Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Australian Labor Party	Proposal No:	A298
Date Referred:	29/01/2019	Date Published:	18/03/2019

Proposal Title: Sydney Football Stadium redevelopment project - budgeting for a loan

Cluster: Treasury

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-22 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	-	-	-	-
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	184,160	415,388	85,150	684,697
Net Operating Balance:	**-**	**184,160**	**415,388**	**85,150**	**684,697**
Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**-**	**184,160**	**415,388**	**85,150**	**684,697**

Total State Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-22 $'000	4 year Total $'000
Net Lending/(Borrowing):	**-**	**-**	**-**	**-**	**-**

Notes and costing assumptions

This policy proposes to provide a concessional loan to the Sydney Cricket Ground (SCG) Trust to fund the Sydney Football Stadium (SFS) Redevelopment project. This proposal will not change the delivery of the new stadium, but would mean that the project is funded from this loan rather than from a budget allocation. The SCG Trust would then be required to repay this loan over a 35 year period, with reduced payments over the first five years.

The estimated impact on the general government sector net lending position is an improvement of $685 million across the forward estimates. This cost is based on the sum of project payment and interest accrued amount (see Table 1 and 2 below). Note that this policy in effect changes the flow of funds between the general government and public non-financial corporation (PNFC) sectors - there is no net impact on the total state sector.

This project is currently funded from a budget allocation to INSW. The asset will be transferred to the SCG Trust after the project is completed. The PBO has assumed that this arrangement is maintained under this policy, with the appropriations replaced by a loan to the SCG Trust. This treatment would be subject to final agreement between the government of the day, INSW and the SCG Trust.

Notes and costing assumptions continued:

Funding Requirements
The SFS Redevelopment project's estimated total cost (ETC) is $729 million, as per the 2018-19 NSW Budget Paper No. 2 – Infrastructure Statement. There was no change to the cost of this project in the Mid-Year Review. The government has already provided $85 million in funding through appropriations under the 2018-19 NSW Budget. As such, the PBO has assumed that the concessional loan will be sufficient to cover the remaining $644 million in project costs and the repayment profile to INSW is assumed to be the same as budgeted appropriations.

Table 1 below outlines the yearly funding requirement for the SFS Redevelopment project across the forward estimates. Consequently, with the substitution of the concessional loan, there would be a reduction in appropriation from the Consolidated Fund of the same amount each year from 2019-20 to 2021-22, for a total reduction of $644 million. At the same time, the SCG Trust would instead make payments to INSW to fund the project:

Table 1

	2019-20 $'000	2020-21 $'000	2021-22 $'000	Total $'000
SFS Project Capital Expenditure	178,900	398,500	66,600	644,000
Reduction in Appropriations	(178,900)	(398,500)	(66,600)	(644,000)
Project Payments from SCG Trust to INSW	178,900	398,500	66,600	644,000

Concessional Loan Arrangements
The concessional loan would be provided to the SCG Trust at Treasury Corporation's current borrowing rate through the Crown Finance Entity (CFE).

The concessional loan is assumed to be funded on a yearly basis, as per the funding requirement of the project (Table 1). The term of the loan is thirty five years from 1 July 2019, with the following repayment conditions specified by the policy:

- No repayments in the first two years
- A repayment of half the year's interest costs only in year three
- Interest only repayments in years four and five
- Repayment of the full value of the loan from year six to thirty five, with payments of equal value in real terms indexed against Sydney CPI (assumed to be 2.5% per annum, as per the Treasury Budget Paper No. 1 2018-19).

The interest rate applied in this costing is assumed to be the Treasury Corporation ten year bond rate (2.94% per annum), as agreed with Treasury.

Interest Expenses and Repayments
Under this loan arrangement, the SCG Trust would be expected to repay principal and interest on this loan after the concessional period. The recognition of this interest revenue by the CFE in the general government sector is included in this costing. Note that this is offset by a corresponding expense in the PNFC sector, and as such the total state sector impact is nil.

The expected interest repayments are outlined in Table 2 below:

Table 2

	2019-20 $'000	2020-21 $'000	2021-22 $'000	Total $'000
Interest Accrued	5,260	16,888	18,550	40,697
Repayment SCG	-	-	9,275	9,275

Notes and costing assumptions continued:

Under the repayment arrangements, cash repayments from the SCG Trust would be less than the cash payments on the associated net debt to the general government sector in the initial years, rapidly building up to exceed the cash payments on the net debt to the general government sector. Accordingly, Treasury would incur additional net interest expenses in the initial years, and net interest savings in the latter years.

The PBO has not included the interest forgone for this cash shortfall as:

- This project is currently funded through appropriations, and as such the cost of this debt has already been included in the forward estimates
- In any case, the cost of capital is a second order effect and is excluded from costings.

Other Items for consideration

Loan arrangements are dependent upon an entity's ability to pay. The PBO has determined that it would be feasible for the SCG Trust to be able to repay this loan, based on PBO review of publicly available financial statements and expected additional future revenue from the new stadium.