Trends in NSW State finances: 2002-03 to 2015-16

by

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SUMMARY

This paper reports on trends in NSW State finances between 2002-03 and 2015-16 (inclusive). For most of the key indicators, the paper also shows trends by Parliament for the current (56th) Parliament and previous three Parliaments. Note that the NSW public sector (the total State sector) is made up of three sectors: the general government sector, the public trading enterprise sector, and the public financial enterprise sector.

Budget result

The budget result represents the difference between expenses and revenues from transactions for the general government sector. The budget result does not take account of capital expenditure. Key findings include:

- The budget result was a surplus for all years except 2008-09. The revised estimate for 2014-15 is a surplus of $2.1 billion, which would be the largest surplus over the whole time period. The estimate for 2015-16 is a $713 million surplus. The surpluses from 2013-14 to 2015-16 would have been larger if not for the impact of revised accounting standard AASB 119.

- The actual results were better than the forecast results in all years except for 2004-05 and 2008-09. The positive variations have ranged from $10 million to $3.1 billion, and in six years, they exceeded $1 billion. In most cases, these positive variations resulted from higher than expected revenues. The better than expected results in 2010-11 and 2011-12 were due to expenses being under budget.

Net lending result

The net lending result is the sum of the budget result before depreciation and net capital expenditure (i.e. capital expenditure after asset sales) for the general government sector. A net lending deficit means that funds from operations plus asset sales are insufficient to fully fund the capital expenditure program, and the difference must be funded by borrowings. Key findings include:

- There were net lending deficits in all years from 2004-05 to 2013-14, and five of these exceeded $2 billion. Net lending deficits are also forecast for 2014-15 ($1.2 billion) and 2015-16 ($3.7 billion). The 2015-16 forecast deficit would be the largest over the time period. The deficits from 2013-14 to 2015-16 would have been smaller if not for the impact of revised accounting standard AASB 119.

Revenue

Key findings include:

- The split between own-source revenue and Federal Government grants has remained relatively stable over the time period: 55-60 per cent (own-source): 40-45 per cent (Federal grants). The exception was in 2009-10 (53:47), which is largely explained by the Federal Government's economic stimulus payments.

- State taxes are by far the largest source of the government's own-source revenue: in 2015-16 it is estimated at 67 per cent of own-source revenue (68 per cent in
Stamp duty is currently the largest source of State tax revenue: in 2015-16 it is estimated to be 35 per cent of total State tax revenue (37 per cent in 2002-03). Between 2007-08 and 2012-13, payroll tax contributed a higher share of tax revenue than stamp duties.

- There are two broad categories of Federal Government grants: General purpose grants (i.e. GST payments); and Specific purpose grants, which require funds to be spent in particular areas. Over the whole time period, general purpose grants have generally comprised 60-65 per cent of total Federal government grants. In the period from 2008-09 to 2011-12, they comprised a lower proportion of total grants (50-55 per cent), largely due to the Federal Government’s economic stimulus package, which formed part of specific purpose grants.

- Specific purpose grants include National Specific Purpose Payments (NSPPs) and National Partnership Payments (NPPs). Health has been the largest category of NSPPs and increased its share from 52 per cent in 2002-03 to an estimated 61 per cent in 2015-16. Education has received the next largest share, and this share rose from 14 per cent in 2002-03 to an estimated 20 per cent in 2015-16. In most years, transport received the largest share of NPPs, and this is particularly the case in 2015-16 with an estimated 68 per cent.

**Expenses**

Recurrent expenses are expenses incurred in the provision of goods and services. They are distinct from capital expenditure, which is incurred in the acquisition of assets. Key findings in relation to recurrent expenses include:

- The composition of expenses remained relatively stable over the time period. Employee-related expenses are by far the largest type of expenses: in each year they have accounted for around half of total expenses.

- In 2015-16, health has been allocated the highest share of total expenses (28.0 per cent), which is slightly higher than the proportion allocated to health in 2002-03 (26.9 per cent). Education has been allocated the second highest share of expenses (21.6 per cent), which is lower than the proportion allocated to education in 2002-03 (25.9 per cent). The next largest policy area is now transport and communications (12.7 per cent in 2015-16); and it has been allocated a much larger share of the budget in recent years (9.2 per cent in 2010-11).

**Capital expenditure**

Key findings include:

- In both the general government and total state sectors, there was an upward trend in capital expenditure from 2005-06 to 2009-10, including a spike in 2009-10, which was largely due to the Federal Government’s stimulus payments. After 2009-10, capital expenditure in both sectors fell before rising again in 2012-13. In 2015-16, general government capital expenditure is estimated to be 16.7 per cent higher than in 2014-15; and state capital expenditure is estimated to be 19.7 per cent higher.

- In the general government sector, the transport and communications policy has had the largest share of the capital program over the time period. In 2015-16, this area
has been allocated 68 per cent of the total capital budget (up from 42 per cent in 2002-03). In recent years, the second largest policy area for capital expenditure has been health (11.4 per cent in 2015-16).

**Assets and liabilities**

Key findings include:

- In 2015-16, general government sector net worth (i.e. assets less liabilities) is estimated at $190 billion ($121 billion in 2002-03);

- *Net debt* is financial liabilities less financial assets. In the general government sector, in 2015-16 net debt is forecast to be $9.9 billion, or 1.9 per cent of Gross State Product (GSP), compared to 1.3 per cent of GSP in 2002-03. In the total State sector, in 2015-16 net debt is forecast to be $44.9 billion, or 8.4 per cent of GSP, compared to 5.5 per cent of GSP in 2002-03.

- *Net financial liabilities* are total liabilities (financial liabilities plus unfunded superannuation and other liabilities) less financial assets. In the general government sector, in 2015-16 net financial liabilities are forecast to be $76 billion, or 14.3 per cent of GSP, compared to 9.1 per cent of GSP in 2002-03. In the total State sector, in 2015-16 net financial liabilities are forecast to be $125 billion, or 23.5 per cent of GSP, compared to 15.2 per cent of GSP in 2002-03.

- In the general government sector, superannuation provisions (i.e. unfunded superannuation) is the largest category of liabilities: an estimated 43 per cent in 2015-16 (up from 29 per cent in 2006-07). Gross debt, which includes borrowings and finance leases, is the second largest category: an estimated 29 per cent in 2015-16 (the same as in 2006-07). In the total state sector, gross debt is the largest category of liabilities: 49 per cent in 2013-14 (the same as in 2006-07).

- The NSW Government's credit-worthiness has for many years been rated by two rating agencies: Moody's and Standard and Poors (S&P). NSW has consistently held a AAA rating (the highest). A key metric used by Moody's in its assessment deteriorated over the time period but has improved since 2012-13. It is currently within the informal trigger band range. The metrics used by S&P worsened over the time period but are below the trigger bands.
1. INTRODUCTION

1.1 Outline

This paper reports on trends in NSW State finances between 2002-03 and 2015-16 (inclusive). For most of the key indicators, the paper also shows trends by Parliament for the current (56th) Parliament and previous three (55th, 54th and 53rd) Parliaments. This paper sets out the key trends but only briefly discusses the reasons for the trends. A full analysis of the trends up to 2010-11 appears in the NSW Financial Audit 2011 (Ch 2-4).

1.2 Key sources

This paper draws on the following sources:

- The NSW Budget Papers (including the 2015-16 papers)
- NSW Reports on State Finances (including the 2013-14 report)
- The NSW Financial Audit 2011
- Figures provided by NSW Treasury on expenses by policy area

1.3 Notes about figures

1.3.1 Nominal not constant/real figures: It is important to note that all figures in this paper are nominal figures, which have not been adjusted to take account of inflation.

1.3.2 Actual figures and estimates: The figures for the years 2002-03 to 2013-14 are actual figures for the relevant year. The figures for 2014-15 are revised budget estimates. The figures for 2015-16 are budget estimates.

1.3.3 Accounting changes: Since 2013-14, the budget has been prepared on the basis of an amended accounting standard (AASB 119 Employee Benefits) which affects the measurement of superannuation expenses (see NSW Budget Papers 2014-15, Budget Statement, p1-6). In 2013-14, superannuation expense estimates were $1.5 billion greater than they would have been under the old version of the standard.

For some fiscal indicators, the 2015-16 budget papers provide a time series with adjustments made to the pre 2013-14 figures to make them consistent with the post 2013-14 figures (see Budget Statement, Appendix D). This paper uses consistent time series figures where they are available, except in the case of the budget result and net lending result. For some indicators in this paper (e.g. expenses by policy area), the pre-2013-14 figures will not be entirely comparable with the post 2013-14 figures.

Another accounting change results from the creation, as part of the 2015-16 budget, of a Transport Asset Holding Agency (TAHE). This impacts on a number of 2015-16 fiscal indicators: e.g. revenues ($1.9 billion higher in 2015-16), expenses ($58 million lower in 2015-16) and capital expenditure ($1.9 billion lower in 2015-16) (see 2015-16 Budget Statement, p1-2). In this Statistical Indicators paper, the relevant figures have been adjusted to exclude the impact of the creation of TAHE.

1.3.4 Budget sectors: The following diagram shows the structure of the NSW public sector, which is made up of three sectors: the general government sector, the public
trading enterprise sector, and the public financial enterprise sector. The *budget result* and *net lending result* relate to the general government sector; the figures in Chapters 2 to 4 of this paper (budget result, net lending result, revenue and expenses) are therefore presented for the general government sector only. The indicators outlined in Chapters 5 and 6 (capital expenditure and assets and liabilities) are presented for the general government sector and the total state sector.

*Figure 1.3: Structure of the NSW public sector*
2. BUDGET RESULT AND NET LENDING RESULT

2.1 Budget result

The budget result (or net operating balance) represents the difference between expenses and revenues from transactions for the general government sector. The budget result does not take account of capital expenditure. The revised estimate for 2014-15 is a surplus of $2.1 billion, which would be the largest surplus over the whole time period. The estimate for 2015-16 is a $713 million surplus. The surpluses from 2013-14 to 2015-16 would have been larger if not for the impact of revised accounting standard AASB 119 (see 1.3.3 above). There was only one deficit - in 2008-09 ($897 million) – over the whole period.

Federal Government funding can have a major impact on budget results. This is particularly the case from 2008-09 to 2011-12 when the Federal Government provided Economic Stimulus payments: e.g. without these payments, the 2009-10 budget surplus of $994 million would have been a substantial deficit. The budget results have also been impacted by the Federal Government bringing forward the timing of road grants to NSW: e.g. $690 million was brought forward from 2012-13 to 2011-12.

2.2 Forecasts and outcomes

The actual budget results were better than the forecast budget results in all years except for 2004-05 and 2008-09. The worse than expected result in 2008-09 ($1.1 billion lower than expected) was largely a result of the global financial crisis. The positive variations have ranged from $10 million to $3.1 billion (in 2013-14), and in six years, they exceeded $1 billion. In most cases, these positive variations resulted from higher than expected revenues. However, the better than expected results in 2010-11 and 2011-12 were due to expenses being under budget; and the better than expected result in 2012-13 was due to a combination of higher than forecast revenues and lower than forecast expenses.
2.3 Net lending result

The *NSW Financial Audit 2011* noted that there had been too much focus on the budget result in recent years and not enough focus on the net lending result. It stated that the net lending result:

> ...reports on the net impact of the general government sector’s recurrent and capital activities, and their impact on the balance sheet (net financial liabilities). The net lending result is the sum of the net operating result before depreciation, and net capital expenditure (i.e. expenditure after asset sales).

A net lending deficit (i.e. net borrowings) means that funds generated from operations (the budget result before depreciation) plus asset sales are insufficient to fully fund the capital expenditure program, and the difference must be funded by borrowings. (p2-2)

There were net lending deficits in all years from 2004-05 to 2013-14, and five of these exceeded $2 billion. Net lending deficits are also forecast for 2014-15 ($1.2 billion) and 2015-16 ($3.7 billion). The 2015-16 forecast net lending deficit would be the largest over the time period. Note that the deficits from 2013-14 to 2015-16 would have been smaller if
not for the impact of revised accounting standard AASB 119 (see 1.3.3).

**Figure 2.3 Net lending result**

Sources: NSW Report on State Finances; NSW Budget Papers
3. REVENUE

3.1 Total revenue

This chapter looks at revenue in the general government sector. In 2015-16, total revenue is estimated to be $70.3 billion, which would represent 1.6 per cent annual growth from 2014-15. This is lower than the 5.3 per cent average annual growth over the whole time period. Own-source revenue is estimated at $41.6 billion (59 per cent of total revenue), and Federal Government grants are estimated at $28.7 billion (41 per cent). The split between own-source revenue and Federal Government grants has remained relatively stable over the time period: 55-60 per cent (own-source): 40-45 per cent (Federal grants). The exception was in 2009-10 (53:47), which is largely explained by the Federal Government's economic stimulus payments.

![Figure 3.1.1 Total revenue by source and annual growth](image)

![Figure 3.1.2 Average annual revenue growth by Parliament](image)

Sources: NSW Financial Audit 2011; NSW Budget Papers

3.2 Own-source revenue

State taxes are by far the largest source of the government’s own-source revenue: in
2015-16, it is estimated at $27.9 billion, which represents 67 per cent of own source revenue (68 per cent in 2002-03). The second largest category of own-source revenue is the sale of goods and services ($6.3 billion): e.g. revenue from rent of State-owned property, and tolls from government-operated roads. This category increased its share from 13 per cent in 2002-03 to an estimated 15 per cent in 2015-16. The third largest category has been dividends and income tax equivalents but it is forecast to drop by 40 per cent in 2015-16 (from $3.2 billion to $1.9 billion). This is primarily due to determinations by the Australian Energy Regulator on electricity network revenues. Mining royalties grew at the fastest rate over the period but still only represents a small part of own-source revenue ($1.4 billion, or 3 per cent, in 2015-16).

Figure 3.2.1 Own-source revenue by type

Sources: NSW Financial Audit 2011; NSW Budget Papers

Stamp duty is currently the largest source of State tax revenue: in 2015-16 it is estimated at $9.8 billion, which is 35 per cent of total State tax revenue (37 per cent in 2002-03). The second largest source of tax revenue is payroll tax: in 2015-16 it is estimated at $7.9 billion, or 28 per cent of total State tax revenue (29 per cent in 2002-03). Between 2007-08 and 2012-13, payroll tax contributed a higher share of State tax revenue than stamp duties. The third largest source of State tax revenue is land tax: in 2015-16 it is estimated at $2.7 billion, which is 9.5 per cent of total State tax revenue (8 per cent in 2002-03).

Figure 3.2.2 State tax revenue by type

Sources: NSW Financial Audit 2011; NSW Report on State Finances; NSW Budget Papers
3.3 Federal Government grants

There are two broad categories of Federal Government grants:

(1) General purpose grants, which are now comprised almost entirely of GST payments (99.8 per cent in 2013-14), but previously also included National Competition Policy payments; and

(2) Specific purpose grants, which require funds to be spent in particular areas.

In 2015-16, growth in total Federal Government grants is estimated to be 2.5 per cent. This is lower than the 5.0 per cent average annual growth over the whole time period. In 2015-16, general purpose grants are estimated to comprise 60 per cent of total grants (and specific purpose grants 40 per cent). Over the whole time period, general purpose grants have generally comprised 60-65 per cent of total grants. However, in the period from 2008-09 to 2011-12, general purpose grants comprised a lower proportion of total grants (50-55 per cent), largely due to the Federal Government’s economic stimulus package, which formed part of specific purpose grants.

Since 2008-09, there have been two broad categories of specific purpose grants:

(1) National Specific Purpose Payments (NSPPs), which support National Agreements in six policy areas; and

(2) National Partnership Payments (NPPs), which support specified projects, facilitate reforms or reward jurisdictions that deliver on nationally significant reforms (NSW Financial Audit, p2-41; and Budget Papers 2012-13, Budget Statement, p6-14).

In 2015-16, NSPPs are forecast to comprise 76 per cent of all specific purpose grants. Health has been the largest category of NSPPs and increased its share from 52 per cent in 2002-03 to an estimated 61 per cent in 2015-16 ($5.2 billion). Education has received the next largest share, and this share rose from 14 per cent in 2002-03 to an estimated 20
per cent in 2015-16 ($1.8 billion). Note that the areas of health, education and housing have also received National Partnership Payments (see further below).

The Figure below shows National Partnership Payments (NPPs) by policy area from their introduction in 2008-09 to 2014-15. In most years, transport received the largest share of NPPs, and this is particularly the case in 2015-16 with an estimated 68 per cent ($1.9 billion). Economic stimulus and nation building dominated NPPs in 2009-10 and 2010-11.

Sources: NSW Financial Audit 2011; NSW Budget Papers.

Note: Until 2011-12, disability payments included payments for Home and Community Care. Since 2011-12, these have been made as a National Partnership Payment (in the “other” category).
4. EXPENSES

4.1 Total expenses

This chapter looks at recurrent expenses in the general government sector. Recurrent expenses are expenses incurred in the provision of goods and services. These expenses are distinct from capital expenditure, which is expenditure incurred in the acquisition of assets (see chapter 5). In 2015-16, total expenses are estimated at $69.6 billion. This represents 3.7 per cent growth on 2014-15, which is lower than the 5.6 per cent average annual expenses growth over the whole time period.

![Figure 4.1.1 Total expenses](chart1.png)

![Figure 4.1.2 Average annual expenses growth by Parliament](chart2.png)

Sources: NSW Budget Papers

4.2 Expenses by type

The composition of expenses remained relatively stable over the time period. Employee–related expenses are by far the largest type of expenses: in each year they have accounted for around half of total expenses (an estimated $33.3 billion or 48 per cent estimated in 2015-16). The second largest category is “other” operating expenses (an estimated $15.7 billion or 23 per cent in 2015-16). This category includes expenses such as “repairs and maintenance, medications and other supplies in hospitals, books in schools, fuel for police motor vehicles, consultancies, contractors, electricity and
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communications” (NSW Budget Papers 2014-2015, Budget Statement, p5-14). The third largest category is “current grants and subsidies” (an estimated $11.1 billion or 16 per cent in 2015-16), which are “for non-government schools, community organisations and local governments, as well as operating subsidies for transport”. Finance (i.e. interest) expenses grew by the fastest rate and increased its share of total expenses from 2.3 per cent in 2002-03 to an estimated 3.2 per cent in 2015-16 ($2.2 billion).

The third largest category is “current grants and subsidies” (an estimated $11.1 billion or 16 per cent in 2015-16), which are “for non-government schools, community organisations and local governments, as well as operating subsidies for transport”. Finance (i.e. interest) expenses grew by the fastest rate and increased its share of total expenses from 2.3 per cent in 2002-03 to an estimated 3.2 per cent in 2015-16 ($2.2 billion).

**Figure 4.2.1 Expenses by type**

![Graph showing expenses by type](image)

Sources: NSW Budget Papers

### 4.3 Expenses by policy area

In 2015-16, health has been allocated the highest share of total expenses ($19.5 billion or 28.0 per cent of total expenses). This is slightly higher than the proportion allocated to health in 2002-03 (26.9 per cent). Education has been allocated the second highest share of expenses ($15.0 billion or 21.6 per cent). This is lower than the proportion of the budget allocated to education in 2002-03 (25.9 per cent). Health and education together comprise around 50 per cent of total expenses. The next largest policy area is now transport and communications ($8.8 billion or 12.7 per cent in 2015-16); and it has been allocated a much larger share of the budget in recent years (up from 9.2 per cent in 2010-11). Housing and community amenities is one of the smaller policy areas but expenditure in this area increased at the fastest rate over the time period; and its share of the budget increased from 2.2 per cent in 2002-03 to 4.2 per cent in 2015-16 ($2.9 billion).

**Figure 4.3.1 Expenses by policy area**

![Graph showing expenses by policy area](image)

Sources: NSW Treasury, NSW Budget Papers
5. CAPITAL EXPENDITURE

5.1 Total capital expenditure

In both the general government and total state sectors, there was an upward trend in capital expenditure from 2005-06 to 2009-10, including a spike in 2009-10, which was largely due to the Federal Government’s economic stimulus payments (see NSW Budget papers 2013-14, *Infrastructure Statement*, p1-3). After 2009-10, capital expenditure in both sectors fell before rising again in 2012-13. In 2015-16, general government capital expenditure is estimated to be $11.2 billion (16.7 per cent higher than in 2014-15); and state capital expenditure is estimated at $16.5 billion (19.7 per cent higher).

Figure 5.1.1 Total capital expenditure

![Figure 5.1.1 Total capital expenditure](image)

Figure 5.1.2 Average annual capital expenditure growth by Parliament

![Figure 5.1.2 Average annual capital expenditure growth by Parliament](image)

Sources: NSW Budget Papers

5.2 Capital expenditure by policy area

Figures for capital expenditure by policy area have only been published for the general government sector and not the total state sector. The transport and communications policy area has had the largest share of the general government sector capital program over the
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Time period. In 2015-16, this area has been allocated $7.6 billion or 68 per cent of the total capital budget (up from 42 per cent in 2002-03). In recent years, the second largest policy area for capital expenditure has been health: an estimated $1.3 billion or 11.4 per cent in 2015-16. The third largest has been education: an estimated $0.6 billion or 5.0 per cent in 2015-16. In 2009-10 and 2010-11, education had a much larger share of the capital budget (30-37 per cent) as a result of Federal Government’s economic stimulus payments.

Figure 5.2.1 General government capital expenditure by policy area

Sources: NSW Report on State Finances; NSW Budget Papers.
Note: The figures for the years prior to 2008-09 do not include assets acquired under finance leases.
6. ASSETS AND LIABILITIES

6.1 Net worth

In 2015-16, general government sector net worth (i.e. assets less liabilities) is estimated at $190 billion ($121 billion in 2002-03); the total state sector net worth was not reported. This represents an estimated 1.7 per cent growth from 2014-15. This is lower than the 3.5 per cent average annual growth in net worth over the whole time period.

6.2 Net debt and net financial liabilities

The budget papers report on net debt and net financial liabilities as indicators of the strength of the State’s financial position.

Net debt is financial liabilities (deposits held, advances received, loans and other borrowings) less financial assets (e.g. cash and deposits, advances paid and investments, loans and placements). In the general government sector, in 2015-16 net debt is forecast
to be $9.9 billion, or 1.9 per cent of Gross State Product (GSP), compared to 1.3 per cent of GSP in 2002-03. In the total State sector, in 2015-16 net debt is forecast to be $44.9 billion, or 8.4 per cent of GSP, compared to 5.5 per cent of GSP in 2002-03. The 2015-16 Budget Statement notes (p5-32) that fluctuations in net debt since 2011:

...can be primarily explained through changes in cash levels as a result of sales and leases of the State’s assets including for asset recycling initiatives. When proceeds from the sale or lease of assets are received, cash increases and net debt falls. When these funds are recycled into productive uses, cash and net debt return to previous levels.

Net financial liabilities are total liabilities (financial liabilities plus unfunded superannuation and other employee provisions, insurance obligations and other liabilities) less financial assets. In the general government sector, in 2015-16 net financial liabilities are forecast to be $76 billion, or 14.3 per cent of GSP, compared to 9.1 per cent of GSP in 2002-03. In the total State sector, in 2015-16 net financial liabilities are forecast to be $125 billion, or 23.5 per cent of GSP, compared to 15.2 per cent of GSP in 2002-03.
6.3 Liabilities by type

In the general government sector, superannuation provisions (i.e. unfunded superannuation) is the largest category of liabilities: an estimated $49.7 billion or 43.4 per cent in 2015-16 (up from 29.4 per cent in 2006-07). Note that superannuation provisions can fluctuate according to the discount rate used to value them. Gross debt, which includes borrowings and finance leases, is the second largest category: an estimated $33 billion or 28.8 per cent in 2015-16 (the same percentage as in 2006-07).

Figures on liabilities by type for the total State sector are only available up to 2013-14. In this sector, gross debt is the largest category of liabilities: $83.8 billion or 48.7 per cent in 2013-14 (the same percentage as in 2006-07). The second largest is superannuation provisions: $51 billion or 29.7 per cent in 2013-14 (up from 18.6 per cent in 2006-07).
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6.4 Credit rating metrics

The NSW Government’s credit-worthiness has for many years been rated by two rating agencies: Moody’s and Standard and Poors. NSW has consistently held a AAA rating (the highest). The credit rating history and process is discussed in the NSW Financial Audit 2011 (p1-33ff). That report noted that the rating agencies conduct annual reviews, considering a range of factors including the economy, financial management, and debt profile; and that they placed special emphasis on a key balance sheet metric.

In the case of Moody’s the metric is: total state gross non-commercial debt / general government sector revenue. The report noted that Moody’s had not set formal trigger bands but it “has said informally that the NSW ratio should not be allowed to exceed 60-70 percent”. As shown below, this metric deteriorated over the time period but has improved since 2012-13. It is currently within the informal trigger band range. On 9 December 2014, Moody’s confirmed the AAA rating with a stable outlook (see Treasurer’s press release).
In the case of S&P, the metrics are:

- gross debt in the non-financial public sector/operating receipts in the non-financial public sector (debt metric); and

- gross interest paid in the non-financial public sector/operating receipts in the non-financial public sector (interest metric).

As shown below, both metrics worsened over the time period but are below the trigger bands. On 15 October 2014, S&P confirmed the AAA rating and upgraded the outlook from negative to stable, “reflecting our view that the risk of much higher debt levels to fund the state’s high infrastructure needs has receded significantly” (see S&P press release). In relation to the outlook, S&P also stated:

We could lower the ratings if budgetary performance deteriorates materially, so that after-capital-expenditure deficits were greater than 10% of revenues, and debt rose to more than 120% of revenues and/or interest expense rose to more than 5% of operating revenues. This might occur either because economic and revenue growth deteriorates, or operating spending pressures increase. Such an outcome could also occur if the government significantly increases its capital program without relying on funding sources other than debt, resulting in a substantially higher debt burden for the state; in such a scenario, we could also lower our assessment of the state’s financial management.

**Figure 6.4.2 S&P credit metrics**

![S&P Credit Metrics Graph](image)

**Sources:** NSW Budget Papers