



Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Australian Labor Party

Proposal No: B450

Date Referred: 14/03/2019

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Proposal Title: Public Transport Acceleration Fund

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	-	14,819	61,465	130,106	206,390
Net Operating Balance:	-	14,819	61,465	130,106	206,390

Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	-	14,819	61,465	130,106	206,390
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Total State Sector Impacts

Net Lending/(Borrowing):	-	14,819	61,465	130,106	206,390
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Notes and costing assumptions

The policy proposes to set up a Transport Fund where savings from not proceeding with various Transport projects are invested in a managed fund. Cancelling the projects is estimated to save \$2.4 billion over the forward estimates to be invested in the Fund. The Fund would retain all earnings, with any disbursements requiring a subsequent decision of government.

The PBO estimates the Fund could earn \$206 million over the forward estimates, which improves net lending by this amount. The Fund is estimated to grow in size to \$3.76 billion by 2028-29. Fund earnings and growth are subject to considerable volatility and uncertainty.

Assumptions for the Fund

Under the policy, the Fund would be modelled on current NSW Government funds with the highest risk tolerance.

Based on NSW Treasury advice, the PBO has used the following assumptions:

- the Fund would be expected on average to generate a return similar to the Australian Future Fund, with an estimated return of CPI + 4.5% per year (though returns each year would be quite volatile)
- management fees are estimated at 0.41 per cent of the Fund's value per year
- inflation (CPI) is assumed to be 2.25% in 2019-20 and 2.5% thereafter, and
- the cost of overseeing the fund would be absorbed by NSW Treasury.

Notes continued on the next page.

Notes and costing assumptions continued:

Savings to be deposited into the Fund

The policy proposes not to proceed with the F6 extension, the Sydenham to Bankstown Line Conversion, and the Western Harbour Tunnel and Beaches Link. The capital savings from not proceeding with these projects over the forward estimates is shown in Table 1, based on advice from Transport for NSW. These amounts are deposited into the Transport Fund.

	2018-19	2019-20	2020-21	2021-22	Total
F6 extension		126,470	390,850	709,840	1,227,160
Sydenham to Bankstown line conversion	26,773	239,474	511,467	325,757	1,103,471
Western Harbour Tunnel and Beaches Link		48,000	52,000		100,000
Total savings \$ 000	26,773	413,944	954,317	1,035,597	2,430,631

We have calculated the average yearly balance in the Transport Fund is equal to: the capital savings from previous years plus retained earnings from previous years, plus half of the capital savings in the current year.

Table 2 shows the average yearly balance in the Fund and the earnings to 2028-29.

Financial year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Average yearly Fund balance \$ m	234	933	1974	2561	2729	2909	3101	3305	3523	3755
CPI	2.25%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Return above CPI	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Management fee	-0.41%	-0.41%	-0.41%	-0.41%	-0.41%	-0.41%	-0.41%	-0.41%	-0.41%	-0.41%
Return %	6.34%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%	6.59%
Total return \$ m	15	61	130	169	180	192	204	218	232	247

In 2019-20 the Fund has an average Fund balance of \$234 million (\$27 m + 0.5*\$414 m) and generates a 6.34% return on this balance or \$15 million.

Over ten years, the Fund provides a total return of \$1.65 billion which is retained in the Fund. The retained earnings grow the total size of the Fund to \$3.76 billion by 2028-29.

Key assumptions and qualifications

The costing shows consistent returns over the 10 year period; however in practice the Fund's returns would be quite volatile because it is invested in high risk/high return assets. This volatility cannot be predicted on a year on year basis. The Fund could generate negative returns in some years.

Based on NSW Treasury advice, the Fund would be expected to have a negative return once in every 4.2 years, with underlying average volatility of +/- 8.5% per year.

In line with other funds of this nature, we have assumed the Fund is held by the Government as an equity interest in the General Government Sector.

Legislative changes to the *Restart NSW Fund Act 2011* and other legislation may be required to implement the policy.