total The Treasury	**751,000**
Total - Treasurer	**2,284,300**
The Legislature	
The Legislature	
COVID-19 Response	2,377
Total The Legislature	**2,377**
Total - The Legislature	**2,377**
Total - SECTION 4.13 GSF ACT	**5,238,010**

Table A3.4: Details of the amounts authorised to be paid from the State contingencies appropriation to the Treasurer during 2019-20

	Sec. 4.12 GSF Act
	Amount $,000
Attorney General, and Minister for the Prevention of Domestic Violence	
COVID-19 Response	57,343
Total - Attorney General, and Minister for the Prevention of Domestic Violence	**57,343**
Minister for Customer Service	
COVID-19 Response	9,543
Total - Minister for Customer Service	**9,543**
Minister for Education and Early Childhood Learning	
COVID-19 Response	55,580
Total - Minister for Education and Early Childhood Learning	**55,580**
Minister for Health and Medical Research	
COVID-19 Response	950,361
Total - Minister for Health and Medical Research	**950,361**
Minister for Planning and Public Spaces	
COVID-19 Response	77,236
Total - Minister for Planning and Public Spaces	**77,236**
Minister for Transport and Roads	
COVID-19 Response	1,550
Total - Minister for Transport and Roads	**1,550**
Premier	
COVID-19 Response	15,119
Total - Premier	**15,119**
Treasurer	
COVID-19 Response	113,009
Total - Treasurer	**113,009**
Others	
Sydney Water	
COVID-19 Response	2,997
Total Sydney Water	**2,997**
Hunter Water	
COVID-19 Response	138
Total Hunter Water	**138**
Total - Others	**3,134**
Total - SECTION 4.12 GSF ACT	**1,282,876**

A4. CLASSIFICATION OF AGENCIES

The financial activities of all governments are measured using the government finance statistics (GFS) framework.[1] 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	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. 'General government sector' is defined under GFS as the institutional sector comprising all government units and non-profit institutions controlled by the Government.
Public non-financial corporations sector	Agencies in this sector are either commercial or non-commercial. 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 Sydney Water and Hunter Water Corporations. 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. '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.
Public financial corporations sector	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. '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.

[1] Australian Bureau of Statistics, *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* Cat No. 5514.0, ABS, Canberra.

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. In addition, budget estimates shown in this budget paper 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 A4.1: 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	•		
Art Gallery of New South Wales	•		
Audit Office of New South Wales	•		
Australian Museum	•		
Biodiversity Conservation Trust of NSW	•		
Building Insurers' Guarantee Corporation	•		
Centennial Park and Moore Park Trust	•		
Cobbora Holding Company Pty Ltd		•	
Crown Finance Entity	•		
Crown Solicitor's Office	•		
Department of Communities and Justice	•		
Department of Customer Service	•		
Department of Education	•		
Department of Planning, Industry and Environment	•		
Department of Premier and Cabinet	•		
Destination NSW	•		
Electricity Assets Ministerial Holding Corporation	•		
Electricity Retained Interest Corporation - Ausgrid	•		
Electricity Retained Interest Corporation - Endeavour Energy	•		
Electricity Transmission Ministerial Holding Corporation	•		
Environment Protection Authority	•		
Environmental Trust	•		
Epsilon Distribution Ministerial Holding Corporation	•		
Essential Energy		•	
Fire and Rescue NSW	•		
First Australian Mortgage Acceptance Corporation (FANMAC) Trusts			•
Forestry Corporation of New South Wales		•	
Greater Sydney Commission	•		
Health Care Complaints Commission	•		
Historic Houses Trust of New South Wales	•		
Home Purchase Assistance Fund	•		
Hunter and Central Coast Development Corporation	•		
Hunter Water Corporation		•	

Material Agencies	General government sector	Public non-financial corporations sector	Public financial corporations sector
Independent Commission Against Corruption	•		
Independent Liquor and Gaming Authority	•		
Independent Pricing and Regulatory Tribunal	•		
Information and Privacy Commission	•		
Infrastructure NSW	•		
Insurance and Care NSW			•
Judicial Commission of New South Wales	•		
Landcom		•	
Lands Administration Ministerial Corporation	•		
Law Enforcement Conduct Commission	•		
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	•		
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	•		
NSW Food Authority	•		
NSW Police Force	•		
NSW Rural Fire Service	•		
NSW Self Insurance Corporation	•		
NSW Trains		•	
NSW Trustee and Guardian	•		
Office of Sport	•		
Office of the Children's Guardian	•		
Office of the Director of Public Prosecutions	•		
Office of the Independent Planning Commission	•		
Office of the NSW State Emergency Service	•		

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		•	
Planning Ministerial Corporation	•		
Ports Assets Ministerial Holding Corporation	•		
Property NSW	•		
Public Service Commission	•		
Rail Corporation New South Wales		•	
Regional Growth NSW Development Corporation	•		
Regional NSW *(Agency established 2 April 2020)*	•		
Rental Bond Board	•		
Resilience NSW *(Agency established 1 May 2020)*	•		
Roads Retained Interest Pty Ltd	•		
Royal Botanic Gardens and Domain Trust	•		
Service NSW	•		
State Archives and Records Authority of New South Wales	•		
State Insurance Regulatory Authority	•		
State Library of New South Wales	•		
State Sporting Venues Authority		•	
State Transit Authority of New South Wales		•	
Sydney Cricket and Sports Ground Trust		•	
Sydney Ferries		•	
Sydney Metro	•		
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	•		
Venues NSW		•	
Waste Assets Management Corporation		•	
Water Administration Ministerial Corporation	•		
Water NSW		•	
Western City and Aerotropolis Authority	•		
Western Sydney Parklands Trust	•		
Workers' Compensation (Dust Diseases) Authority	•		
Zoological Parks Board of New South Wales		•	

A5. MEASURES STATEMENT

Table A5.1 outlines the total impact of the Government's new policy measures since the 2019-20 Half-Yearly Review, by cluster. It also lists measures that meet a materiality threshold of $20 million or more (either in one year or over the five years to 2023-24).

The Measures Statement includes impacts for 2019-20, the prior budget year, given the number of measures put in place prior to the Budget. Ordinarily, the Budget would only focus on the upcoming Budget year and forward estimate period. Due to the planned wind-back of targeted stimulus measures in 2021-22, expenses drop in most Clusters compared with 2020-21.

Further detail on policy measures can be found in Chapter 1 Budget Overview, Chapter 4 Revenue, Chapter 5 Expenditure, Budget Paper No. 3 *Infrastructure Statement* and Budget Paper No. 2 *Outcomes Statement*.

Table A5.1: New policy measures since the 2019-20 Half-Yearly Review

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Customer Service Cluster, all new measures						
Expense	**309.2**	**775.1**	**148.0**	**154.0**	**122.3**	**1,508.6**
Revenue	**-28.9**	**0.9**	**131.8**	**147.6**	**157.3**	**408.8**
Capital	**0.0**	**78.8**	**157.1**	**0.0**	**0.0**	**235.9**

Material Measures:

- COVID-19 response:
  - land tax concessions for landlords granting relief to commercial and residential tenants
  - additional resources for Service NSW to meet increased demand, including 1,000 temporary staff
  - agency response costs such as increased cleaning for Service NSW and COVID-19 advertising campaigns
- Recovery and reform:
  - extension of the land tax concessions for landlords granting relief to commercial and residential tenants
  - Digital Restart Fund initiatives, including cyber security investment in Service NSW, in partnership with client agencies
- Assurance program to oversee the remediation of combustible cladding on high-risk residential apartment buildings
- Expansion of Critical Communications Enhancement Program
- Operating funding for Service NSW
- Whole of government management of court fines by Revenue NSW
- Implementation of the additional components of the Towards Zero initiative across the cluster
- Support for the Building Commissioner to implement a comprehensive strategy that will restore public confidence in the NSW building and construction industry, particularly for multi-storey residential apartments

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Education Cluster, all new measures						
Expense	**141.1**	**1,082.5**	**347.4**	**16.5**	**13.2**	**1,600.7**
Revenue	**-42.5**	**-228.0**	**0.0**	**0.0**	**0.0**	**-270.5**
Capital	**64.2**	**763.9**	**934.6**	**50.9**	**0.0**	**1,813.6**

Material Measures:

- COVID-19 response:
  - additional cleaning of schools and TAFE campuses
  - agency response costs impacting recurrent expenditure and leading to a reduction in revenue
- Recovery:
  - free community pre-school to Term 4, 2021
  - intensive targeted tutoring in New South Wales schools over 2021 to make up lost learning time
  - Skilling for Recovery partnership with the Commonwealth JobTrainer Package
  - as part of the $3 billion Jobs and Infrastructure Acceleration Fund, nine shovel-ready infrastructure projects including three new schools with two in regional NSW, three school upgrades and the state-wide TAFE NSW asset renewal program
  - School LED Light Program to update NSW public schools with LED lights over two years
  - co-contribution program to partner with schools to improve local school amenities
  - acceleration of capital works projects and minor capital works
- Reform:
  - Trades Skills Pathways Centre and new pathways to trades qualifications
  - Digital Restart Fund projects including the Rural Access Gap project to build digital capabilities in remote NSW
- Restart NSW Fund capital projects:
  - Lindfield Learning Village Stage 2
  - Moruya High School Support Unit
  - Murwillumbah Education Campus
- Additional operating funding for TAFE NSW in 2020-21
- Additional capital expenditure to deliver school funded works in 2019-20.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Health Cluster, all new measures						
Expense	**1,660.8**	**1,570.8**	**191.7**	**200.3**	**216.5**	**3,840.0**
Revenue	**661.7**	**526.6**	**-139.2**	**-179.4**	**-223.4**	**646.3**
Capital	**134.7**	**317.1**	**492.3**	**396.3**	**360.3**	**1,700.7**

Material Measures:

- COVID-19 response:
  - ICU and telehealth expansion
  - door screening, pathology testing and contact tracing
  - healthcare and security workforce enhancements
  - PPE and ventilator procurement
  - private hospital partnerships to fast track elective surgeries
  - quarantining of symptomatic travellers
  - vaccine research and clinical trials
  - additional cleaning of hospital and other health facilities
- Mental Health Support, including:
  - recruitment of additional mental health clinicians and wellbeing and in-reach nurses
  - expansion of the Police, Ambulance and Clinical Early Response model
  - funding support for Lifeline, Tresillian, Karitane and the Mental Health Line
  - expanded virtual mental health services
  - expanded community-based youth support services
- Palliative Care Support, including:
  - additional End of Life support packages
  - specialist allied health professionals
  - education and training
  - improved bereavement and psychosocial support services
- Health system cost pressures, including:
  - revised estimates for new hospital facility operating costs
  - revised estimates for infrastructure and facility charges collected from private practitioners
  - reduced single room supplement payments from private health funds
  - Ambulance emergency telecommunication operating costs
  - CAR-T cell therapy treatments
- Recovery:
  Capital works including additional funding for existing works, acceleration of existing projects and funding for new projects:
  - Bankstown and Lidcombe Hospital and Community Health Services Redevelopment
  - Bowral and District Hospital redevelopment Stage 2
  - Cowra Hospital
  - Eurobodalla Health Service redevelopment
  - Glen Innes Hospital
  - Manning Base Hospital Stage 2
  - Nepean Hospital Redevelopment and Associated Community Based Services Stage 2
  - Royal Prince Alfred Hospital Redevelopment
  - Rural Ambulance Infrastructure Reconfiguration Stage 2

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m

Health Material Measures (continued):

- *Recovery (continued):*
  Capital works including additional funding for existing works, acceleration of existing projects and funding for new projects:
  - Shellharbour Hospital Redevelopment
  - Shoalhaven Hospital
  - St George Hospital - Ambulatory Care, Day Surgery, Sub-Acute Inpatient Building
  - St Vincent's Darlinghurst Integrated Campus Redevelopment
  - Sutherland Hospital operating theatre complex
  - Sydney Children's Hospital Network, Randwick Stage 1 and Comprehensive Children's Cancer Centre
  - Tweed Hospital Redevelopment
  - carparks at Dubbo and Tweed Hospitals
- Reform
  Digital Health initiatives, including:
  - Real Time Prescription Monitoring
  - Pathology Laboratory Information Management System
- Other capital projects:
  - carparks at Concord and Maitland Hospitals
  - Central Coast Medical Schools and Central Coast Research Institute
  - local initiatives funded by own sourced revenues
  - Randwick Campus Redevelopment

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Planning, Industry and Environment Cluster, all new measures						
Expense	**364.6**	**1,129.0**	**727.7**	**263.4**	**47.1**	**2,531.9**
Revenue	**-29.9**	**-33.7**	**19.2**	**20.1**	**27.2**	**3.1**
Capital	**16.0**	**-21.6**	**-253.4**	**-31.1**	**7.7**	**-282.4**

Material Measures:

- COVID-19 response:
  - energy expense support for low income families
  - Local Council Job Retention Allowance and grants to councils for the Emergency Services Levy
  - agency response costs such as increased cleaning costs and loss of rental revenues
- Recovery:
  - social housing new supply, upgrades and maintenance including Aboriginal Housing Office (AHO) owned properties and community housing providers
  - cluster maintenance and upgrades covering national parks, crown lands, parks and gardens, Sydney Olympic Park (including Stadium Australia) and frontline worker housing
  - Showgrounds stimulus package to rebuild and upgrade showgrounds across NSW
  - Crown Lands Regional Stimulus Package
  - Coffs Harbour Foreshore Jetty Precinct project
  - wildlife hospital facilities at Taronga Zoo Sydney and Taronga Western Plains Zoo
  - 300 new housing apprenticeships enabled through Land and Housing Corporation
  - Roads to Home Program to provide infrastructure upgrades for Aboriginal communities
  - delivery of critical water infrastructure projects to maintain town water supply and access to potable water
  - Small Business Innovation Research program
- Reform:
  - planning reforms includes faster assessment times, ePlanning digital services and the NSW Public Spaces Legacy program
  - grants for pumped hydro energy projects.
- Bushfire response:
  - Bushfires recovery costs from the Disaster Relief Account
  - Bushfire inquiry response, including additional 125 firefighters for hazard reduction, risk planning and air monitoring
- Termination of the Stadium Australia project
- Essential Energy direction
- Waste Less Recycle More extension for one year (2021-22)
- Continuation of the AHO's asset recycling program to retain proceeds from insurance and sales to contribute to increased housing stock

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Premier and Cabinet Cluster, all new measures						
Expense	**527.9**	**714.9**	**160.2**	**82.9**	**81.2**	**1,567.2**
Revenue	**11.2**	**15.6**	**1.7**	**3.1**	**0.7**	**32.4**
Capital	**-146.8**	**251.2**	**220.5**	**16.5**	**0.3**	**341.7**

Material Measures:

- COVID-19 response:
  - Rescue and Restart Package to support arts and cultural organisations during COVID-19
  - funding to ensure Local Government elections in 2021 are COVID safe
- Recovery:
  - Made in NSW program reinvestment to focus investment in new film and TV projects
  - creation of the Arts Maintenance and Upgrade Fund to improve sustainability and functionality of cultural assets
- Bushfire response:
  - Bushfire relief and recovery funding through the Disaster Relief Account
  - Resourcing for implementation of the NSW Bushfire Inquiry recommendations
  - Establishment of Resilience NSW
- Sydney Football Stadium redevelopment construction contract approval
- Closing the Gap and support for equal participation of Aboriginal community-controlled organisations
- Reversal of proposed sale of Powerhouse Museum Ultimo Site
- Core funding for 2021 Local Government Elections

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Regional NSW Cluster, all new measures						
Expense	**323.8**	**1,110.8**	**654.4**	**113.4**	**9.4**	**2,211.9**
Revenue	**17.1**	**-48.0**	**17.4**	**17.6**	**0.0**	**4.1**
Capital	**0.0**	**54.5**	**51.0**	**-52.7**	**0.0**	**52.7**

Material Measures:

- Drought response:
  - continuation of the Drought Transport Subsidy to transport fodder, water and stock
  - continuation of rates and fee waivers for Local Land Services' ratepayers
- Bushfire response:
  - Clean up of bushfire affected properties including disposal and recycling programs
  - NSW and Commonwealth funded commitments for the Bushfire Local Economies Recovery Fund
  - Repairing dividing fences adjoining Crown Lands that have been damaged
  - Bushfire Industry Recovery Package for bushfire affected primary industries
- Recovery:
  - the new Regional Job Creation Fund to incentivise the attraction and expansion of businesses and create new jobs in regional NSW and delivery of infrastructure
  - accelerating Special Activation Precincts and the Gig State project
- Regional Growth Fund to support the economic growth and development of regional New South Wales
- Pests, Weeds and Disease Management initiative to protect communities and primary producers from biosecurity risks and invasive species
- Continuation of the Marine Estate Management Strategy to address water, marine and coastal issues in New South Wales
- Capital projects for the research and development infrastructure portfolio, under the World Class Food and Fibre program, to improve productivity of NSW's primary industries

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Stronger Communities Cluster, all new measures						
Expense	**833.4**	**1,601.4**	**1,567.6**	**1,528.6**	**1,554.9**	**7,085.9**
Revenue	**2.3**	**6.4**	**2.5**	**0.2**	**0.2**	**11.6**
Capital	**27.6**	**326.4**	**193.9**	**69.1**	**61.8**	**678.8**

Material Measures:

- COVID-19 response:
  - police resourcing costs with hotel quarantining and Victorian border operations
  - supporting homelessness by expanding temporary accommodation and rental support assistance
  - grants to support state sporting organisations, grassroots clubs and regional academies
  - agency response costs such as additional PPE and cleaning costs
- Recovery:
  - establishment and then the extension of the Together Home Program
  - Land and Housing Corporation maintenance funding
  - Aboriginal Community Housing sector maintenance and upgrades
  - Stronger Communities capital works and maintenance stimulus
  - Greater Cities and Regional Sport Facility Fund
  - creation of the Social Sector Transformation Fund
- Reform – Courts and Tribunals Digital Reform, Life's Journey and Legacy Modernisations programs and projects (funded through Digital Restart Fund)
- Bushfire relief and recovery funding through the Disaster Relief Account including for the Rural Fire Service and Fire and Rescue NSW
- Rural Fire Service fleet enhancements
- New South Wales Bushfire Inquiry response:
  - first responder mental health strategy
  - additional personal protective clothing for firefighters
- Additional funding to support the delivery of out-of-home care and justice services
- Continuation of justice, reoffending, child protection, homelessness and disability policy programs
- Additional funding to the Stay Safe and Keep Operations Program
- Operating costs across the Stronger Communities cluster, including demand growth within the justice system
- Protection of data and productivity improvements for the Department of Communities and Justice
- Integrated policing system that process, records, reports and analyses operational information for core policing functions
- Accommodation costs for Goulburn Police Academy
- Funding to sustain critical infrastructure across the cluster asset base, including upgrades for courthouses and correctional facilities
- Law Enforcement Monitoring Facility
- Body scanners in Correctional Facilities to detect contraband
- Insurance costs for the newly operational Clarence Correctional Centre
- Review of existing Sydney Olympic Park lease to expand scope for Police

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
The Legislature, all new measures						
Expense	**0.9**	**11.4**	**15.7**	**19.4**	**20.9**	**68.4**
Revenue	**-1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**-1.5**
Capital	**0.0**	**18.3**	**16.2**	**8.9**	**0.0**	**43.3**

Material Measures:

- Digital Parliament to implement modern ICT services for Parliament
- Additional operating funding for The Legislature

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Transport Cluster, all new measures						
Expense	**519.9**	**1,169.5**	**854.2**	**397.2**	**113.4**	**3,054.3**
Revenue	**8.3**	**526.0**	**1,005.5**	**860.2**	**657.7**	**3,075.6**
Capital	**-187.5**	**2,379.1**	**4,355.4**	**5,406.1**	**4,308.8**	**16,261.9**

Material Measures:

- COVID-19 response:
  - agency response costs primarily a result of additional funding to maintain services due to farebox revenue loss
  - additional cleaning packages for public transport
  - support for the transport industry
- Recovery:
  - capital allocations from $1.2 billion transport and roads stimulus including the Commuter Car Park Program, Spring Farm Parkway Stage 1, Mamre Road Stage 1, Fixing Local Roads program and Fixing Country Bridges
  - Heathcote Road Upgrade initial works
  - Picton Road Upgrade initial works
  - additional road maintenance
  - acceleration of minor works for NSW Trains
- Extension of the drought initiative of Primary Producer Heavy Vehicle Concessions on registration
- Major capital works:
  - Sydney Metro Greater West including the Western Sydney Airport
  - Western Sydney City Deal
  - Sydney Metro West
  - Western Harbour Tunnel
  - Tamworth Intermodal
  - Appin Road Upgrade
  - Pacific Highway - Woolgoolga to Ballina
  - Sydney Gateway – additional funding
- Additional Towards Zero package of works tailored to reduce road fatalities and injuries
- Redevelopment of Circular Quay
- Fixing Country Rail Program
- Maritime infrastructure projects including regional maritime infrastructure, wharf upgrades, regional dredging, maritime property works, and progressing the development of Wentworth Point
- Operating funding to sustain and improve rail services including under the More Trains More Services program
- Expansion of the Transport Access Program
- Enhancements to the main Western Rail Line to improve productivity of the freight service and industry

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
Treasury Cluster, all new measures						
Expense	**869.1**	**1,648.0**	**684.0**	**257.6**	**70.9**	**3,529.6**
Revenue	**-580.0**	**-1,451.7**	**-1,249.3**	**-147.7**	**-193.5**	**-3,622.1**
Capital	**0.0**	**23.8**	**1.0**	**0.2**	**0.1**	**25.1**

Material Measures:

- COVID-19 response:
  - Small Business Support Grants for affected businesses
  - quarantine costs for incoming international travellers
  - support for international students
  - additional cleaning costs on behalf of government services
  - Payroll tax Jobkeeper exemption
  - Payroll tax reduction for two years
  - Small business payroll tax discount and acceleration of increase to payroll tax threshold
  - support to the transport industry (Motor Vehicle Stamp Duty)
  - Southern Border Small Business Support Grants
- Recovery:
  - Small Business Recovery Grants for affected businesses
  - permanent increase in the payroll tax tax-free threshold from $1 million to $1.2 million from 1 July 2020
  - Housing Industry Support Measures - Tax Measures
  - Sydney CBD Revitalisation Fund
  - Business Connect program to provide subsidised professional business advice
  - Out and About Voucher Scheme
  - Global NSW Strategy and Jobs Plus
  - Destination NSW additional funding
  - Digital Vouchers for small businesses
- Additional resourcing for reform post COVID-19
- Fiscal repair measures
- Restart NSW grants to local government, community organisations and other sectors
- Western Sydney Aerotropolis funding to deliver the enabling infrastructure required to support the commencement of Stage 1 of the Core Precinct, accelerate the development of the Advanced Manufacturing and Research Facility
- Revenue from the Emergency Services Levy and council contributions to help fund the emergency services agencies, in line with the Government's response to the NSW Bushfire Inquiry

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
All Clusters, all savings, reform and offset measures						
Expense	**0.0**	**-775.6**	**-1,275.9**	**-1,711.6**	**-1,908.0**	**-5,671.2**
Revenue	**0.0**	**-8.1**	**-8.5**	**-8.9**	**-8.9**	**-34.4**
Capital	**-3.9**	**-5.7**	**-4.2**	**0.0**	**0.0**	**-13.8**

Material Measures:

- Cluster reallocations to fund the Digital Restart Fund
- Public Sector Wages determination by the Industrial Relations Commission and Remuneration Tribunal
- Revised Public Sector Wages Policy
- Procurement savings

	2019-20[1]	2020-21 Budget	2021-22	2022-23 Forward Estimates	2023-24	Five year Total
	$m	$m	$m	$m	$m	$m
All Clusters, all other measures						
Expense	**169.8**	**1,123.2**	**113.4**	**254.5**	**356.8**	**2,017.7**
Revenue	**-20.0**	**-3.7**	**193.3**	**372.8**	**581.0**	**1,123.4**
Capital	**-28.5**	**-56.0**	**-1,136.2**	**-1,271.6**	**-2,831.6**	**-5,323.9**

Material Measures:

- Gender neutral parental leave
- Fiscal repair program to redirect State Owned Corporation dividends/tax equivalents, cash and coal royalties to the NSW Generation Fund
- Establishment of the Digital Restart Fund as part of the COVID-19 Digital Stimulus Package
- Establishment of the Snowy Hydro Legacy Fund
- Establishment of the COVID-19 Working for NSW Fund (financial impact offset by other measures in this statement)
- Other movements reflecting whole-of-government measures that cannot be attributed to individual clusters, as well as the transfer of Restart NSW Fund, Digital Restart Fund and the Working for NSW Fund

[1] 2019-20 numbers included to reflect in-year decisions made in relation to drought, bushfires and the outbreak of COVID-19 virus. Decisions vary from the final 2019-20 actuals particularly in relation to COVID-19 response policy originally developed assuming a minimum six-month lockdown.

B. FISCAL RISKS AND BUDGET SENSITIVITIES

The prospective nature of the Budget means it is informed by forecasts and assumptions. Events (fiscal risks) may unfold which could produce results different to forecasts – either positive or negative. COVID-19, in particular, has introduced new risks and heightened others. This appendix analyses some of those potential risks and events. It also helps readers understand the magnitude of potential variations by providing a 'sensitivity analysis'. The impact of these variations is considered on the operating statement and the balance sheet.

The sensitivity analysis is presented to explain a 1 percentage point change to the identified variable in each year – while other variables are held constant to the forecasts in this Budget. The result should be used as a 'rule of thumb' estimated impact for a change in the relevant variable.

A positive impact from the variable change would improve the State's budget position or net worth, while a negative impact would weaken the budget position or net worth.

Due to their uncertainty, fiscal risks are not incorporated into the aggregates presented in the 2020-21 Budget. Further information on the State's contingent assets and liabilities is also available in Appendix C of this Budget Paper.

B.1 Operating statement risks and sensitivities

State taxation revenue

The state of the economy affects the level of tax collected. Changes in a range of macroeconomic drivers – from property sale volumes and prices, to employment levels and wage growth – can lead to major changes in the level of tax collected, increasing or decreasing Government revenues accordingly.

The Government's own forecast assumptions for key macroeconomic variables across the Budget and forward estimates (as set out in Table B.1 below) are used to inform the revenue forecasts.

The forecasts prepared for the Budget are based on the latest available information. These forecasts are predictions about the future and the ultimate results may change as unknown events unfold. The extent of variation will depend on the weighting accorded to each macroeconomic variable when forecasting the tax head in question. Table B.2 summarises these weightings:

Table B.1: Forecasting revenue –What weighting is given to different variables

	Forecast weightings						
	GST	Payroll tax	Transfer duty	Mineral royalties	Land tax	Gambling taxes	Motor vehicle taxes
Employment	Medium	**High**	N/A	N/A	N/A	Medium	**High**
Wages	Medium	**High**	N/A	N/A	N/A	Low	Medium
Consumption	**High**	N/A	N/A	N/A	N/A	**High**	Medium
Dwelling investment	**High**	N/A	Medium	N/A	N/A	N/A	N/A
Dwelling prices	Medium	N/A	**High**	N/A	**High**	N/A	Medium
Population growth	**High**	Low	Medium	N/A	N/A	Low	Low
AUD exchange rate	N/A	N/A	N/A	**High**	N/A	N/A	N/A
Energy demand	N/A	N/A	N/A	**High**	N/A	N/A	N/A

Notes:
1. High, medium and low provide only a broad indication of the model weighting for illustration.
2. N/A here indicates only that the factor is not directly included as a variable in the relevant forecasting model, and does not signify that there is no relationship between the respective variable and tax head.

Payroll tax typically generates more revenue than any other State tax, including transfer duty. The main driver of payroll tax is total employee compensation, which in turn is a function of both wage and employment levels. COVID-19 has significantly affected both the level of employment and wage growth. All industries have been impacted but some particularly so: hospitality, tourism, arts, entertainment, gaming and recreation. In the short term, much of the negative impact of the pandemic on payroll tax revenues has been mitigated by the Commonwealth Government's JobKeeper subsidy scheme. Any longer-term impacts on employment and wage levels, however, will affect future revenues.

Table B.3 denotes the sensitivity of forecast payroll tax to a one percentage point increase in employment and wages respectively.

Table B.2: Revenue sensitivities – Payroll tax

Factors affecting payroll tax	2020-21 Budget	2021-22	2022-23 Forward estimates	2023-24	Sensitivity
	$m	$m	$m	$m	
Average compensation of employees	109	114	117	120	Single percentage point increase in factor
Employment	109	114	117	120	

As the economy recovers, further COVID-19 outbreaks remain a risk for the labour market. Other risks which could impact payroll tax revenue in 2020-21 and over the forward estimates include macroeconomic and geopolitical uncertainties (including reduced globalisation), decreases in population growth and changes in households' propensity to consume.

Transfer duty is forecast to contribute about 9.6 per cent of total general government revenue in 2020-21. The actual percentage will be subject to the performance of the housing market, including both the volume of sales and the average transacted price. A downturn in the residential property market, or even a market that grows but below expectations, would detract from the State's budget result. Table B.4 denotes the sensitivity of forecast transfer duty to a one percentage point decrease in transacted residential prices and volumes respectively.

Table B.3: Revenue sensitivities – Transfer duty

Factors affecting transfer duty	2020-21 Budget	2021-22	2022-23 Forward estimates	2023-24	Sensitivity
	$m	$m	$m	$m	
Residential prices (average transacted price)	(84)	(137)	(153)	(163)	Single percentage point decrease in factor
Residential transaction volumes	(49)	(69)	(76)	(82)	

Other State taxes are typically less volatile than those mentioned above, and they generally correlate to changes in the broader NSW economy. For example, revenue from motor vehicle taxes, gambling taxes and other stamp duties rise and fall with consumption patterns across the State. As witnessed during the pandemic, consumption patterns can change suddenly and can be influenced by a range of factors from employment to house price growth.

GST and other Commonwealth payments

GST is collected by the Commonwealth Government and then apportioned to the States. Three main factors determine how much GST New South Wales receives over coming years:

- how much is collected in total across the nation (called the pool size)
- New South Wales' population as a fraction of the national population (called the population share)
- what portion of the pool is allocated to New South Wales (called the relativity).

None of these components are fixed and can change year on year.

The 2020-21 Commonwealth Budget scenario analysis[1] indicates that there is considerable uncertainty around receipt forecasts. At the 70 per cent confidence interval, GST receipts range by +/-1.2 per cent of GDP ($23 billion), and at the 90 per cent confidence interval, the range increases to +/-1.9 per cent of GDP ($36 billion). In the event that actual GST receipts fall in the lower range, this would lead to a commensurate fall in the State's GST revenue.

Table B.5 illustrates the sensitivity of forecast GST distribution to NSW to a one percentage point increase in taxable consumption and dwelling investment (the main drivers of the GST pool size), and to an equivalent increase in the NSW population share.

Table B.4: Revenue sensitivities – GST

Factors affecting GST	2020-21 Budget	2021-22	2022-23 Forward estimates	2023-24	Sensitivity
	$m	$m	$m	$m	
Taxable consumption	99	106	112	119	Single percentage point increase in factor
Dwelling investment	33	35	37	39	
Population share	163	196	199	201	

[1] Commonwealth Budget 2020-21, Budget Paper 1, Statement 8: Forecasting Performance and Scenario Analysis

Regarding the relativity, there is a formula that drives how much GST is provided to each State. Under this formula, the following events can lead to a changed share to New South Wales:

- changes to New South Wales' own-source revenue, relative to other States
- a change in the Commonwealth's assessment of how much expenditure New South Wales needs, compared to other States
- a change to National Agreement and National Partnership payments relative to other States.

The formula used to determine GST distributions to the States was revised under the Commonwealth Grants Commission (CGC) 2020 Methodology Review. The outcomes of the Review were such that New South Wales will gain a greater share of GST from 2020-21 to 2025-26, because of a more accurate assessment of the cost of providing public services across the State.

The forecasts in this Budget take into account expected National Agreement and National Partnership Payments. Actual results can vary from forecasts if there are new, renegotiated or ceased programs and infrastructure projects over the forward estimates period.

Royalties

New South Wales' mineral royalties can be volatile. A large share of royalties revenue is generated from coal exports to Asia, which means that the amount of royalties collected in coming years are sensitive to changes in:

- coal export volumes – an increase in coal volumes increases the quantity of coal that royalties are charged on, hence increasing revenue
- coal export prices – an increase in coal export prices increases the value of coal exports, increasing royalties revenue
- exchange rates – an appreciation of the Australian-US exchange rate reduces the Australian dollar value of coal exports, putting downward pressure on royalties revenue due to coal exports being transacted in US dollars.

Table B.6 denotes the sensitivity of forecast royalties revenue to a one percentage point increase in coal prices and coal production volumes.

Table B.5: Revenue sensitivities – Coal royalties

Factors affecting royalties revenue	2020-21 Budget	2021-22 Forward estimates	2022-23	2023-24	Sensitivity
	$m	$m	$m	$m	
Coal prices	13	14	14	15	Single percentage point increase in factor
Coal volumes	13	13	14	14	

General expense risks

Some expenditure risks are largely within the Government's control and can be actively managed, whereas other risks are primarily outside of its control. For example, impacts associated with existing Government policy, employee expenses or the reprofiling of expenditure can be more actively managed, while expenditure linked to Commonwealth payments, interest rate changes or natural disasters are exogenous risks. This includes the expenses associated with the continuation of emergency measures, such as cleaning and disinfecting, in response to the risk of a prolonged effect of COVID-19.

The State's largest operating expense is for employee related expenses, which includes salaries, wages, superannuation expenses and employment on-costs. Employee related expenses are impacted by factors including new enterprise bargaining agreements, public sector wage growth rates and the workforce size. Changes in these parameters can impact the budget result.

Some of the Government's larger non-labour operating expenses include the maintenance and depreciation of assets, electricity, insurance and fuel costs. Market fluctuations can see variations above or below what is forecast at the time of the Budget. For example, higher inflation could increase the cost of goods and services, which have historically outweighed the positive impacts on own-source revenues.

Table B.6: Expense sensitivities

Factors affecting expenses	2020-21 Budget	2021-22	2022-23 Forward estimates	2023-24	Sensitivity
	$m	$m	$m	$m	
Expenses					
Employee expenses (excl super)	(371)	(375)	(387)	(399)	Single percentage point increase in factor
Cost of goods and services	(248)	(235)	(221)	(216)	
Government services demand growth					
Health and education expenses	(436)	(436)	(443)	(462)	

Health and education services represent a significant proportion of public sector expenditure in New South Wales. Heightened demand for these services can worsen the budget result. COVID-19 has led to an increase in Government expenditure related to aged care, mental health, and personal protective equipment. Any decrease in Commonwealth Government payments towards health and education services would worsen the budget result for the State if the same level of service is maintained. Any further major outbreaks of COVID-19 would likely cause another short-term intensive public health response.

The 2019-20 Budget announced several savings initiatives as well as policy measures and election commitments being funded from within existing agency budgets. Changes to factors – such as demand growth or inflation – could impact agency budgets and risk the ability of agencies to meet these commitments from within existing budget allocations.

Other expenditure challenges that could impact the budget result include:

- higher maintenance, depreciation and operating costs associated with the Government's record infrastructure program
- if current time-limited programs were extended
- unforeseen legal expenses or costs associated with litigation
- changes to parameters that impact the liabilities and associated expenditure for superannuation, long service leave, other employee provisions and insurance provisions (see below for further balance sheet risks and sensitivities).

Investment revenue and borrowing costs

COVID-19 has caused significant volatility in global financial markets. The S&P500 fell by 35 per cent and the ASX200 declined by 44 per cent during the first wave of restrictions (February and March 2020). Unprecedented monetary and fiscal policy measures have been implemented to support businesses and individuals.

The Budget is susceptible to the performance of global financial markets and changes in interest rates. Lower interest rates may result in lower costs for new borrowings, while at the same time providing lower interest revenue. The Government's exposure to risk assets means its investment returns are sensitive to variation from forecasts, due to the uncertainty in the economic outlook. Investment returns may be above or below estimates, which would impact revenue. Adopting the Attribution Managed Investment Trust (AMIT) regime for the majority of Government investment funds can reduce investment revenue volatility by smoothing fund distributions over time.

The large size of the State's investments means that a one percentage movement in assumed investment return rates has a large impact on the Government's Budget result. In comparison, a one percentage movement in interest rates would change interest expenses on borrowings, while also impacting interest revenue on any cash invested in the same way, and so providing some offset.

Table B.7: Financial markets and interest rates sensitivities

Financial markets and interest rate sensitivities	2020-21 Budget	2021-22 Forward estimates	2022-23	2023-24	Sensitivity
	$m	$m	$m	$m	
Investment revenue[(a)]	182	248	289	340	Single percentage point increase in factor
Interest revenue[(b)]	11	10	9	8	
Interest expenses[(b)]	(86)	(373)	(599)	(819)	

(a) A single percentage point increase in the expected investment rate of return (NIFF, SAHF, NGF only).
(b) A single percentage point increase in interest rates.

NSW Treasury continues to develop financial risk management strategies that optimise and protect the State's balance sheet. For example, this year Treasury and TCorp have worked closely to introduce the Total Portfolio Approach to constructing and managing investment portfolios. This approach is designed to produce greater returns per unit of risk through a more systematic method of diversifying portfolio risk.

There has been a significant increase in borrowing requirements since the 2019-20 Budget, with a corresponding increase in future interest expense sensitivity. Government has continued to lengthen the maturity profile of its borrowings in order to lock in the current historically low rates for as long as possible. TCorp has also focussed on diversifying its investor base, particularly by accessing the rapidly growing demand for sustainable bond offerings.

B.2 Balance sheet risks and sensitivities

Risks to the State's balance sheet include unanticipated changes:

- to the value of existing assets and liabilities (those already on the balance sheet), and
- from the potential recognition of contingent assets and liabilities (those not shown on the balance sheet as the accounting recognition criteria are not yet met).

The significant market volatility caused by COVID-19 has had more impact on those funds with a higher weighting to growth assets – for example, equities. The easing of monetary policy and the unprecedented fiscal policy response to the crisis have introduced new risks to each of the investible asset classes. The risks and performance of funds are monitored closely, with risk appetites and asset allocation strategies reviewed annually to ensure they remain appropriate.

Liabilities for superannuation and long service leave are estimated with reference to a range of factors, including but not limited to assumed rates of investment returns, salary growth, inflation and discount rates. Changes in any parameter can affect the liability for defined benefit superannuation and long service leave.

The State faces potential obligations that are non-quantifiable, but which can be broadly grouped into commercial transactions and other contingent liabilities. As an example, the Government provided limited general warranties to purchasers and lessees under several energy transactions and has also retained responsibility for the costs associated with remediating pre-existing contamination at several power station sites.

Investments

The State holds several investment funds which are managed by TCorp, including the NSW Generations Fund (NGF), NSW Infrastructure Future Fund (NIFF), Social and Affordable Housing Fund (SAHF) and the Treasury Managed Fund (TMF).

These Funds have varying levels of exposures to growth assets (assets with higher levels of risk). The NIFF, for instance, has a relatively small allocation to equities (at 26 per cent) and keeps around two-thirds of its portfolio in liquid cash and bonds, which are defensive assets, so it can meet the State’s short- to medium-term infrastructure expenditure. On the other hand, the NGF has a high allocation of growth assets because of its long-term investment horizon, with about 40 per cent of its portfolio invested in Australian and internationally listed shares. This is in line with its strategic policy objective of helping ease the debt burden on the State’s future generations.

Under the *NSW Generations Funds Act 2018*, funds in the NGF can only be directed towards the repayment of the State’s debt. Both Moody’s and S&P Global recognise the balance of the NGF Debt Retirement Fund as an offset to the State’s debt metrics. Accordingly, market volatility that impacts the balance of the NGF carries additional risks to the State’s debt metrics. Treasury manages this risk through the NGF investment strategy (the mix of assets it is invested in) which remains aligned to a long-term investment horizon. The NGF is invested in a diverse range of assets including domestic and international equities, bonds, property and infrastructure. Under the existing governance arrangements, NSW Treasury recommends the risk appetite and the NGF Advisory Board endorses and recommends the investment strategy to the Treasurer.

The forward outlook for financial markets is highly uncertain. There is uncertainty on further COVID-19 outbreaks, vaccine development timelines, the extent and the duration of Government support, future employment growth and other risks. Each can impact business and investor confidence and therefore asset values.

During this period of increased uncertainty, NSW Treasury continues to work alongside TCorp to closely monitor and manage the risk exposures of the State’s investment funds. TCorp is set to begin the transition of its funds management to using a Total Portfolio Approach from 2020-21 to optimise the construction and management of these portfolios. This approach facilitates a more systematic diversification of risk within each portfolio, allowing the State to better manage its total risk exposure across the various asset classes under investment.

Superannuation and long service leave liabilities

Forecast liabilities for superannuation and long service leave are 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.8: Superannuation liabilities sensitivities [(a)]

Factors affecting superannuation liabilities[(b)]	2020-21 Budget	2021-22	2022-23 Forward estimates	2023-24	Sensitivity
	$m	$m	$m	$m	
Change in public sector wages and salaries	(140)	(270)	(350)	(410)	Single percentage point increase in factor
Change in Sydney CPI	(830)	(1,660)	(2,390)	(3,180)	
Change in investment return	330	670	1,030	1,410	
Change in discount rate	12,300				
Change in public sector wages and salaries	140	270	360	390	Single percentage point decrease in factor
Change in Sydney CPI	830	1,780	2,510	3,340	
Change in investment return	(330)	(660)	(1,010)	(1,370)	
Change in discount rate	(14,100)				

(a) A positive number in the table indicates a decrease in the size of the liabilities, and vice versa. For example, a single percentage increase in public sector wages increases net liabilities, which weakens the financial position.
(b) For producing superannuation liabilities sensitivities, AASB 119 Employee Benefits, is used.

Any change in the growth of public sector salaries will affect the superannuation entitlements of those employees on a defined benefit scheme that are still in the workforce, while a decrease in CPI will lower the benefit payments to all members as their pension is indexed by the Sydney CPI. An increase in the investment return on superannuation assets will increase the funding level of the superannuation liability and improve the budget result. For further information on the unfunded superannuation liability, refer to Chapter 6 of this Budget Paper.

B.3 Specific fiscal risks

The coronavirus pandemic

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

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

Natural Disasters

Between September 2019 to March 2020 bushfires were widespread across the State. The scale and intensity of the fires were unprecedented. Further bushfires would present greater downside risk to the Budget, particularly as the current relief effort is still underway and many towns have not yet fully recovered.

National Redress Scheme for survivors of institutional child sexual abuse

On 9 March 2018, the NSW Government announced it would opt into the National Redress Scheme for survivors of institutional child sexual abuse. The forecast liabilities for the Scheme are based on a wide range of assumptions and parameters. These include assumptions about the exposure and latency of reporting abuse in New South Wales, and the number of applicants. Adjustments may be made to these parameters once more applications are received or as more data becomes available. In turn this could affect the actual liabilities and expenses of redress over the 10-year life of the Scheme.

Infrastructure related risks

Infrastructure projects

The cost of the State's total estimated infrastructure program is $107.1 billion but this could vary during the project life cycle, particularly if there are renewed COVID-19 restrictions. Factors such as availability of expert labour and capital equipment, weather and cost escalations can also impact project cost estimates.

Restart NSW

This Budget includes the estimated impact of expensing funds from the Restart NSW Fund to government agencies (capital expenditure) and non-government proponents, principally local councils (recurrent expenditure in the form of grants). These estimates are informed by assumptions around the expenditure profiles of approved projects and unapproved projects (on the assumption that a formal approval will be forthcoming).

Changes to the timing of these approvals and project delivery schedules may affect the profile of actual expenditure. Unreserved balances in Restart NSW are not reflected in the Budget until a reservation or commitment is made. See Chapter 3 of Budget Paper No. 3 *Infrastructure Statement* for more information.

C. CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities are possible assets and obligations that arise from past events and their existence will only be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the Government. In the case of contingent liabilities, the obligation may also be a present obligation that is not recognised because the amount of the obligation cannot be measured with sufficient reliability. Contingent assets and liabilities are defined in accounting standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.*

If a contingent asset or liability becomes sufficiently likely or quantifiable, then the asset or liability would be recognised on the balance sheet and cease to be considered contingent. The recognition of a contingent asset or liability on the State's balance sheet could have a significant impact on the State's finances. By identifying and, where possible, quantifying these contingent assets and liabilities, the Government can better manage risks and opportunities.

Contingent assets

Contingent assets are classified as either:

- quantifiable, where their financial value is known or can be reasonably estimated
- non-quantifiable, where their financial value cannot be reasonably determined.

Table C.1 lists the general government's quantifiable contingent assets as at 30 September 2020.

Table C.1: General government quantifiable contingent assets

	General Government Sector	
	2020-21[(c)]	2019-20[(d)]
	$m	$m
Transport for NSW (Transport for NSW initiated claims)	4	0
Aboriginal Housing Office[(a)]	5	5
Planning Ministerial Corporation[(b)] (Land acquisitions)	167	185
Other Agencies	20	0
	196	**190**

(a) As part of the Housing Aboriginal Communities Program, there were 15 properties that the Aboriginal Housing Office does not have definitive control over. As a result, they will not be recognised until such time as full control is established.

(b) As of 30 September 2020, the Planning Ministerial Corporation had made offers to purchase properties totalling $167 million. These offers are dependent on the actions of the landowners to either accept or reject the Corporation's offer. Offers to purchase made by the Corporation lapse if the landowner does not accept the offer.

(c) As at reporting date of 30 September 2020.

(d) As at reporting date of 30 June 2020.

Non-quantifiable contingent assets

Table C.2 lists the general government's non-quantifiable contingent assets.

Table C.2: General government non-quantifiable contingent assets

Contingent Asset	Nature of the contingent asset
Eastern Creek Alternative Waste Treatment Plant	The Crown Entity holds a guarantee, a contingent asset, which fully offsets the same contingent liability. The contingent asset arises when the guarantee has been executed.
HIH Insurance	Potential proceeds relating to the liquidation of HIH Insurance.
Leases and subleases	Potential assets related to leases. In the case that a lease terminates, there is potential for a re-possession of assets subjected to leases and certain subleases.
Business interruption insurance claims	The State has submitted a business interruption insurance claim for financial losses during the Commonwealth and State Government restriction on cruise ships due to COVID-19. An interim insurance recovery payment has been received but further losses are unknown at this stage due to the length of the ban which would require further payments.

Contingent liabilities

Contingent liabilities are also classified as either quantifiable or non-quantifiable. Table C.3 lists the general government's quantifiable contingent liabilities as at 30 September 2020.

Table C.3: General government quantifiable contingent liabilities

	General Government Sector	
	2020-21[f]	2019-20[g]
	$m	$m
Department of Communities and Justice[a] (Claims in Respect of Compensation and Others)	670	566
Transport for NSW[b][c] (Land acquisitions, contractual disputes)	1,435	1,435
Service NSW[d] (Litigation)	7	0
Roads Retained Interest Pty Ltd[e] (Equity Commitment Deed)	604	655
Other Agencies	202	220
	2,918	**2,877**

(a) The Victims' Support Scheme (VSS) was created on 3 June 2013 through legislation known as the *Victims' Rights and Support Act 2013*. The amount attributable under the VSS could reasonably lie within the range of $314 million to $536 million.

(b) Transport for NSW has several contractual disputes with an estimated contingent liability of $399 million and an estimated $1,036 million contingent liabilities due to a number of compulsory property acquisition matters currently under litigation where claims differ from the Valuer General's determined amount.

(c) Please note that Roads and Maritime Services was abolished on 1 December 2019 by the *Transport Administration Amendment (RMS Dissolution) Act 2019*. On abolition, the assets, rights and liabilities (including contingent liabilities) were transferred to Transport for NSW.

(d) In April 2020, Service NSW alerted police and authorities to a cyber-attack that has potentially compromised customer information. Investigations into this matter are still ongoing however, Service NSW is expected to incur legal and investigation costs of approximately $7 million.

(e) The Roads Retained Interest Pty Ltd is a party to the Equity Commitment Deed with the WestConnex Group. There is currently no present obligation to contribute to equity. Depending on the extent of the borrowings, and the future construction profile of the WestConnex Group, a call may be made on the Corporation for an equity contribution.

(f) As at reporting date of 30 September 2020.

(g) As at reporting date of 30 June 2020.

Non-quantifiable contingent liabilities

The State faces a range of potential obligations that are non-quantifiable, which have been broadly grouped into the following categories:

- commercial transaction
- other contingent liabilities.

As set out in Table C.4, the general government has non-quantifiable contingent liabilities relating to commercial transactions. As an example, under several energy transactions the Government provided limited general warranties to purchasers and lessees. The Government has also retained responsibility for the costs associated with remediating pre-existing contamination at several power station sites. The Report on State Finances contains other non-quantifiable contingent liabilities that may not be reported in the Budget.

Table C.4: Commercial transaction-related non-quantifiable contingent liabilities

Transactions	Nature of the contingent liabilities
Transactions related to Delta Electricity's Western Assets, Eraring Energy, Vales Point Power Station, Colongra Power Station and Macquarie Generation	Various contingent liabilities, including: • Pre-completion contamination and land remediation liability • General Warranties • Coal haul road liability • Ash dam liability • Where an option is exercised under the hand-back deed, remediation of Vales Point and Site Land • Barnard River Scheme native title indemnity • Deed of Indemnity for directors and senior management.
Transactions related to facilities at Port Kembla, Port Botany, Enfield and the Port of Newcastle	The State has indemnified the lessees in respect of pre-existing environmental contamination.
Sale of Pacific Power International	The State must compensate the trustee of the Energy Industry Superannuation Scheme funds for a shortfall of assets in the reserves of the fund related to the transfer of defined benefit scheme membership to Aurecon.
Transactions related to Sydney Ferries, Eraring and Delta West Power Stations	The State bears the risk of the employer's superannuation guarantee contributions being insufficient to fund the defined employee benefits for certain ex-public sector employees. Indemnities have also been provided to the private sector employer in respect of certain losses suffered.
Transactions related to the lease of TransGrid, Ausgrid and Endeavour Energy	General warranties and Deed of Indemnity.

The general government also has non-quantifiable contingent liabilities relating to various other matters, as set out below in Table C.5.

Table C.5: Other non-quantifiable contingent liabilities

Contingent liabilities	Nature of the contingent liabilities
Native Title	Contingent liabilities in respect to Native Title, under both the *Native Title Act 1993 (Cth)* and the *Native Title (New South Wales) Act 1994*.
Aboriginal Land Claims	Assets in the form of reserved Crown land may be reduced in value from applications made under the *Aboriginal Land Rights Act 1983 (NSW)*.
Contaminated Land	A number of Crown land sites in the State have been assessed as being potentially contaminated and needing remediation. Most are subject to preliminary site investigations or clean up works which might not incur a financial liability.
Other Contaminated Land	The State has been made aware of soil and water sample tests of potentially elevated readings of perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA) at a number of State-owned land sites. The State is insured for any remediation work that may be required. The final remediation costs of the impacted properties remain uncertain.
Litigation	State agencies and corporations are subject to various claims and litigation in the normal course of operations. The quantum of these claims cannot accurately be determined.
Unclaimed money – Consolidated Fund	The State treats the receipt of unclaimed money to the Consolidated Fund as income. However, claims can be legally lodged for several years after the money is paid into the Fund.
StateFleet interest rate exposure	The Government's motor vehicles are financed by an internal arrangement managed by StateFleet and funded by TCorp. The facility is funded through a portfolio of debt.
Myuna Bay Sport and Recreation Centre	Myuna Bay Sport and Recreation Centre was closed due to safety concerns relating to the nearby Eraring Ash Dam. There are significant risks to the Centre if the dam wall breaks. The financial impact relating to continued operating costs incurred while a new facility is built are still to be quantified and agreed on.
Allianz Stadium disclosures	The control of Allianz Stadium was handed to the State for the development of a new stadium. As such, events that were held at Allianz have been relocated to other venues in NSW. The State entered into contractual commitments for costs related to the development. The financial impacts related to this can not be estimated at this point of time.
NSW Treasury Corporation (TCorp)[1]	TCorp has made undertakings on behalf of other government authorities for their performance under contracts with third parties, which are recoverable from the government authority participants.
Land Acquisition	Claims have been made against the State for compensation for land acquired under the *Land Acquisition (Just Terms Compensation) Act 1991(NSW)*.
Underpayments related to Pre-Injury Average Weekly Earnings (PIAWE)	A targeted review designed to identify and remediate, if necessary, instances of under payment of weekly compensation benefits as a result of issues with the calculation of PIAWE benefits is being considered. It is currently not possible to put an estimate on these claims.
Contracts with private sector parties	The State has guaranteed the obligations and performance of various statutory authorities with private sector party contracts.
Guarantee on local government loans	The State provides TCorp with a guarantee on all loans to local governments.

1 The State has a triple-A credit rating, representing an extremely remote chance of default on any borrowings. For this reason, Government Entities' borrowings are not considered contingent liabilities.

Contingent liabilities	Nature of the contingent liabilities
Other government guarantees	The State has provided government guarantees to give financial support and facilitate certain services. These constitute contingent liabilities.
Bushfires	Bushfires across national parks have resulted in extensive property damages, which are being assessed and will require make safe, rectification and replacement works over the next few years. The potential impact in property values cannot be estimated at this point of time.
University Guarantee Scheme	The State established a scheme to guarantee commercial loans from financial institutions to NSW Universities to assist with the impacts of COVID-19. The Government is currently processing applications from NSW Universities and will begin to recognise the contingent liabilities once the guarantees have been issued. The total contingent liability possible under the program is $750 million.

D. HISTORICAL FISCAL INDICATORS

This appendix reports the key fiscal indicators for the general government and non-financial public 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 D.1 General government sector operating statement aggregates

Table D.2 General government sector balance sheet and financing indicators

Table D.3 Non-financial public sector operating statement aggregates

Table D.4 Non-financial public sector balance sheet and financing indicators

Historical data from 2008-09 are consistent with data published in annual Outcomes Reports and Budget Papers. As Outcomes Reports and Budget Papers 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*
- the recognition of a share of assets and liabilities of Law Courts Limited and the Murray-Darling Basin Authority, in accordance with AASB 11 *Joint Arrangements*.

Table D.1: General government sector operating statement aggregates

	Taxation Revenue			Total Revenue			Expenses			Net Operating Balance		Capital Expenditure		Net Lending/ (Borrowing)		GSP[d] (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	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	30,789	5.3	5.8	78,139	13.5	4.8	72,551	12.6	3.8	5,724	1.0	10,546	1.8	3,039	0.5	576,716
2017-18	31,326	5.2	1.7	80,672	13.3	3.2	76,248	12.6	5.1	4,425	0.7	12,121	2.0	(2,580)	(0.4)	604,400
2018-19[a]	31,026	5.0	(1.0)	81,655	13.1	1.2	80,450	12.9	5.5	1,206	0.2	16,623	2.7	(9,280)	(1.5)	625,400
2019-20[b]	29,941	4.8	(3.5)	81,367	13.1	(0.4)	88,283	14.2	9.7	(6,916)	(1.1)	20,985	3.4	(22,061)	(3.5)	622,300
2020-21[c]	31,711	5.0	5.9	82,149	13.0	1.0	98,133	15.6	11.2	(15,984)	(2.5)	22,644	3.6	(30,819)	(4.9)	630,300
2021-22[c]	32,552	5.0	2.7	87,689	13.4	6.7	94,519	14.4	(3.7)	(6,830)	(1.0)	22,930	3.5	(21,574)	(3.3)	655,200
2022-23[c]	35,211	5.2	8.2	90,601	13.3	3.3	92,692	13.6	(1.9)	(2,091)	(0.3)	20,131	3.0	(13,601)	(2.0)	679,300
2023-24[c]	36,885	5.2	4.8	92,930	13.1	2.6	93,390	13.2	0.8	(460)	(0.1)	18,523	2.6	(10,216)	(1.4)	707,500

(a) Restated Actual.
(b) Actual.
(c) Forecast Estimate.
(d) Gross State Product.

Table D.2: General government sector balance sheet and financing indicators

	Borrowings[d]		Interest Expense		Net Debt[e]		Net Financial Liabilities[f]	
	$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	31,847	5.9	2,209	3.0	(57)	(0.0)	87,611	16.3
2016-17	32,814	5.7	2,149	2.8	(9,344)	(1.6)	65,690	11.4
2017-18	32,446	5.4	1,812	2.2	(11,195)	(1.9)	69,068	11.4
2018-19[a]	37,863	6.1	1,812	2.2	(10,401)	(1.7)	81,194	13.0
2019-20[b]	68,277	11.0	2,084	2.6	19,261	3.1	111,887	18.0
2020-21[c]	98,561	15.6	2,549	3.1	53,187	8.4	159,612	25.3
2021-22[c]	121,514	18.5	2,673	3.0	75,433	11.5	181,491	27.7
2022-23[c]	140,643	20.7	2,869	3.2	91,771	13.5	191,407	28.2
2023-24[c]	157,549	22.3	3,079	3.3	104,347	14.7	192,269	27.2

(a) Restated Actual.
(b) Actual.
(c) Forecast Estimate.
(d) Includes borrowings and derivatives at fair value including 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.

Table D.3: Non-financial public sector operating statement aggregates

	Revenue	Expenses	Net Operating Balance		Capital Expenditure[d]		Net Lending/ (Borrowing)		GSP[e] (current prices)
	$m	$m	$m	Per cent of GSP	$m	Per cent of GSP	$m	Per cent of GSP	$m
1996-97	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	203,428
1997-98	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	214,695
1998-99	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	226,441
1999-00	40,271	37,763	2,508	1.0	5,460	2.3	523	0.2	241,679
2000-01	43,960	41,731	2,229	0.9	5,365	2.1	1,081	0.4	255,166
2001-02	43,666	41,320	2,346	0.9	6,080	2.3	16	0.0	264,592
2002-03	45,865	44,209	1,656	0.6	6,697	2.4	(747)	(0.3)	279,119
2003-04	47,875	46,681	1,194	0.4	6,706	2.2	(1,048)	(0.3)	300,102
2004-05	48,130	47,841	289	0.1	6,937	2.2	(2,178)	(0.7)	315,881
2005-06	51,524	49,071	2,453	0.7	8,318	2.5	(1,217)	(0.4)	332,374
2006-07	54,348	51,489	2,859	0.8	9,706	2.7	(2,121)	(0.6)	352,995
2007-08	57,709	55,592	2,117	0.6	11,138	3.0	(3,757)	(1.0)	376,630
2008-09	61,021	60,400	621	0.2	13,268	3.4	(7,104)	(1.8)	394,513
2009-10	64,699	62,002	3,734	0.9	16,340	4.0	(6,089)	(1.5)	413,303
2010-11	67,492	66,754	1,143	0.3	14,855	3.3	(6,475)	(1.5)	444,477
2011-12	70,226	68,917	1,301	0.3	13,067	2.8	(5,532)	(1.2)	464,772
2012-13	70,349	68,869	1,699	0.4	14,143	2.9	(5,070)	(1.1)	479,854
2013-14	75,181	72,836	2,367	0.5	13,869	2.8	(3,527)	(0.7)	495,303
2014-15	78,244	74,052	4,204	0.8	13,408	2.6	(1,202)	(0.2)	513,529
2015-16	81,086	77,261	3,634	0.7	16,175	3.0	(3,971)	(0.7)	538,513
2016-17	82,096	78,047	5,058	0.9	18,198	3.2	(2,721)	(0.5)	576,716
2017-18	85,482	82,766	2,716	0.4	17,884	3.0	(6,730)	(1.1)	604,400
2018-19[a]	84,969	86,059	(1,050)	(0.2)	21,825	3.5	(13,843)	(2.2)	625,400
2019-20[b]	84,791	94,320	(9,529)	(1.5)	25,264	4.1	(25,936)	(4.2)	622,300
2020-21[c]	84,559	102,793	(18,233)	(2.9)	29,146	4.6	(36,497)	(5.8)	630,300
2021-22[c]	90,082	98,844	(8,761)	(1.3)	29,818	4.6	(27,134)	(4.1)	655,200
2022-23[c]	94,339	98,625	(4,285)	(0.6)	25,401	3.7	(17,281)	(2.5)	679,300
2023-24[c]	98,117	100,814	(2,697)	(0.4)	22,722	3.2	(12,847)	(1.8)	707,500

(a) Restated Actual.
(b) Actual.
(c) Forecast Estimate.
(d) Before 2011-12 Capital Expenditure is reported as purchases of non-financial assets plus non-financial assets acquired using finance leases. Post 2011-12 Net Capital Expenditure is used.
(e) Gross State Product.

Table D.4: Non-financial public sector balance sheet and financing indicators

	Borrowings[d]		Interest Expense		Net Debt[e]		Net Financial Liabilities[f]	
	$m	Per cent of GSP	$m	Per cent of revenue	$m	Per cent of GSP	$m	Per cent of GSP
1996-97	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1997-98	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1998-99	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1999-00	23,686	9.8	1,971	4.9	19,102	7.9	36,809	15.2
2000-01	23,334	9.1	1,778	4.0	18,273	7.2	37,676	14.8
2001-02	22,337	8.4	1,627	3.7	15,627	5.9	39,300	14.9
2002-03	22,218	8.0	1,574	3.4	13,127	4.7	42,104	15.1
2003-04	23,362	7.8	1,523	3.2	11,834	3.9	42,370	14.1
2004-05	25,731	8.1	1,995	4.1	12,012	3.8	54,127	17.1
2005-06	27,673	8.3	2,014	3.9	9,801	2.9	50,723	15.3
2006-07	32,125	9.1	2,179	4.0	20,481	5.8	51,627	14.6
2007-08	33,048	8.8	2,326	4.0	22,605	6.0	58,142	15.4
2008-09	39,687	10.1	2,763	4.5	28,943	7.3	80,446	20.4
2009-10	45,497	11.0	3,127	4.8	32,666	7.9	88,276	21.4
2010-11	50,911	11.5	3,534	5.2	32,389	7.3	86,236	19.4
2011-12	55,364	11.9	3,897	5.5	39,641	8.5	112,127	24.1
2012-13	59,313	12.4	3,909	5.6	40,093	8.4	105,318	21.9
2013-14	63,630	12.8	4,019	5.3	37,733	7.6	133,452	26.9
2014-15	63,870	12.4	3,977	5.1	36,442	7.1	117,411	22.9
2015-16	64,135	11.9	3,698	4.6	29,403	5.5	128,739	23.9
2016-17	54,684	9.5	3,113	3.8	9,048	1.6	92,075	16.0
2017-18	58,152	9.6	3,189	3.7	9,871	1.6	98,568	16.3
2018-19[a]	62,423	10.0	2,789	3.3	11,263	1.8	111,624	17.8
2019-20[b]	94,908	15.3	3,069	3.6	43,677	7.0	145,023	23.3
2020-21[c]	128,300	20.4	3,417	4.0	81,079	12.9	196,323	31.1
2021-22[c]	152,772	23.3	3,538	3.9	105,275	16.1	220,159	33.6
2022-23[c]	173,042	25.5	3,701	3.9	123,152	18.1	231,348	34.1
2023-24[c]	190,841	27.0	3,905	4.0	137,286	19.4	233,221	33.0

(a) Restated Actual.
(b) Actual.
(c) Forecast Estimate.
(d) Includes borrowings and derivatives at fair value including 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. Before 2004-05, only net financial worth is reported for the Non-Financial Public Sector.

E. PERFORMANCE AND REPORTING UNDER THE FISCAL RESPONSIBILITY ACT 2012

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

The FRA sets the policy objective of maintaining the State's triple-A credit rating, supported by two fiscal targets and three principles of sound financial management (see Table E.1).

Table E.1: Fiscal Responsibility Act 2012 – object, targets and principles

Object	Fiscal targets	Fiscal principles
	1) Annual expense growth kept below long-term average revenue growth	Principle No 1 is responsible and sustainable spending, taxation and infrastructure investment, including: (a) aligning general government revenue and expense growth (b) stable and predictable taxation policies (c) investment in infrastructure that has the highest benefit for the community.
Maintain the triple-A credit rating	2) The elimination of the State's unfunded superannuation liability by 2030	Principle No 2 is effective financial and asset management, including sound policies and processes for: (a) performance management and reporting (b) asset maintenance and enhancement (c) funding decisions (d) risk management practices.
		Principle No 3 is achieving intergenerational equity, including ensuring that: (a) policy decisions are made having regard to their financial effects on future generations (b) the current generation funds the cost of its services.

Performance

Maintaining the triple-A credit rating

New South Wales continues to meet the objective of the FRA. Both major credit rating agencies – S&P Global and Moody's – reaffirmed the State's triple-A credit rating in September 2019.

The credit rating for States and Territories is capped by the rating on the sovereign, the Commonwealth Government. Accordingly, following S&P Global's decision to place Australia on negative outlook in April 2020, New South Wales (and the other triple-A rated States and Territories) were concurrently placed on negative outlook as States cannot have a higher rating than the Commonwealth. In the event of a further downgrade to the Commonwealth rating, this would automatically flow through to New South Wales.

New South Wales is one of two Australian states and one of four comparable sub-sovereigns outside the United States to hold a triple-A credit rating from both Moody's and S&P Global (refer Table E.2).

Table E.2: New South Wales is one of four states rated triple-A by Moody's and S&P Global[(a)]

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

(a) Sub-sovereigns in bold text reflect a triple-A rating issued by both rating agencies.
Note: shows sub-sovereigns comparable to the State of New South Wales, e.g. states, provinces, landers, cantons.
Abbreviations: AU (Australia), CA (Canada), CH (Switzerland) and DE (Germany)

Performance against the FRA targets and principles

The COVID-19 pandemic has resulted in a deterioration in the fiscal outlook and has placed pressure on New South Wales to maintain the triple-A credit rating.

The subdued revenue environment combined with future expense pressures presents a significant budget management challenge. In October 2020, S&P Global reaffirmed Australia's rating as triple-A with negative outlook, which automatically flows through to New South Wales. Should the Commonwealth Government be downgraded in the future, New South Wales will continue to manage the State's fiscal position consistent with a stand-alone triple-A credit rating.

The principles of the FRA remain valid and should continue to be adhered to, in particular *'responsible and sustainable spending, taxation and infrastructure investment'* and *'achieving intergenerational equity'*.

With some significant COVID-19 driven uncertainty remaining in the economic and fiscal outlook, the NSW Government will aim to update the FRA as a clearer picture of the broader outlook emerges.

Target 1 – Expense growth below long-term average revenue growth

The FRA requires annual general government expense growth to be maintained below the long-term average general government revenue growth of 5.6 per cent, as set in the *Fiscal Responsibility Regulation 2013*.

The 2019-20 expense growth rate of 9.7 per cent exceeded the long-term average revenue growth rate of 5.6 per cent, primarily due to $4.2 billion of expenditure in 2019-20 in COVID-19 response and recovery measures and $1.3 billion of support to bushfire-affected communities.

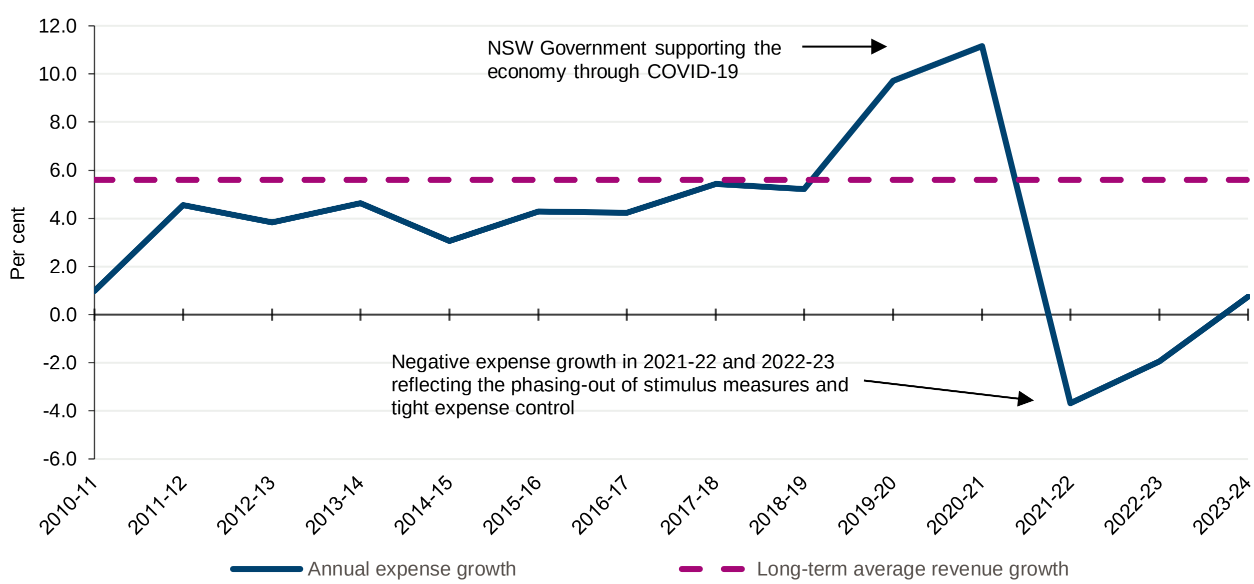
The 2020-21 Budget forecasts that 2020-21 expense growth will be 11.2 per cent, which would exceed the long-term revenue growth rate. This is primarily due to the $7.8 billion of expenditure measures in 2020-21 to support communities, businesses and the economy as part of the Government's package of response, recovery and reform measures for COVID-19.

From 2021-22 onwards, the Government is forecasting annual expense growth to remain below the long-term revenue growth rate with restraint on expenditure over the medium term (see Chart E.1). To ensure the State maintains its fiscal capacity to respond to future economic or fiscal shocks over the medium term, the Government's fiscal strategy will pivot to fiscal repair by maintaining discipline on expenses, including:

- limits wages growth through the new wages policy which will save $4.3 billion over the four years to 2023-24. Noting:
  - this wages policy incorporates:
    - the Industrial Relations Commission determination limiting wages growth to 0.3 per cent in 2020-21 for approximately 170,000 workers
    - a 12 month pause to wages growth for senior public servants and members of Parliament
    - keeping wages growth to no more than 1.5 per cent over the forward estimates to align with the average underlying inflation forecast (Sydney CPI, ex-tobacco excise)
  - this wages policy will continue to allow increases beyond this level to be considered, where employee related cost savings are achieved to fully offset the additional costs
- more efficient procurement practices delivering savings of $729.0 million over the next four years and $3.2 billion over the next decade.

Looking ahead, there is a divergence in the revenue outlook from the long-term revenue growth (which was noted in the 2018 review of the FRA). As revenue pressures emerge over the medium term, the Government will need to not only carefully manage expense growth but maintain a sustainable operating position and debt level.

Chart E.1: Revenue and Expense Growth



Target 2 – Eliminating the State's unfunded superannuation liability by 2030

The FRA currently requires the Government to eliminate the State's unfunded superannuation liability by 2030.

To achieve this target, the Government makes annual cash contributions to the State's defined benefit superannuation schemes in line with a funding plan set at each triennial review of the schemes. This funding plan takes into account any changes in both the asset (e.g. market returns) and the liability (e.g. demographic and actuarial assumptions) components of the schemes.

Following the unprecedented economic and fiscal events of 2019-20, New South Wales has re-anchored its superannuation liability target to be fully funded by 2040. Re-anchoring the target will help free up much needed fiscal capacity over the budget and forward estimates, which will support the Government's fiscal response to COVID-19. With some significant COVID-19 driven uncertainty remaining in the economic and fiscal outlook, the Government will aim to update the FRA as a clearer picture of the broader outlook emerges.

Total State net unfunded superannuation liability are estimated to be $14.6 billion at June 2021 and are projected to increase to $15.6 billion at June 2024, reaching zero by June 2040 (see Box 6.4 for further analysis).

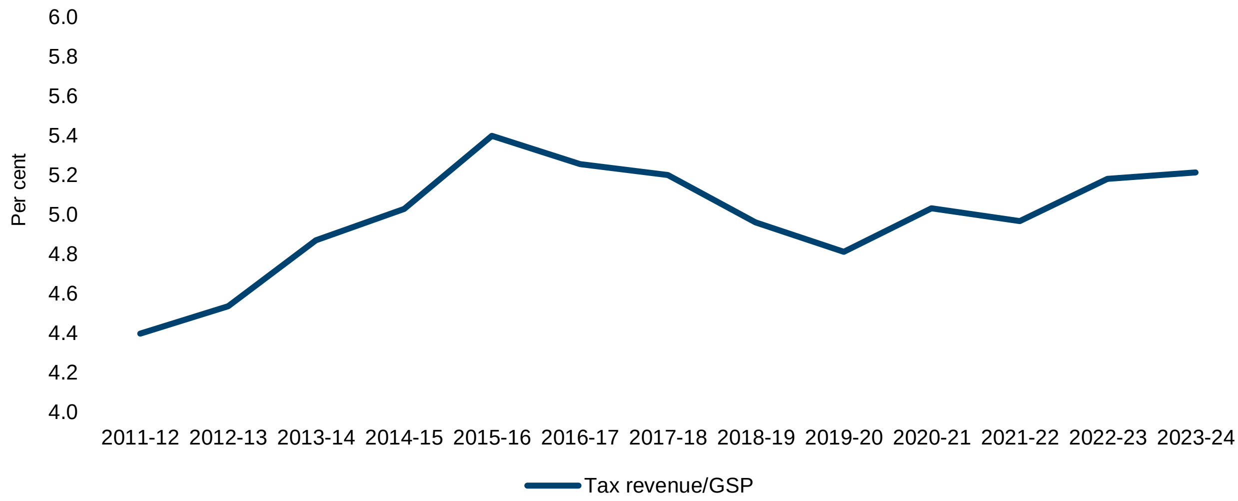
Principle 1 – Responsible and sustainable spending, taxation and infrastructure investment

The principle of responsible and sustainable spending, taxation and infrastructure investment includes aligning general government revenue and expense growth, stable and predictable taxation policies, and investment in infrastructure that has the highest benefit for the community. This involves maintaining a strong and sustainable fiscal position, by way of managing an operating position appropriate for current conditions, and debt that can be sustainably managed, while also providing recurrent services and infrastructure investment.

The FRA target to keep general government expense growth below the long-term revenue growth rate of 5.6 per cent demonstrates the commitment to responsible and sustainable spending.

State taxation has remained consistent and low, with the ratio of tax receipts to Gross State Product (GSP) declining from 5.4 per cent in 2015-16 to a projected 5.0 per cent in 2020-21, and marginally increasing over the forward estimates to 5.2 per cent in 2023-24 (as shown in Chart E.2). Tax revenue to GSP declined to 4.8 per cent in 2019-20 due to lower payroll tax and transfer duty revenue.

Chart E.2: Taxation revenue, ratio to GSP



The Government will continue to deliver its record infrastructure program with total investment in the general government sector reaching $107.1 billion over the four years to 2023-24.

The sustainability of this investment is made possible by the proceeds from the State's asset recycling program and the establishment of the State's dedicated debt retirement fund – the NSW Generations Fund (NGF).

The Government will continue its successful asset recycling program in the 2020-21 Budget and will progress the sale of the State's residual 49 per cent share in WestConnex following the successful 51 per cent of the WestConnex transaction completed in August 2018. Net proceeds from the transaction will be placed in the NGF.

Outcome Budgeting

Outcome Budgeting is a multi-year reform program that improves oversight of total expenditure, as well as providing greater evidence to support and prioritise resource allocation. Sustained over time, Outcome Budgeting improves the way that Government plans and manages resources to deliver outcomes for the people of New South Wales. The framework enables ongoing performance monitoring and assessment to ensure resources are well managed and targeted to deliver State Outcomes efficiently and effectively.

Outcome and Business Plans will be regularly updated and reviewed to inform ongoing planning and management across the suite of State Outcomes. This includes a continued focus on improving performance measurement, ensuring all Outcome Indicators have performance targets and reviewing and refining Programs and Program Performance Measures.

To support the implementation of Outcome Budgeting and the principle of sustainable spending, the Fiscal Repair Program will review Cluster State Outcomes and associated performance targets to:

- ensure New South Wales taxpayers are receiving value-for-money from the public sector
- ensure the Government is delivering its Outcomes in the most efficient and effective manner possible
- review Outcome and Program expenditures (including performance metrics) to identify reform opportunities and provide options to Government to assist in returning the budget to a sustainable operating and debt position over the medium term

- ensure financial resources are appropriately aligned across Clusters to the delivery of outcomes and government priorities
- investigate areas of government spending which may be unnecessary, inefficient, low value, do not align with State or Cluster Outcomes, and/or can be better delivered under different arrangements, and
- develop and implement frameworks to enhance financial accountability across the sector.

Principle 2 – Effective financial and asset management policies

This principle includes having sound policies and processes for performance management and reporting, asset maintenance and enhancement, funding decisions and risk management practices.

The Government has continued to focus on the State's balance sheet management, funding decisions and risk management through the Treasury Asset and Liability Committee (ALCO). This includes managing the cash centralisation strategy with further funds being brought into the State's central liquidity pool, optimisation of the State's balance sheet, and a new Asset Management Policy as a best-practice framework for managing the State's existing physical assets.

The Asset Management Policy will improve asset management planning and delivery practices across the Government by lifting agencies' asset management capability. Out of the State owned physical asset base of $368.1 billion, the largest component as at 30 June 2020 was infrastructure systems ($180.2 billion). This included roads, railways, ports, dams and pipelines. Buildings ($94.2 billion), land ($74.6 billion) and plant and equipment ($18.5 billion) comprise the remainder of the State's physical asset base. The Asset Management Policy for the NSW Public Sector (TPP 19-07) will ensure alignment of agencies' asset management approaches with industry practice and international standards (ISO 55001).

Some additional reforms and polices implemented by the Government include:

- strengthened reporting and management of contingent assets and liabilities
- the issuance of Green Bonds in November 2018 and October 2020 and Sustainability Bonds in November 2019, totalling $5.2 billion to fund projects delivering environmental and social benefits
- debt management measures including broadening the investor base by issuing into new longer-dated tenors (beyond 10 years), rate notes and sustainability bonds
- redirecting State Owned Corporation (SOC) dividends and income tax equivalents, excess Treasury Banking System (TBS) cash, proceeds of future asset sales (including the 49 per cent stake in WestConnex) and coal royalties into the NGF.

Principle 3 – Progress in achieving intergenerational equity

The FRA commits the Government to ensure that policy decisions have regard to their financial effects on future generations and that the current generation funds the cost of services delivered today.

Each budget reports the impact of its measures on the long-term fiscal gap, which is a summary indicator of the budgets financial effect on future generations.[1] The *2016 Intergenerational Report* highlighted that if current trends continue, a widening fiscal gap will emerge where expenditure would exceed revenues resulting in a fiscal gap of 3.4 per cent of GSP by 2055-56.

As a result of Government decisions, the cumulative fiscal gap has increased by 0.2 per cent (0.1 per cent since 2019-20 Budget), to be 3.6 per cent of GSP by 2055-56. The targeted nature of the Government's response and recovery measures to the drought, 2019 summer bushfires and COVID-19 means there is no structural budget deficit going forward. The extended 2040 superannuation target date, the scoping of future asset recycling measures and using the Outcomes Budgeting framework to drive efficiencies across government expenditure allow the Government to invest in new services and infrastructure without further impacting long-term fiscal sustainability. This shows that prudent budget management continues to be effective in limiting such impacts on future taxpayers.

With intergenerational challenges on the horizon, the NGF is forecast to grow to more than $70.0 billion over the next 10 years through redirecting resource revenues (e.g. mining royalties) and SOC dividends into the NGF. Future asset sales (e.g. the sale of the residual 49 per cent stake in WestConnex) will further increase the NGF balance. The Government aims at rebuilding balance sheet capacity by bringing net debt down towards 7 per cent of GSP over the medium term and make the NGF a truly inter-generational fund.

The next iteration of the intergenerational report will be published at the 2021-22 Budget.

[1] The fiscal gap is calculated for the general government sector and is the difference between the base period primary balance as a share of 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 (it excludes interest transactions and includes net capital expenditure). A positive gap implies that fiscal pressures will build over the projection period.

F. ECONOMIC SCENARIO ANALYSIS

The 2020-21 Budget relies on forecasts and judgements about the future of the economy, based on information available at the time of preparation. These forecasts are subject to inherent uncertainties, such as changes in behaviours, evolving relationships between variables and unexpected events or shocks.

This appendix explores the impact of variations in key economic parameters on other areas of the economy, the overall macroeconomic outlook and general government tax revenues. This is intended to provide greater insight into the interdependencies within our complex economy, that a partial sensitivity analysis does not capture.

This scenario analysis was selected to cover a plausible economic event that could affect New South Wales over the forecast horizon. The modelling takes account of linkages between key international, Australian and New South Wales economic aggregates, but does not account for any monetary policy or fiscal policy response.

The summary of the results should be interpreted with care because economic events tend to be unique in nature - the scenario presented in this appendix is unlikely to completely reflect any future shock to the State economy. Any departures from the specified scenario would result in different impacts on the economic and revenue outlook.

F.1 Impact of variations in key forecast assumptions

This scenario analysis is intended to complement the central economic outlook as presented in Chapter 2 by quantifying some of the key risks to the overall narrative. The scenario is a delayed vaccine for COVID-19, which subsequently delays the reopening of international borders and the easing of domestic health restrictions by 12 months.

The economic and revenue impact of this scenario was modelled using the Centre of Policy Studies (CoPS) Victoria University Regional Model Tax (VURMTAX)[1] and presented as a deviation from baseline.

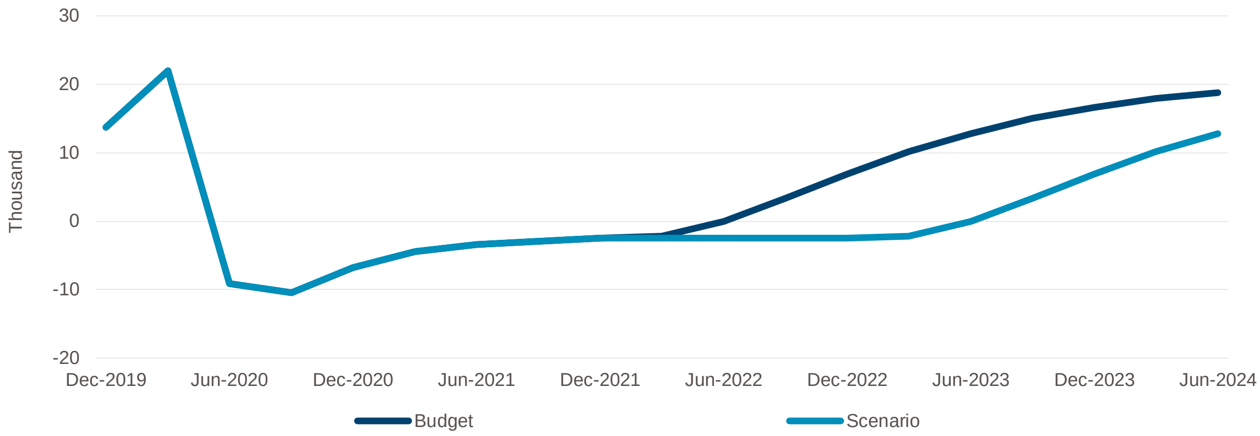
A delayed vaccine

COVID-19 has resulted in the closure of international borders and the introduction of a number of health restrictions, including social distancing measures. This has resulted in a sharp fall in NSW's net overseas migration, a reduction in international tourist and student numbers, and an ongoing drag on economic activity.

Current forecasts in line with the Commonwealth assume that an effective vaccine for COVID-19 will be available to Australians in the second half of 2021. Australia's international borders are expected to re-open in the December quarter 2021, in line with the assumed timing of a widely available vaccine. A gradual return of international students and permanent migrants is assumed from the latter part of 2021. Inbound and outbound international travel is expected to remain low through the latter part of 2021, after which a gradual recovery in international tourism also is assumed to occur.

[1] VURMTAX is a dynamic computable general equilibrium model of Australia's six states and two territories, with each region modelled as an economy in its own right. See Adams, Philip, Dixon, Janine and Horridge, Mark (2015), 'The Victoria University Regional Model (VURM): Technical Documentation, Version 1.0', CoPS/IMPACT Working Paper Number G-254 for more detail on the model.

Chart F.1: Net overseas migration to NSW will remain subdued for an extended period if a vaccine is delayed



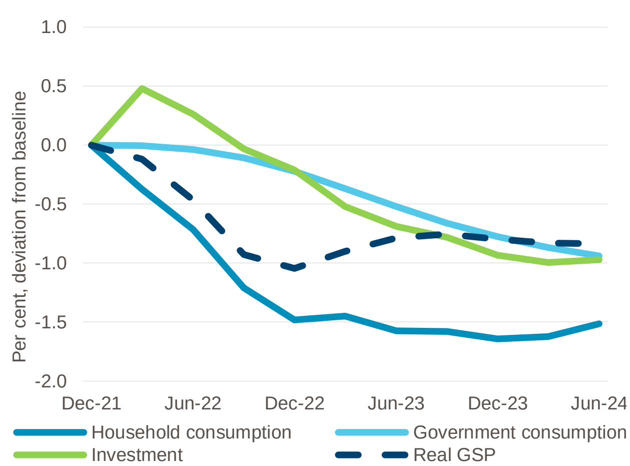
Source: ABS and NSW Treasury

This scenario assumes that the availability of an effective vaccine is delayed by 12 months, which results in the timing of the reopening of international borders and the easing of social distancing restrictions being pushed back by 12 months. Consequently, net overseas migration, as well as international tourist and student numbers remain low for a more extended period (see Chart F.1).

Macroeconomic impact on the Budget and over the forward estimates

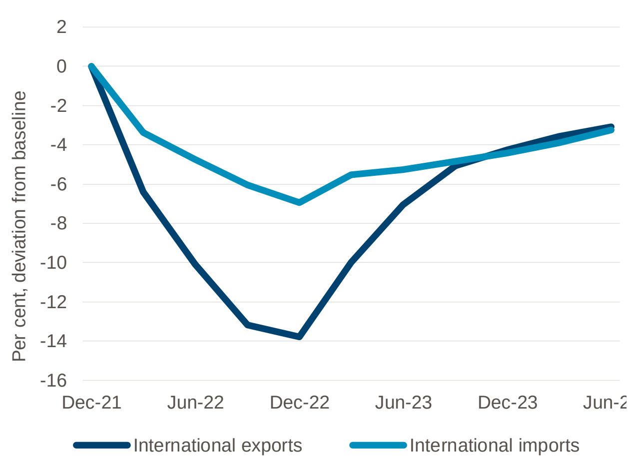
In the scenario, the delayed reopening of international borders results in a reduction in international education exports as well as travel-related exports such as tourism. International travel-related imports also are lower, which helps to cushion the shock. Some of the savings from fewer overseas holidays will be redirected into domestic tourism and other components of household expenditure. However, the continuation of social distancing restrictions for an additional 12 months reduces household consumption.

Chart F.2: Lower household consumption drives much of the decline in Gross State Product



Source: CoPS, Victoria University and NSW Treasury

Chart F.3: International exports also decline but a fall in international imports helps to offset the impact



Source: CoPS, Victoria University and NSW Treasury

Due to the international borders remaining closed for a longer period, the NSW population is almost 1 per cent below the baseline forecast by the end of 2023-24. The lower population is another driver of reduced household consumption. Investment also falls as the capital stock adjusts to a lower level. In addition, spending by both the Commonwealth and NSW Governments is lower due to the lower population.

The weaker economy is associated with a deterioration in the labour market. There is a fall in employment and an increase in the unemployment rate, with little change in the labour force participation rate. Consequently, there is also an easing in inflation and wages growth.

Once the vaccine for COVID-19 becomes available, the international border reopens and social distancing restrictions are removed, which contribute to a recovery in economic activity and in the labour market. Nevertheless, the economy remains smaller than in the baseline due to the lower population, with the loss of population assumed to be permanent, consistent with current Commonwealth Government policy.

Table F.1: The effect of a delayed vaccine on major economic parameters[(a)]

	2020-21	2021-22	2022-23	2023-24
State Final Demand	...	(0.1)	(1.0)	(1.3)
Gross State Product	...	(0.1)	(0.9)	(0.8)
Employment	...	(0.4)	(1.5)	(1.0)
Unemployment rate	...	0.3	1.0	0.1
Consumer price index	...	(0.1)	(0.2)	0.1
Nominal wages	...	(0.0)	(0.7)	(0.5)
Working age population	...	(0.0)	(0.3)	(0.8)

(a) Figures reported are the per cent change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury

Revenue impact over the Budget and forward estimates

Under this scenario, overall revenues are $1.1 billion lower after four years (see Table F.2). Payroll tax collections are lower due to the lower level of employment and decline in wages growth. GST revenue is lower due to the reduction in household consumption, but the extent of the fall in GST revenue is cushioned by a rise in the share of household consumption subject to GST. This is because spending by Australian residents overseas, which generally is exempt from GST, is replaced with domestic spending that is subject to GST. Similarly, a shift in household expenditure patterns also supports a redirection of spending from overseas holidays into housing, which provides a boost to transfer duty and land tax collections. Other tax revenue is lower, with falls in gambling and motor vehicle taxes reflecting the decline in household consumption and population.

Table F.2: The effect of a delayed vaccine on major revenue parameters[(a)]

	2020-21 $m	2021-22 $m	2022-23 $m	2023-24 $m
Payroll tax	...	(45)	(274)	(185)
Transfer duty	...	92	89	(90)
Land tax	...	0	0	(1)
Royalties	...	(16)	1	25
Other tax revenue	...	21	(85)	(174)
GST revenue	...	(76)	(350)	(297)
Sale of goods and services	...	(3)	(91)	(253)
Other revenue	...	(9)	(150)	(157)
Total revenue	...	(34)	(859)	(1,132)

(a) Figures reported are the change in the level of each parameter relative to the baseline.

Source: CoPS, Victoria University and NSW Treasury